

PREM 19/1702



# Public Expenditure and Cash Limits

# ECONOMIC POLICY

PT 1 : MAY 1979

In attached folder : PES 1986<sup>Bids</sup> from Govt. Departments.

PT35 : JUNE 1986

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
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PART ENDS



PART 35 ends:-

CST TO PM 30.9.06

PART 36 begins:-

RTA TO PM 1.10.06




TO BE RETAINED AS TOP ENCLOSURE

**Cabinet / Cabinet Committee Documents**

Reference	Date
CC(86) 28 <sup>th</sup> meeting, item 7	17/07/1986

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  \_\_\_\_\_  
**PREM Records Team**

Date 17/09/2014



SECRET

FROM: CHIEF SECRETARY  
DATE: 30 September 1986

PRIME MINISTER

## 1986 PUBLIC EXPENDITURE SURVEY

Following our discussion on 17 July, Cabinet invited me to conduct bilateral discussions with spending Ministers about their public expenditure programmes and their targets for running costs and manpower, working within the existing published planning totals of £144 billion for 1987-88 and £149 billion for 1988-89, and within a total of £153 billion for 1989-90.

2. I have now had at least one discussion with all colleagues. It has been possible to make a substantial degree of progress in reducing the number of outstanding issues. Agreements have been reached, within baseline overall, for 11 nationalised industries; discussions are continuing on the substantial additional bids for coal and electricity, including the two Scottish Boards. A number of departmental programmes have been settled or are close to settlement. I will be continuing discussions with those colleagues over the next few days on them. It is however already clear that there are some programmes which I will be unable to resolve bilaterally. These include Defence, Aid, Scottish Office, Health and Social Security.

3. One of the conclusions of the Cabinet discussion in July was that, if it was impossible for me to reach agreement with all colleagues, you would, at the appropriate time, establish a small Group under the chairmanship of the Lord President of the Council to consider outstanding issues and make recommendations to the Cabinet. You may feel it would now be

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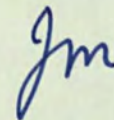
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appropriate to convene that Group to consider those programmes on which I am unable to reach bilateral agreements before the Party Conference. As was the case last year I will ensure that the outcome on all programmes and the main policy changes involved are reported to Cabinet at the end of the Survey.

4 Separate discussions will be necessary on what provision should be made for teachers' pay over and above that provided in the Rate Support Grant settlement for 1987-88 announced in July.

5. I would also like to refer to the position in the current year. I made clear to colleagues in July that the public expenditure Reserve for this year was under pressure. Since then the position has worsened significantly. These pressures have to a considerable extent arisen from areas outside colleagues' direct control, but this reinforces the need to strict control in areas where we have discretion and for a rigorous search for savings wherever possible. I will continue to apply firmly and strictly the existing cash limit and other controls, despite the unpalatable choices that that may mean in some instances.

6. I am sending copies of this minute to Cabinet colleagues, the Minister of State (Privy Council Office), and Sir Robert Armstrong.



JOHN MacGREGOR

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see BG

P 02254

From: J B UNWIN  
30 September 1986

MR NORNGROVE - NO 10

STAR CHAMBER

I shall be covering the question of the membership of the Star Chamber in a briefing note for the Prime Minister for tomorrow afternoon's meeting with the Lord President and the Chief Secretary.

2. In the mean time, you may like to have on the stocks the attached draft minute to Sir Robert Armstrong which, subject to any necessary amendments, could be issued immediately after tomorrow's meeting if agreement is reached. It would be helpful to have the Prime Minister's authority to establish the Group formally immediately after Cabinet on Thursday.

J B UNWIN



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DRAFT MINUTE

SIR ROBERT ARMSTRONG

STAR CHAMBER

The Prime Minister has discussed with the Lord President and the Chief Secretary the composition of the small group of Ministers which is to be constituted [after Cabinet tomorrow] to discuss outstanding Survey issues. The proposed members are as follows:

Lord President of the Council (Chairman)  
[Secretary of State for Wales]  
Lord Privy Seal  
Chancellor of the Duchy of Lancaster  
Paymaster General  
Chief Secretary, Treasury.

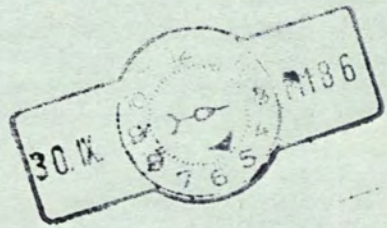
The Chief Whip should also be sent the papers and attend meetings as necessary.

2. The Prime Minister would be grateful if, following Cabinet, you would take the necessary steps to establish the Group, which is expected to begin its work in the week beginning 13 October.

Private Secretary (No 10)

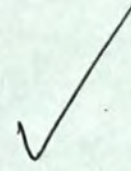
October 1986







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PUBLIC EXPENDITURE SURVEY 1986:      EDUCATION

Note of a meeting held in the Chief Secretary's Room  
H M Treasury at 10.30am on Thursday, 25 September 1986

Present:

H M Treasury

Chief Secretary  
 Mr F E R Butler  
 Mr Gilmore  
 Mr Turnbull  
 Mr Burr  
 Mr Hoare  
 Mr Kaufmann  
 Mr Kelly  
 Mr Perfect  
 Miss Rutter

DES

Secretary of State for  
 Education and Science  
 Mrs Rumbold, Minister of State  
 Mr Walden, Parliamentary Under  
 Secretary of State  
 Sir David Hancock  
 Mr Stuart  
 Mr Saville

The Chief Secretary and the Secretary of State agreed to defer discussion of the bids for universities (apart from pay restructuring) and science.

University Pay Restructuring

2 The Chief Secretary said that he was prepared to reach agreement on university pay restructuring on the basis agreed in exchanges at official level. But the Reserve was under great pressure next year, and it would have to be clearly understood the amounts in the bid- £40 million, £56 million, £71 million - were maxima. The Secretary of State said he accepted those limits and he would start negotiations once his other bids for the universities had been decided. What he could negotiate would depend on the overall increase for the universities.

Maintained sector capital

3 The Secretary of State said that the reduction in the

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allocation total to £234 million implied by the baseline was unacceptable, and would be politically damaging. The condition of much of the school stock was deteriorating. Rationalisation of schools in response to falling rolls itself required investment, and there was a need for investment in polytechnics to accommodate increased student numbers. There were equipment shortages in both the secondary and higher education sectors. The £50 million a year available for voluntary schools capital was also inadequate. These deficiencies pointed to the need for capital expenditure on education in 1987-88 above the existing level of some £500 million a year.

4 The Chief Secretary said that he faced intense pressures in the Survey; and there were significant additional bids for LA capital on all services. The Secretary of State's bid for an additional £150 million for education would permit gross expenditure in 1987-88, assuming the same (£200 million) expenditure above allocations as was likely this year, of £645 million. That would represent an almost 30 per cent increase on likely outturn in 1986-87, and might be even higher if, as there were strong arguments for supposing, use of capital receipts by LEAs was higher next year than this. He could not entertain a bid on that scale, especially against the background of the generous settlement on education current expenditure in 1987-88. The most which he was prepared to offer was the £57 million additional provision necessary to deliver the same level of allocations as in 1986-87.

5 The Secretary of State said that he could not agree to settle on that basis. He believed that LEA's use of capital receipts on education was unlikely to be as high next year as this. Extra pressure would also be placed on their programmes by prescribing leasing, of which some made extensive use. Some increase next year on 1986-87 allocations was in his view therefore essential merely to maintain existing levels of spending. The mismatch between authorities' needs and their available capital receipts also meant that an allocation total next year at the same level as this would result in some shire counties being unable to meet even their contractual commitments and statutory requirements. He was however prepared to reduce his bid, although he could

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not go so far as the Chief Secretary.

6 The Chief Secretary said that he recognised that shire LEAs had fewer available capital receipts than those which were also housing authorities. His proposals for distributing the overall allocation total between services had taken this into account. Assuming that the shire counties taken together received the same broad share of the allocation total as this year, his offer implied that they would have total spending power in 1987-88 of some £440 million compared to DES' estimate of £240 million of contractual commitments and statutory requirements on schools. Problems for particular LEAs ought to be capable of being resolved within the allocation methodology. He could not therefore agree to increase his offer, although he was content for officials to look further at the likely outturn on the basis of that offer.

Other bids

7 The Secretary of State briefly presented the case for each of his remaining bids:

-Continuing education - PICKUP - provided good value for money because the full costs were recovered from employers. DES spending was of a pump-priming nature, and additional funds were needed to permit a major expansion of provision. The Chief Secretary said he recognised the value but the bid was too ambitious. The Secretary of State said that he could accept a smaller increase than the fivefold increase implied by his bid.

- Some of the European Community bids arose from inescapable commitments. The DES budget could not absorb the cost of what was effectively a foreign policy priority. The Chief Secretary said that he had only agreed to COMETT on the condition that it would be absorbed. It was agreed that ERASMUS was not a high educational priority, and both the French and the Germans had reservations, though for Presidency reasons there might be pressure to make something of it at the European Council.

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- The bid on **Student awards** was intended to maintain the level of grant in line with general inflation while the review of student support was in progress. The Chief Secretary commented that the principle of index-linking was not agreed; the UK was by international standards very generous in its support for students. He was not minded to concede the bid. The Secretary of State thought could reduce the bid by £8 million, £15 million and £18 million respectively. His aim was to defuse student awards as a political issue during the review.

- **Cranfield** had already achieved a high degree of self support and the bid represented an opportunity to achieve full independence of public funding, in line with the Griffiths/Murray report. The Chief Secretary said that in view of all Mr Baker's other bids - which totalled around 10 per cent of his programme - he had no scope for conceding the Cranfield bid.

- Additional provision for the **assisted places scheme** was inescapable. Although he had a reserve power to reduce the level of fee increases, its use would result in schools' withdrawing from the scheme.

- The Secretary of State said that he attached high priority to both his **running costs** and **manpower bids**. The Chief Secretary said that he was prepared, in the light of the joint assessment of the 1986-87 bid undertaken by officials, to concede an additional £0.8 million this year, allowing scope for up to 30 additional staff. The Secretary of State said that he could not agree to settle on that basis. The offer was insufficient to meet even the overspend on his running costs limit which was already inevitable. He undertook, however, to consider the issues further.

Conclusions

8 The Chief Secretary said that there were a considerable number of bids on the programme, some of which were very

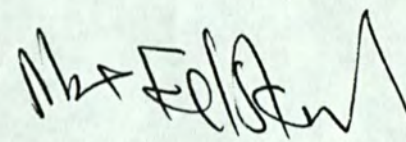
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Substantial, and to all of which Mr Baker evidently attached importance. Other colleagues were deciding priorities and paring down those bids which they wished to maintain. Extra money had already been provided to Education during the year for GCSE. The bid for city technological colleges had been conceded, and a major concession made on university pay restructuring. Bids on the scale of those remaining could not be entertained. Officials would however examine the implications of an extra £57 million in provision for maintained sector capital.

9 The Secretary of State said he would look again at his bids and write to the Chief Secretary with what he regarded as reasonable and defensible.

MP   
JILL RUTTER  
Private Secretary

H M Treasury  
30 September 1986

Distribution

Those present  
Principal Private Secretary  
Sir Peter Middleton  
Mr Anson  
Mr Scholar  
Mr Gray  
Mr Cropper  
Mr Tyrie

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P 02253

PRIME MINISTER

**PUBLIC EXPENDITURE**

You are meeting the Lord President and the Chief Secretary tomorrow afternoon to discuss the handling of Thursday's Cabinet meeting and the establishment of the Star Chamber. The Chief Secretary will be reporting the outcome of his bilaterals very briefly to you in writing (copied to other Cabinet members), before then and, subject to the contents of his minute, you will want to:-

- (i) take stock of progress and prospects;
- (ii) settle handling at Cabinet;
- (iii) discuss the composition of the Star Chamber;

and (iv) discuss press handling.

Notes on each of these points are below.

Progress and Prospects

2. You will recall that the Chief Secretary was faced in July with additional bids (including nationalised industries and local authority current expenditure) well above the actual and putative Reserves for 1987-88, 1988-89 and 1989-90. It was clear that the 1986 Survey objective of holding public expenditure flat in real terms would be extremely difficult to achieve. Nevertheless, Cabinet:-



- endorsed the Chief Secretary's objectives;
  - instructed him to conduct bilaterals "working within the existing published planning totals of £144 billion for 1987-88 and £149 billion for 1988-89, and within a total of £153 billion for 1989-90";
- and - noted that you would, if necessary, establish a small Group under the Lord President to consider outstanding issues in the autumn and make recommendations to the Cabinet.

3. The Chief Secretary's discussions are still continuing, but it has been very hard going. I understand (a very important gain) that agreement has been reached with DOE; and negotiations are still in train with the Home Office, MAFF, Transport and DTI. But it seems very likely that at least the following programmes will have to come to the Star Chamber:

Defence  
Education (science and universities)  
Overseas Aid  
Social Security  
Health  
Scotland  
Arts and Libraries  
Electricity (both Scotland and England and Wales).

4. You will want to hear the Chief Secretary's own assessment of prospects. It seems difficult to escape the conclusion that there will have to be a large addition to the planning totals. Although additions to central government programmes are unlikely to be very different from last year, local authority spending together with social security and the electricity and coal industries will far exceed what can be transferred from the Reserve. It is too early to judge how the outcome can best be presented, particularly at a time of other uncertainties in the economic outlook. But the Treasury will clearly need to give very careful



attention indeed both to the exact remit to be given to the Star Chamber (which the Chief Secretary will need to discuss with the Lord President as soon as possible) and to the eventual presentation of the outcomé. The emphasis may well need to switch to general government expenditure which should still be declining as a proportion of GDP.

#### Handling in Cabinet

5. Public Expenditure is not on the Cabinet agenda as a separate item and there has been some suggestion that it should not be discussed at Cabinet at all. I imagine, however, that on such an important issue as this, you will want the Cabinet at least briefly to note the Chief Secretary's report under the Home Affairs item. It would be better to take the initiative rather than to have to respond to questions from other Cabinet colleagues, who may feel that they are being kept in the dark.

6. Subject, therefore, to the views of the Lord President and the Chief Secretary, I suggest that you invite the Chief Secretary briefly to speak to his report and then announce your intention to establish the Star Chamber to consider the unresolved issues and to report back to the Cabinet early in November. You may at the same time want to take the opportunity to urge on colleagues the importance of sticking firmly to the established policy of strict public expenditure control, and in particular to avoiding any new spending commitments (other than those already collectively agreed) at the Party Conference. If anyone raises the issue of whether the objective of working within the existing planning totals remains, I suggest the answer should be that it would be wrong to change the objectives while negotiations are continuing.

#### Composition of the Star Chamber

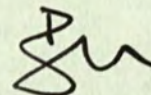
7. In addition to the Lord President and the Chief Secretary the Star Chamber last year comprised the Chancellor of the Duchy, the Lord Privy Seal, the Welsh Secretary and the (then) Trade and Industry Secretary, Mr Brittan. In recent discussion with the



Lord President you agreed that the Defence Secretary or the Paymaster General might be considered as a replacement for Mr Brittan. Since, however, the defence programme is still in dispute, you may now wish to confirm the choice of the Paymaster General. A further complication is that the Welsh programme is also still in dispute, which may debar Mr Edwards. Either the last place could be left vacant, or Mr Edwards (currently in the United States) could be invited if the Chief Secretary is able to reach agreement with him.

Press handling

8. I imagine that you will wish to play this in as low a key as possible. This suggests not signalling in advance that public expenditure will come up at Thursday's Cabinet (it can truthfully be said that it is not on the agenda). The question arises, however, of what, if anything, should be said afterwards. It may be best not to volunteer anything but to confirm, in response to any questions, that the Star Chamber has been set up in accordance with recent practice. It might then be prudent also, if the Lord President agrees, to release the names of the members of the Star Chamber informally. This was done last year and would avoid unnecessary press speculation.



J B UNWIN

30 September 1986  
Cabinet Office



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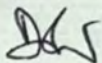
PRIME MINISTER

PUBLIC EXPENDITURE

Brian Unwin has provided a full brief, below.

It must be right to mention at Cabinet on Thursday that you will be setting up the Star Chamber. I suggest that the Chief Secretary might say briefly where he has got to and then, equally briefly, you could say that you are setting up the Star Chamber and urge colleagues to scrutinise their bids with the greatest possible care, so that they can be settled in the group in a manner consistent with the overall public expenditure decisions the Government has already taken. You could also emphasise the need to keep the public expenditure discussions out of the media, and say that no details should be disclosed at next week's Party Conference and no commitments entered into that would prejudice the public expenditure discussions. (I can provide a speaking note).

Bernard will need a line to take if he is asked whether Cabinet confirmed the decision taken in July to work within existing published planning totals. It would be as well not to be too explicit about this, and I suggest <sup>he</sup> you could say simply that there is no change in the position on that, and then go on to say that the Star Chamber is being set up as in previous years.



David Norgrove

30 September 1986

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PUBLIC EXPENDITURE SURVEY 1986:

TRANSPORT

Note of a meeting held in the Chief Secretary's Room,  
H M Treasury, at 3.30pm on Monday, 22 September

Present:

H M Treasury

Chief Secretary  
Mr F E R Butler  
Mr Gilmore  
Mr D J L Moore  
Mr Turnbull  
Mr Colman  
Mr Revolta  
Mr Hoare  
Mr Perfect  
Mr Boote

Department of Transport

Secretary of State for Transport  
Sir Alan Bailey  
Mr Yass  
Mr Palmer  
Mr Jones  
Mr Grinsey  
Mr Smethurst

Mr Jeremiah (Welsh Office)  
Mr Elvidge - (Scottish Office)

Nationalised Industries

The Chief Secretary stressed that this was a very difficult Public Expenditure round. His aim was to hold nationalised industries external finance needs to baseline as endorsed by Cabinet. He could, therefore, accept additional bids above baseline only if absolutely necessary. He proposed considering Department of Transport's industries one by one starting with BR.

British Rail

2. The Secretary of State for Transport agreed to the proposed procedure. BR had made great strides to reduce

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the level of PSO grant to £725m in the current financial year. The removal of Intercity from grant planned for 1988-89 was a major achievement. BR had not been able to achieve the large cost reductions achieved by LRT partly because LRT's reductions reflected the high costs inherited from the GLC. Over the past few years cost reductions of 3 per cent per annum had been achieved on both Provincial and Network South East.

3. The Secretary of State explained that he had had many meetings with Sir R Reid to discuss the commercial sector and grant targets for 1989-90. The Chairman had gone to the limit of his ability in agreeing a commercial target of 3% and a grant target of £555m. A 3% rate of return on the commercial sectors would be extraordinarily difficult to achieve. Sir R Reid only had plans to reach a grant target of £580m but was prepared to commit himself to the lower figure of £555m.

4. Mr DJL Moore commented that the proposed target of £555m was consistent with a reduction in basic costs - excluding revenue investment and BREL redundancy costs - of 1½% per annum. Since 1983, however, a reduction in basic costs of 2.2% per annum had been achieved which would be consistent with a target of around £520m proposed by the Chief Secretary. BR had not done as much as they might to control employment costs. The Secretary of State accepted Mr Moore's comments but noted that the Government were also asking BR for improvements in the quality of service. BR were faced with a problem of recruiting sufficient good quality staff and were presently facing a shortage. Sir R Reid had gone beyond the rest of the Board in offering a grant target of £555m. Mr Palmer added that since the Chairman had accepted the original grant target for 1986-87, a number of things had gone against BR but the target would still be achieved.

5. The Secretary of State explained BR's EF bids. The £53m overrun over baseline in 1987-88 resulted from the

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reed decisions on rail redundancy, the Channel fixed link and Stansted. The overrun could be reduced but it would not be possible to hold this bid to baseline. In subsequent years, BR had included more investment than DTp were prepared to accept at this stage; lower inflation assumptions and the effect of the commercial and PSO grant targets would also produce significant reductions. It would, however, be politically difficult to present a reduction below baseline in 1989-90. Nevertheless within a global settlement, the Secretary of State was prepared to reduce BR's overall bid to £20m above baseline in 1987-88, to baseline in 1988-89 and to £50m below baseline in 1989-90.

London Regional Transport

6. Turning to LRT, the Secretary of State stressed the major strides that LRT had made to reduce costs and improve productivity. The Chief Secretary recognised these achievements. Partly as a result, the Secretary of State noted that LRT had been able to absorb the £30m additional costs of the Docklands Light Railway within their bid.

7. The Secretary of State noted that LRT would be announcing fare increases of 4½% on 23 September. Increases of 6% per year in the last 2 years of the Survey were now being assumed. On investment, the introduction of new trains to reduce congestion was a top priority. Some increased expenditure on measures to improve security was also unavoidable. He had assumed, however, some squeeze on expenditure on station modernisation. He accepted that expenditure on a new coach terminal and access to Heathrow could be removed as decisions had not yet been taken on these two items. Both, however, were important and once decisions were made could result in a specific claim on the Reserve. Taking all these savings into account, he could accept LRT's EF needs as £9m below baseline in 1987-88, £52m below baseline in 1988-89 and £100m below baseline in 1989-90.

8. Mr Colman noted that a lot of doubts about the investment in new trains to reduce congestion had been removed as a

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result of discussions with DTp officials. Mr Palmer added that LRT had made very strong assumptions on the level of pay. If these could not be achieved, LRT would have difficulty meeting these EF targets.

**National Bus Company**

9. The Secretary of State had had discussions with the Chairman of NBC, Mr Lund. He was committed to the difficult operation of breaking up and selling NBC which was the government's priority. This required bus companies to be viable operations which in turn necessitated the purchase of new buses. If proceeds could be maximised by these buses being leased, this was obviously preferable. Consistent with the disposals programme, the maximum saving he could envisage was a reduction below baseline of £20m in 1987-88.

10. Mr Colman queried whether it was envisaged that NBC would still purchase outright any buses. Mr Yass replied that NBC intended to lease all new buses though the question remained whether such leasing would be on or off NBC's balance sheet. In the former case, it would count against NBC's EFL.

11. The Chief Secretary asked the Secretary of State whether there were any sales proceeds that could be scored beyond 1987-88. The Secretary of State confirmed that it was his prime aim to maximise the proceeds proper of the sales. There was some danger, however, that scoring proceeds in the later years of the IFR could be counter-productive particularly given that the department would be under some pressure to reveal the EF levels assumed. It was agreed that officials would consider further the scope for savings from NBC in 1988-89 and 1989-90 as well as the EF treatment of finance leases.

**Civil Aviation Authority**

12. The Secretary of State saw no scope for a reduction in the CAA's EF bid. The overshoot of £5m in 1986-87 resulted

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from the Stansted control tower and £4m for the repayment of excess receipts from Euro Control from which the Treasury had received a benefit in the current year. He was frankly worried about air safety and saw it difficult to justify any cut. Room for manoeuvre on the CAA's investment programme was limited as was the ability to cover costs through higher fees. In general, the CAA had learned from past mistakes in managing investment.

Conclusions

13. The Chief Secretary was grateful for the way the Secretary of State had responded on his nationalised industries. While a problem remained for 1987-88, agreement was very close for subsequent years particularly if higher savings from NBC could be realised. He would wish to review the totals in light of the overall position on Department of Transport expenditure.

Programme Expenditure

14 The Secretary of State pointed out that Department of Transport had reduced its total expenditure by 12% in real terms since the present Government came into office. It had reduced spending on subsidies and increased capital expenditure (particularly on roads) in line with the Government's policy. 70% of the Department's expenditure was now capital. This was a success story but it had the effect of reducing the scope for funding offsetting savings to accommodate new demands. The Chief Secretary said that there were severe constraints on every programme.

15 It was agreed that local authority capital should be considered first, then the other programme expenditure in the order of the bidding letter table.

B3, B4, B5: Local Authority Capital

16 The Secretary of State said that he considered his bid of £100m in each year for local authority capital to

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be quite different from his other bids. It was forced on him by the need to prevent a drastic reduction in his allocations, arising from the increase in spending power from receipts. This spending power had not led to additional expenditure on transport: it was used to generate overspending on other services, particularly housing. In effect transport was being penalised for the sins of others. The Secretary of State circulated graphs showing the close relationship between net expenditure and allocations for transport in 1981-82 to 1985-86, and the discrepancy between the distribution of overspending between services and the share of the cut in allocations.

17 The Secretary of State said that he saw no grounds whatsoever for assuming that local authorities would change their past behaviour and start using spending power from receipts for transport. Besides, their ability to do so was limited. About half of all transport expenditure was in the shire counties and these had only 8% of the spending power from receipts. He concluded that it would be quite impossible to achieve spending at the existing baseline with the allocations offered. Taking account of expenditure already committed to existing road construction, his own priorities for new starts and the needs of buses and airports, there would only be allocations of £19m left for other local authority roads in 1987-88, as against £134m in the current year. This was politically very damaging.

18 The Chief Secretary said that he recognised the dilemma but his freedom of action was constrained by the overall growth in spending power from receipts and the 80% commitment on housing and other services. He noted that the baseline allowed allocations for transport above 80% of the 1985-86 figure. His proposal to distribute allocations in proportion to net provision had been designed to assist services like transport where receipts were modest. He saw

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no choice of agreement on a formula which divided existing allocations up in a way more favourable to transport.

19 Local authorities had the choice of using spending power from receipts for transport and if they did not do so it was because their priorities were elsewhere. This suggested that additional provision for transport could well be used for other services, merely increasing the overspend in these areas. Nevertheless he understood Department of Transport's problem and was prepared to consider some increase in provision, but it would be a good deal less than the amount bid for and would inevitably leave less for other bids.

B1, B2: National roads

20 The Secretary of State said that although the road programme appeared superficially to have done well in recent years, that had to be set against a large increase in the number of vehicles and in road mileage. Moreover 1979-80 was a low base; expenditure on roads had been higher in the mid-1970s. Since his original bid a number of additional priority schemes had been identified or brought forward but he was unhappy about displacing schemes already in the programme. Bridge maintenance was a special problem. There was no choice but to undertake it. All in all roads had been one of the Government's successes and it would be a great mistake not to carry this forward to the next election by making the necessary resources available.

21 The Chief Secretary said comparisons with the mid-1970s were beside the point. Public expenditure had been too high then. In terms of the present Government's public expenditure policies, the road programme had been favoured and had received a very considerable cash increase. There were demands from many other programmes in the present Survey and it was impossible to do everything. The decision on

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Dartford eased the pressure on the road programme. For the rest, he would have to ask the Secretary of State to decide on his priorities.

Small bids

22 The Secretary of State said that he was prepared to drop his shipping bid (B6) on the understanding that he expected to put forward fresh proposals to E(A) later on and if these were accepted, he would be looking for additional resources. The Chief Secretary welcomed the withdrawal of the bid and noted the possibility of subsequent developments without commitment.

23 The Chief Secretary proposed that discussion of the bids for running costs (B7) and administrative capital, (B8) and the marine services reduction (C5) should be left for a further meeting. However he accepted the reclassification of expenditure on local authority staff from the roads programme to running costs. This was PES neutral but would increase the gross running costs limit by £1m in 1987-88.

24 He found the bid for the fees shortfall (B9) most unwelcome and pressed for its absorption. The Secretary of State replied that although the bid might be shaded down a fraction, he could not find the necessary offsetting savings for the rest elsewhere. He had enquired about the scope for making good the shortfall from increased fees but was advised that this would not be legally possible.

25 On the abolition of Freight Facilities Grant (C5) the Secretary of State said that this would require legislation. The level of expenditure could be reduced but he considered that the Government obtained political advantages out of proportion to the small amount of money involved. The Chief Secretary queried the economic benefit of the grant and pressed for its continuation at present levels to be reconsidered

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in the light of other priorities.

Conclusions

26 The Chief Secretary said that he would now write to the Secretary of State with proposals for an overall settlement. They could then have a further meeting (if necessary) in the light of the letter.

27 He would write separately about the exclusion of DTT from gross running costs controls but in principle he accepted the proposal.

  
PP JILL RUTTER  
Private Secretary

H M Treasury  
26 September 1986

Distribution

Those present  
Principal Private Secretary  
PS/Sir Peter Middleton

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PRIME MINISTER <sup>2</sup>

MS ✓

## PUBLIC EXPENDITURE

The Chief Secretary is now coming towards the end of his bilaterals. The Treasury's plan is that he should circulate a short and uninformative minute on Wednesday next week to describe the latest position and to propose that you should establish the Star Chamber. I have been sent very privately a mock-up of such a minute (the annex is not to be taken seriously).

The Chief Secretary has been debating whether he should make any oral report at Cabinet on Thursday. He is apparently at present inclined not to do so in order to avoid discussion. The alternative view is that it would look odd not to mention it and if somebody else did so it would look more as if the Chief Secretary was trying to avoid discussion.

Another argument in favour of mentioning it is that it would give you a peg to warn colleagues against hinting at expenditure commitments in their Party Conference speeches.

I have arranged a meeting for Wednesday afternoon with the Chief Secretary and the Lord President (the Chancellor will not be back from Washington) to discuss this and the membership of the Star Chamber.

If you have any comments on the mock-up of the Chief Secretary's minute I could pass them on as my own: your meeting on Wednesday will be too late to change the minute.

The prospects for 1987-88 continue to deteriorate I am afraid. I understand that the demand-led bid for social security has increased from £800 million to £1400 million. Social Security and local authority current and capital expenditure together already amount to around £5.3 billion which will use up most of next year's Reserve of £6<sup>1</sup>/<sub>4</sub> billion before allowance is made for teachers' pay and central government bids other than



social security. The recent market pressures should strengthen the Chief Secretary's hand but, equally, it is disturbing that the markets are so weak when they have as yet discounted only part of the public expenditure problem. Little can be done to help this, except to hope there are no leaks before the figures can be set in the context of the Autumn Statement. Your Guildhall speech will also provide an opportunity to discuss public expenditure.

*DW*

DAVID NORNGROVE

26 September 1986

SL2AJA



SECRET + Personal

ANNEX D

DRAFT MINUTE FROM CHIEF SECRETARY TO PRIME MINISTER

## 1986 PUBLIC EXPENDITURE SURVEY

Following our discussion on 17 July, Cabinet invited me to conduct bilateral discussions with spending Ministers about their public expenditure programmes and their targets for running costs and manpower, working within the existing published planning totals of £144 billion for 1987-88 and £149 billion for 1988-89, and within a total of £153 billion for 1989-90.

2. I have now had at least one discussion with all colleagues. It has been possible to make a substantial degree of progress, and bilateral settlements have now been reached in [ ] programmes. Summary details of these settlements are set out in the annex to this minute. In aggregate these imply additions to programmes of [ ] in 1987-88. Agreements have been reached for all but [2] nationalised industries, involving a net [reduction] from the 1987-88 baseline of [ ]. Separate discussions will be necessary on what provision should be made for teachers' pay in addition to the Rate Support Grant settlement for 1987-88 announced in July.

*This will be a very small number.*

3. I am continuing my discussions with colleagues in cases where agreements on programme or running cost expenditure have not yet been reached. I hope it will be possible to make some further progress in the next few days. But it now seems clear



there will be a number of programmes where disagreements will remain between colleagues and myself, in particular covering [education, law and order, overseas aid, health, social security, Scottish expenditure and the energy industries.]

4. One of the conclusions of the Cabinet discussion in July was that, if it was impossible for me to reach agreement with all colleagues, you would at the appropriate time establish a small Group under the chairmanship of the Lord President of the Council to consider outstanding issues and make recommendations to the Cabinet. You may feel it would now be appropriate to convene that Group to consider those programmes on which I am unable to reach bilateral agreements before the Party Conference.

*I think it unwise to raise this thought - it will stimulate what it seeks to avoid. M*

5. I see no need for any specific announcement of this step, which would only serve to stimulate unhelpful speculation and enquiries about the progress of the discussion. It is anyway assumed by the press that the Group will be established. In response to any press enquiries, confirmation could be given that the Group is being set up following the established practice of recent years.

6. [Possible reference to tightness of position in 1986-87].

7. I am sending copies of this minute to Cabinet colleagues, the Minister of State (Privy Council Office), and Sir Robert Armstrong.







Employment

0 0 0

This programme was settled at baseline in advance of the July Cabinet. Additional expenditure under the Technical and Vocational Education Initiative is offset by lower than previously estimated, expenditure under the Community Programme and Youth Training Scheme.

Transport

[ ] [ ] [ ]

Additional provision of [£100 million] in each year has been made for the local roads programme, with an extra [ ] for national roads.

Housing

[ ] [ ] [ ]

Net additional provision of [ ] has been agreed for local authority capital spending on housing, which will fully meet the commitment given last year that 1987-88 allocations would be no less than 80 per cent of the 1985-86 level. In addition [ ] extra provision has been agreed for the Urban Housing Renewal Unit and grants to housing associations. [Possible sentence on rents].

DOE Other

[ ] [ ] [ ]

Extra provision has been agreed for local environmental services capital spending, which will fully meet the 80 per cent allocations commitment. [Sentence on outcome for Urban Group Spending].

PSA

[ ] [ ] [ ]

The main increase is to finance unavoidable increases in rent payments, but extra provision has also been agreed for major new works projects for which PSA maintains financial responsibility.

Lord Chancellor's Dept's

[ ] [ ] [ ]

The increase reflects higher estimates of legal aid expenditure and other items of courts expenditure. Minor offsetting savings have been agreed on [ ].



PAI.

[ ] [ ] [ ]

The increases reflect [ ]. [A major review of the options for subsequent stages of the British Library project has been agreed].

Crown Prosecution Service

[ ] [ ] [ ]

Additional provision has been agreed to reflect latest estimates and performance targets for the costs and operation of the new service.

Nationalised Industries

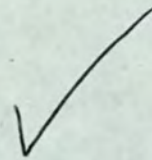
[ ] [ ] [ ]

Agreements have been reached in all cases other than the coal and electricity industries. [Possible separate sentences on Steel, Post Office, shipbuilders, railways, LRT and Water.]

[NB Figures for LA current deliberately excluded to discourage readers adding up a large figure of conceded bids in this annex].



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PUBLIC EXPENDITURE SURVEY 1986: DEPARTMENT OF THE ENVIRONMENT

Note of a meeting held in the Chief Secretary's Room,

H M Treasury, at 12.30pm on Monday, 22 September

Present

HM Treasury

Chief Secretary  
Mr Butler  
Mr Jameson  
Mr Moore  
Mr Turnbull  
Mr Instone  
Mr Hoare  
Mr Legg  
Mr Meadows  
Mr Perfect  
Mr Tarkowski  
Mr Pike  
Mr Betenson  
Mr Sharp

Department of the Environment

Secretary of State  
Mr Heiser  
Mr Fletcher  
Mr Osborn  
Mr Hobson

Property Services Agency

Mr Chipperfield  
Mr Hawtin

Scottish Office

Mr Elvidge

Welsh Office

Parliamentary Under Secretary  
of State  
Mr Jeremiah  
Miss Paulett

Parliamentary works (PSA resumed)

1. The Chief Secretary said that during his discussion of the Bridge Street Phase 1 project with the Lord Privy Seal in July he had made it clear that in agreeing to the preliminary contract he would be looking for offsetting savings to contain the cost of the project within baseline. The Secretary of State said that in view of the undertakings already given to Parliament on Bridge Street, Phase 1, he did not consider it would be politically

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acceptable to contain expenditure by extending the period of the contract. On the Palace Chambers bid the Secretary of State said that he wished to investigate the possibility of private sector involvement. The Chief Secretary asked whether the cost of the project was likely to increase further. PSA could give no firm assurance on that, but hoped there would be no further changes to the specification.

2. The Chief Secretary said that he was prepared to agree to additions of £1.7m (1987-88), £3.8m (1988-89) and £3.8m (1989-90) for Bridge Street Phase 1 but that he must resist the remaining bids. The Secretary of State said that he would consult the Lord Privy Seal in the light of the Chief Secretary's offer.

DOE other

3. The Chief Secretary said that now that he had got further down the road in the Survey the position was now more difficult than when housing had been discussed. The Chief Secretary could not entertain additional bids of the order of 25 per cent on the baseline. The Chief Secretary said that he accepted the reduced requirements proposed by Mr Ridley on New Towns and other water services and asked if there was a possibility of any extra New Towns receipts.

4. The Secretary of State said that he had been pondering the position over the weekend and in the light of the decisions on LA capital controls he felt that he had to withdraw the offer he had made at the last bilateral to reduce the housing bids in the later years. On New Towns receipts, the forecast had been revised and he was able to offer additional receipts of £40m, £30m and £30m in the Survey years.

LES Capital

5. The Chief Secretary said that given the enormously difficult position faced in the Survey he did not feel he could give more than was required to meet the 80 per cent commitment ie £207m in allocations. He felt that this was a low priority area and did not accept that an additional 5 per cent (£12.9m) was required

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For the LA Associations and he saw no need for the £5m safety margin.

6. The Secretary of State said that he thought the 5 per cent for the LA Associations was necessary, but could concede the £5m safety margin if the figures were correct. The 1985-86 outturn was £417m (at 1987-88 prices) compared with provision of £179m for 1987-88, which if maintained would be an enormous cut in real terms. He could not accept as large a cut as that.

7. The Chief Secretary noted that the Shire Districts benefited most from receipts. He recognised that the Secretary of State would wish to make a case for waste disposal for London and the Mets, but he thought ILEA merited nothing given the resources they were inheriting from the old ILEA and the GLC. The Chief Secretary also thought that PONORI was a low priority this Survey. He noted a DOE explanation that some of the resources for PONORI were from past commitments; that DOE did not have a precise split between past and new commitments and that it might be possible to reduce the bid slightly. The Chief Secretary remained unconvinced of the need for an addition beyond that necessary to meet the 80% commitment. It was agreed to move on to other elements of the DOE other bids.

Urban Group

8. The Chief Secretary suggested that the Urban Group should be considered as a block. He recognised that the Secretary of State attached high priority to new Urban Development Corporations (UDCs) but E(A) had made clear that any UDCs which might be agreed must be funded from within existing provision. Priority for UDCs meant that less provision could be made for Urban Regeneration Grant, the Urban Programme and Derelict Land Grant. The Chief Secretary said that he could not offer any increase in provision against baseline for the Group as a whole.

9. The Secretary of State said that he could accept a £20 million reduction in his bid for 1987-88 by allocating some existing

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provision from the Urban Programme and Derelict Land Grant to new UDCs. He could not go beyond this because spending in the inner cities would already be reduced by any LES cuts and because the new UDCs would cover restricted areas and could not be seen as a replacement for the Urban Programme elsewhere. In DOE's view considerable progress had been made on Urban Programme objectives and monitoring. Substantial cuts in the Programme should not be made.

10. The Chief Secretary noted the reduction in bid offered by the Secretary of State for 1987-88. He would have to consider this, together with the increase in New Town receipts, in the context of the DOE other programme as a whole, and in the light of what movement the Secretary of State could offer for the later years.

#### Other bids

11. The discussion then moved on to the other bids. The Secretary of State said that the extra resources for the heritage were required to make good the fire damage at Hampton Court. There was strong support within the Department for the bids for environmental bodies. The Chief Secretary said that the NCC has fared well in recent years and this might be the time to rein back. The Secretary of State thought the present management agreement system of paying farmers for not doing something was wholly illogical and he would be delighted to tackle it by possible changes to the planning law, but this would have to be done after the Election rather than before.

#### Development Commission

12. The Chief Secretary thought that there was a case for a cut in the Development Commission rather than the proposed increase. In the last two Surveys the Commission had been spared the reductions imposed on comparable bodies such as EIEC and the 4 regional territorial agencies. New arrangements whereby EIEC credited DC with net receipts from the DC funded portion of the EIEC factory estate (£2m - £4m in 1986-87) meant that the same level of factory building could be maintained with a lower public



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expenditure requirement. The baseline contained flm provision for Corporation Tax which had been reclassified as non-public expenditure. Consultants had also suggested that there was room to charge considerably more for services. The Secretary of State mentioned that Lord Vinson had threatened to resign if he did not get more money; but he was not aware of the point made by the Chief Secretary: he would ask DOE officials to pursue.

Civil defence

13. The Secretary of State said that the bid on civil defence in the water industry was to comply with an OD(HD) decision earlier in the year. His department had no departmental interest in the bid, however. The Chief Secretary said that he was unable to form a view on the bid as he did not have all the details, and he agreed to consider it further.

Conclusions

14. Summing up this part of the discussion the Chief Secretary said that given the high priority the Secretary of State was attaching to LES capital and UDCs, he had to resist all of the smaller bids.

15. The Secretary of State suggested that the position be considered globally. For 1987-88 the bid was £221m. He was prepared to reduce his bid to £110m, taking account of the extra £40m of New Towns receipts, a £20m reduction in the urban group bid and a £50m reduction in the LES capital bid (which was not required to meet the 80% commitment). The Chief Secretary noted the position and said that the scope for a settlement in 1987-88 would partly depend on the Secretary of State's position on the future years.

16. It was agreed that discussion of the future years was without commitment either way. The Chief Secretary made the point that the 80% commitment did not apply to these years. The Secretary of State expected the UDC expenditure to grow at the expense of LES. The extra New Towns receipts needed to be taken into account. He wanted a baseline level in cash terms. It was agreed that

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officials would sort out the basis on which figures were to be negotiated, without commitment either way. The Chief Secretary would then write to the Secretary of State commenting on the position reached.

DOE Running costs and manpower

17. The Secretary of State agreed that the deal struck at official level on running costs and manpower was acceptable. DOE would do their best to keep within the revised manpower ceiling. DOE felt that running costs were tight and they would find it very difficult to live within the running costs limit in 1987-88 if there was a 6-7 per cent pay award. The Chief Secretary confirmed that the deal, which was subject to certain conditions discussed at official level, was acceptable to him. The Secretary of State confirmed that the addition could be contained within his reduced bid of £110m.

Water

18. The Chief Secretary said that he was seeking a reduction in the bid for water by reducing the level of investment and by securing higher operating cost reductions. There had been a large increase in water investment in real terms over recent years and further real increases appeared unjustifiable. The returns to be sought from the industry needed to reflect its preparation for privatisation and this required improved results and returns.

19. The Secretary of State found the proposals in the bidding letter unacceptable. He said that a negative EFL would be seen as a tax on water and as exploitation of the industry's monopoly position. Real increases in charges needed to be associated with real increases in the level of investment and improvements in service.

20. The Chief Secretary pointed out that negative EFLs were a necessary consequence of adequate preparation for privatisation. They did not represent a tax: they should be regarded as analogous to a dividend in a private sector company, and they also allowed for a marginal reduction in the very substantial outstanding

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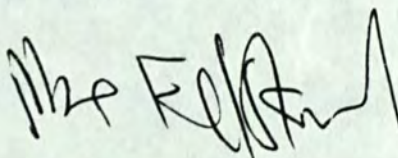
growings of the industry. Nor did he accept that real investment would fall as a result of his proposals if operating costs could be further reduced in line with achievements in other nationalised industries. Daily water charges were low in absolute terms and UK charges were also low compared to those in other countries.

21. The Secretary of State said that the industry had already made significant decreases in operating costs and reductions beyond 1% real a year could not be envisaged. However, he could offer a reduction in his bid to £25 million in 1987-88 and baseline in 1988-89 and 1989-90. The £25 million bid in 1987-88 reflected his reluctance to see a reduction in real capital expenditure. He would be prepared to consider substantially negative EFLs for 1988-89 and 1989-90 in the next IFR, but baseline was the lowest acceptable figure he could agree to appearing in this year's White Paper.

22. The Chief Secretary said these proposals did not meet his objectives, but agreed to consider Mr Ridley's revised proposal further.

End of meeting

23. The Chief Secretary agreed to write to Mr Ridley about the position reached.

PP   
JILL RUTTER  
Private Secretary

HM TREASURY  
25 September 1986

Distribution

Those present  
Principal Private Secretary  
Sir Peter Middleton  
Mr Gray



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1. ~~CDP~~ - I was  
 sub this on a personal  
 basis.  
 2. pa.

PUBLIC EXPENDITURE SURVEY 1986: FOREIGN AND COMMONWEALTH OFFICE

Note of a meeting held in the Chief Secretary's Room,  
 H M Treasury, at 2.45pm on Friday, 19 September

Present:

H M Treasury

Chief Secretary  
 Mr F E R Butler  
 Mr Mountfield  
 Mr Turnbull  
 Mr P G F Davis  
 Miss Cund  
 Mr Denison  
 Mr Hoare  
 Mr Tyrie

FCO

Foreign Secretary  
 Minister for Overseas  
 Development  
 Sir P Wright  
 Sir C Tickell  
 Mr MacInnes  
 Mr Vereker  
 Mr Galsworthy

**FOREIGN OFFICE EXPENDITURE PROGRAMMES**

The Chief Secretary said he was grateful for the Foreign Secretary's support for the overall public expenditure strategy. He stressed that the position was very tight, requiring him to resist additional bids where possible and to seek offsetting savings for those that went ahead.

**FCO DIPLOMATIC WING**

2 It was agreed at the outset that the adjustment for overseas price movements should be determined separately by officials in accordance with the existing arrangements, and that the costs of the home boarding school allowance should be reinstated in accordance with the agreement made in the 1985 Survey.

**SECURITY**

3 The Chief Secretary recognised the need for increased expenditure on security and said he was grateful for the

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small reduction in the size of the bid in the final year. He accepted the bid, but said he would hope that offsetting savings could be found within the FCO programme.

PSA AND INFORMATION

4 The Chief Secretary suggested that the bids for PSA works and the Whitehall information project (Caldbeck) were minor bids that should be withdrawn, within the spirit of the agreement on overseas price movements (as recorded in the Prime Minister's Private Secretary's letter of 2 April 1985) and accommodated as necessary within existing totals in accordance with departmental priorities.

5 The Foreign Secretary said that the bids were included as a matter of principle since they represented new programmes for which the department should be entitled to new provision. He was particularly concerned that work should proceed in the two areas specifically associated with technological innovation, namely FOLIOS (amounting to £0.5, £0.2, £0.2 million within the overall PSA bid) and the separate bid for Cladbeck. He therefore continued to press for extra resources.

6 The Chief Secretary noted these priorities. He nevertheless stressed that he was faced with PSA works bids from many departments with substantial amounts at stake across the board that could not be afforded in full.

VISAS

7 The Chief Secretary said one of the key questions on the new visa regime was the level of fees. He argued that fees should fully cover the additional costs (other than the start-up costs). He felt the case was sustainable and

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justifiable, especially in the context of the current public expenditure constraints.

8 The Foreign Secretary said that in principle he did not question the introduction of visas and the increase in fees. He had supported the existing policy of continuing increases to minimise the net costs. The question though was how far it was possible to go in the present circumstances. The FCO proposals already envisaged an increase in the basic visa fee from the existing £12 to £16 (with concomitant increases in the other fees). To recover costs fully would require an increase to some £22 and it was a question of judgment whether this was politically possible. Where visas were being introduced for the first time the impact would be the full amount of the fee, not just the increase. The overall amounts in question were substantial compared with other countries fees. The most charged by a similar country was £11 by Italy; the new French visas cost £6.

9 The Chief Secretary suggested that the scale of the UK operations justified a higher level of charges even though, as it was pointed out, the operation of certain other countries such as France and Italy had some similar characteristics. He said the additional increase he sought was trivial to the person paying, but represented substantial amounts in total in public expenditure terms.

**MANPOWER**

10 The Chief Secretary noted three manpower issues:

- a. the FCO bid for an extra 120 staff for visa work;
- b. the FCO bid for an extra 130 staff to reinstate cuts agreed previously;
- c. the Treasury proposal for cuts of 100 staff in the existing complement.

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11 The Foreign Secretary said that the bid for visa staff was based on the interdepartmental assessment of requirements by officials. He said he was convinced that the current complement was not sufficient and that, although the 130 cut had previously been accepted as part of the FCO's contribution to the overall manpower targets, some reinstatement was now required. There were serious problems of management and morale because of the pressures created by a continuously expanding workload within the existing manpower baseline. He argued that an apparent shortfall of 250 was reduced to just 88 by special factors (early transfer of broadcasting staff and GCHQ staff, treated separately). This represented recruitment shortfalls in certain particular grades, but the manpower need was clear and should not be written down on that account. He hoped that the Chief Secretary would withdraw his proposed reduction and accept some increase.

12 The Chief Secretary recognised that the FCO had said they could accommodate the costs of the 130 staff within existing running cost totals, but noted that the manpower targets were already under severe pressure. He agreed that he would not press his proposed reduction of 100 staff. He said it would be very helpful if the Foreign Secretary could reduce his bid for visa staff from 120 to 100 to correspond more closely with the 98 staff savings in the Home Office arising from the introduction of the new visa regime. Without some movement from the Foreign Secretary on visas, he thought it would be difficult to envisage movement by the Treasury on the remaining 130 staff bid.

OFFSETTING SAVINGS

13 The Chief Secretary listed charges for commercial work, efficiency savings and asset recycling as possible sources of savings to help offset the cost of the security bid.

14 The Foreign Secretary said that the question of charges for commercial work was constantly reviewed. He was not opposed

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to charging in principle, but doubted the feasibility of introducing any new point of charge. He could not identify any area where returns would be worth the political difficulties. He nevertheless recognised the current NAO interest in charging policy and agreed that there was scope for a further review with a view to increased charges. He nevertheless could not accept that any savings could be assumed in the current survey.

15 The Foreign Secretary said that the efficiency savings had already been taken into account in their programme. They were required to help bridge the gap between the cash uplift factor and the actual running cost increases. He could not therefore offer savings from this source as offsets to his other bids.

16 It was for discussion whether the running cost savings generated by asset recycling should be surrendered to the Treasury or retained by FCO. The Foreign Secretary suggested that it should be possible in separate discussion to establish a formula governing the allocation of savings and that, on that basis, he was prepared to offer some savings here.

ODA PROGRAMMES

17 The Chief Secretary accepted the reductions currently offered in Aid Administration.

18 The Foreign Secretary said that pensions credit for war service had to be maintained as a separate bid. It would not be appropriate for him to offset the cost by reductions in the aid budget. He said the proposal had a great deal of popular support and that it was therefore an attractive reform. The Chief Secretary note the position but said it was simply not possible to introduce new arrangements of



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this kind in a year of such great public expenditure pressure. The Foreign Secretary suggested that the bid could be borne in mind as a possible Budget sweetener.

**AID BUDGET**

19 The Foreign Secretary said that last year's additions to the aid budget, to maintain its real value, had been very helpful politically. He was looking for a similar agreement this year to maintain the level of the aid budget as a proportion of GNP. The UK had fallen from second place to sixth and that within the overall total the continued growth in multilateral aid caused a severe squeeze on bilateral programmes.

20 The Minister for Overseas Development stressed the importance of at least holding the present position on the proportion of GNP. He noted the political importance of the aid programme, particularly in the light of the Geldof factor. He noted that the UK had been the only country to reduce its aid programme and had the worst record among aid donors.

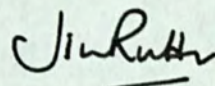
21. The Chief Secretary said he recognised the political dimension. The overall strategy involved reducing total public expenditure as a proportion of GNP. Faced with large claims on other programmes he could not see scope for the increases in the aid budget envisaged by the Foreign Secretary. He stressed that the amounts in question - £30 million, £65 million, £110 million in the three years - were not small sums. They represented considerable amounts in the current public expenditure exercise.

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22 It was agreed that the aid bid could not be settled at the bilateral.



JILL RUTTER

Private Secretary

Distribution

Those present  
Principal Private Secretary  
PS/Sir Peter Middleton

H M Treasury  
24 September 1986

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MR CULPIN

FROM: A Turnbull  
DATE: 24 September 1986cc Chancellor  
Chief Secretary  
Sir P Middleton  
Mr F E R Butler  
Mr Gray  
Mr M L Williams  
Mr Tyrie

## RODNEY LORD ON PUBLIC EXPENDITURE IN 1986-87

We discussed Rodney Lord's piece in today's Times. It seems strange that he should have alighted on a figure of fl½ billion when there is no supporting analysis in the piece to lead him to it. Equally the references to in-year action are puzzling when this has not been raised outside the Treasury. You said you were not aware of any recent conversations between the Treasury and Rodney Lord.

2. We agreed that the best way to counter the piece was to attack on two grounds:

- (i) the difficulty of making estimates at this time of year, citing last year's undershoot of the planning total (which materialised after the Autumn Statement);
- (ii) the lack of evidence that supply expenditure is overshooting.

The Press Notice on the August PSBR shows supply expenditure in the first five months of this year up about 3 per cent on the corresponding months of last year (although you will recall that supply expenditure includes substantial non-public expenditure and excludes non-voted central government expenditure).

2. I attach a note on the line to take, and a background note on just what is in the public domain (although you will want to let journalists explore this for themselves).

AT



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Can you confirm that planning total will be overshoot by £1½ billion?

This is speculation. Government will publish an estimate of the outturn for 1986-87 in the Autumn Statement in November, but even then there will remain a significant margin of error. Last year, for example, Government put the estimated outturn for 1985-86 at £139.1 billion. In the event, the outturn was around £½ billion lower.

But there are significant overruns in several areas

We know local authority current budgets are about £2 billion higher than plans and that there may be an overspend on capital, though this is based on limited information. But latest figures on supply expenditure do not indicate large overspend. The PSBR Press Notice for August issued earlier this month indicated that the first five months were about 3 per cent higher than in the corresponding period last year.

Have 'emergency cuts' been ruled out?

We do not recognise the situation to which this idea relates.



Background Note

An informed commentator may be able to discover the following information in the public domain:

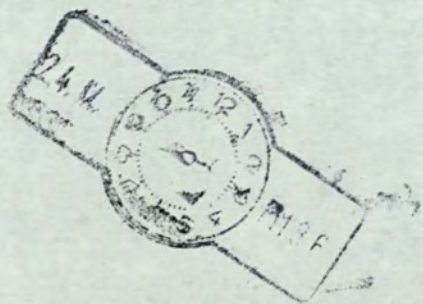
	<u>£ billion</u>	
1) LA current budgets	2.2	(circulated by LA associations)
2) Summer supplementaries	0.3	(inc NHS pay and budget measures)
3) End-year flexibility, cash limit increases	0.3	(PQ)
4) Invalid care allowance	0.1	(Statement)
5) LA capital	<u>0.7</u>	(DOE / but <sup>circulat</sup> uncertainty stressed)
	<u>3.6</u>	

2. This figure compares with a Reserve of £4.5 billion. He might, however, go on to add something for:

- (i) impact of teachers' pay award, say, £½ billion;
- (ii) customary overspending on some demand-led programmes, eg social security, IBAP.

3. At most this takes the overspend to £½ billion; a higher figure would require unfounded assertions about eg demand-led expenditure, the impact of pay awards or EC decisions, or the cumulative effect of small announced claims. Against this, IDT can point to the likelihood of some underspend on cash limits, some of which is just the obverse of the EYF addition; and an announced reduction of the BSC EFL of £0.1 billion.









**PUBLIC EXPENDITURE SURVEY 1986: SCOTLAND**

Note of a meeting in the Chief Secretary's room, HM Treasury on Thursday 18 September 1986.

Present:

**TREASURY**

Chief Secretary  
Mr F E R Butler  
Mr Burgner  
Miss Peirson  
Mr D J L Moore  
Mr Norton  
Mr Pirie  
Mr Gray  
Mr Sutton  
Mr Hoare  
Mrs Diggle  
Mr Davis  
Mr Tyrie

**SCOTTISH OFFICE**

Secretary of State for Scotland  
Dr McCrone  
Mr MacKenzie  
Mr Thomson  
Mr Brady

The Chief Secretary said that the difficult public expenditure position this year meant that he was asking for support from all his colleagues in achieving the objectives set him by the Cabinet.

**NATIONALISED INDUSTRIES**

2. The proposed external finance limit for the Scottish Transport Group was agreed subject to the proviso on the level of grant made in the Chief Secretary's bidding letter.

3. The Secretary of State hoped it was agreed that the additional resources required for Torness and Hunterston B were unavoidable. However, he was ready to explore a number of ways in which offsetting savings could be made. On tariffs, he felt that there must be benefits to industry and the consumer if the Government was to win the nuclear power debate. Opposition to Torness had strengthened since Chernobyl, and the South of Scotland Electricity Board was anxious to demonstrate the benefits of cheap nuclear power. Account also had to be taken of the fall in fossil fuel prices which had meant pit closures and contractions. These had been accepted by the public because of wider energy considerations. The Treasury proposals would mean a real increase in electricity prices which would cause particular problems if the price increase in Scotland was higher than in England.



4. On capital, the Secretary of State accepted that the Boards should not be contemplating ambitious expansion. Essentially what was required was modernisation compatible with real needs. There would be some savings on the capital programme. But it was not within his power to determine tariffs.

5. The Chief Secretary said it was disappointing that these bids attempted to undo last year's Investment and Financing Review. Any settlement reached must not end up so wide of the planning total as to have adverse effects on the economy. He accepted that, while the Boards must respect Ministerial decisions, Ministers could not determine tariffs. His interest was in the global figure, not in any particular capital/tariff mix. He understood the political argument on nuclear power.

6. Mr Moore accepted that expenditure on Torness and Hunterston B was unavoidable: that was why the Treasury proposed a one per cent price increase in 1987-88 followed by a one per cent real decrease in 1988-89 and no change in 1989-90. The decrease would occur when Torness came on stream.

These tariff increases would allow a 3 per cent return on capital over the period. The longer term aim was a 5 per cent rate of return.

7. The meeting discussed the effect of coal and oil prices on tariffs. The Secretary of State would expect to see price benefits on nuclear power. He would write to the Chief Secretary with quantifiable proposals on capital, which would take account of revised sales assumptions and improvements in operating costs. These might be found partly by assuming more realistic output from Hunterston B. The Chief Secretary warned that the pressures in the Survey were such that he would continue to press for tariff increases.

#### INDUSTRY

8. The £0.6million bid for ERDF was agreed as an automatic adjustment.

9. The Secretary of State explained that his bid reflected a realignment of spending patterns in SDA, with significant reductions in running costs. The recent review, in which Treasury had participated, had found that land renewal gave very good value for money. There was no bid in 1988-89 because of the substantial receipts from the Glasgow Garden Festival. The bid for 1989-90 did not represent any increase in Agency activity, but would enable it to work better on its existing requirements. The work of the Agency was attracting increasingly favourable comment.

10. The Chief Secretary said that he had to look for savings where he could find them. Favourable comment on the Agency's work did not imply support for present levels of funding: moreover the review had pointed to areas of activity where Agency involvement could be reduced. He took the point on land reclamation; but the review had questioned the value for money of some projects, and he was keen to have a clear analysis of output



measures etc: priorities would then have to be determined within existing resources.

11. The Chief Secretary asked why there were no Garden Festival receipts in 1989-90. Dr McCrone replied that the Festival would be over by October 1988, after which the land would go for private development. However the profile of receipts would be checked. Mr Burgner pointed out that the Agency's expenditure on the Festival would also decline over the Survey period. The Secretary of State said that the Agency was becoming more efficient: however the actual bid was required in order to keep the gross grant in aid at the present level.

12. The Chief Secretary concluded this part of the meeting by asking the Secretary of State to review the scope for savings in this area.

#### DEPARTMENTAL RUNNING COSTS

13. The Secretary of State asked whether the agreement discussed between officials on the Prison Service would be endorsed. Mr Butler explained that discussions had been ad referendum and that, while there was probably agreement on manpower, the proposals on pay meant unacceptably high unit cost increases. The Chief Secretary hoped that it would be possible to agree running costs limits which implied figures for Prisons below those discussed by officials, ie:

£m		
60.0	60.9	61.3

14. The additional £1.1 million for 1987-88 (£1.2 million for 1988-89 and 1989-90) in the figures discussed by officials could be regarded either as unwinding the knock-on effects of this year's pay settlement, or as allowing a pay assumption of up to 5.75 per cent for 1987-88, or as combining these elements in some degree. The Chief Secretary said that he was refusing to accept any bids for the first reason, while a pay assumption of 5.75 per cent was too high given the current and forecast levels of inflation. Cabinet had endorsed the philosophy behind the running costs regime: that if pay settlements exceeded the allowance made in running costs as to what was affordable, there would have to be compensating savings.

15. Mr Thompson saw very little room for manoeuvre on general administrative expenditure (GAE). The bulk of Prisons running costs were accounted for by pay (each 1 per cent on the pay bill adding £0.4 million), and there was a rapidly increasing prison population.

16. Mr Sutton said that the real pressures on the Prison Service were recognised; large concessions had already been made. Even without the £1.1 million extra for pay in 1987-88, there was still a 13.2 per cent aggregate increase, enough to keep Low Moss open for a further year. The Chief Secretary asked if a review of design capacity would help to identify extra prisoner places: it was agreed that this would be done.



17. Increases in prison manpower of 126, 6 and 6 in the three Survey years were agreed, but running costs limits were left over for the time being.

18. Discussion turned to the Scottish Office's departmental programmes. Mr Butler observed that the Department was well below the MPO's 1 per cent per annum guideline for efficiency savings in departments generally. Mr MacKenzie explained that there were many pressures on the Department: he instanced student awards, and other new initiatives. The Department needed to improve the way it presented Government policy. Information technology had been used to make efficiency savings, but was itself absorbing money. The Secretary of State pointed out that staff resource was needed to achieve a merger of the Scottish Special Housing Association and the Housing Corporation, which would produce large public expenditure savings.

19. On the minor Scottish Departments, which were subject to separate running costs and manpower controls, the Secretary of State pointed to demand-led pressures (flowing from the success of council house sales) on the work of the Department of Registers and Scottish Record Office. Mr Butler said that the Treasury were more sympathetic to the problem in the Scottish Courts Administration.

20. Concluding this part of the discussion, the Chief Secretary said that he would write very soon with counter-proposals on running costs and manpower for Prisons (where the two sides were not far off agreement) and Scottish Office departmental programmes. Officials should follow up on the minor Scottish Departments, with a view to a settlement.

#### SCOTTISH BASELINE - POPULATION ADJUSTMENT

21. It was agreed that there was no prospect of progress being made bilaterally on this question.

#### LOCAL AUTHORITY CURRENT - EXCESS FORMULA CONSEQUENTIALS

22. The Secretary of State said that his position was simple: he took the rough with the smooth on the formula and just wanted to operate in the normal way. He was not arguing for a bonus for good behaviour: the formula was public knowledge and it would appear extraordinary if not applied.

23. The Chief Secretary replied that this year's decisions on local authority current expenditure were special, and followed from the consequences of overspending in England. There could be no automatic entitlement as a result of such realism. A comparison of Scottish and English local authority spending per head showed higher spending in Scotland despite England's "overspending".

24. Mr Butler asked where the extra provision would be used: if it was employed elsewhere in the block, Scotland would benefit twice over if - as could be assumed - local authorities overspent. The Secretary of State suggested that part of the excess could



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meet the cost of containing the revaluation rebate. There could also be some enhancement to LA capital.

25. Concluding the meeting, the Chief Secretary asked the Secretary of State to reflect whether it was worth pursuing this at a further meeting. He saw no reason to move from his July position..

HM TREASURY

21 September 1986

Copies to:

Those present  
Principal Private Secretary  
PS/Sir Peter Middleton  
Mr Turnbull

*Jill Rutter*  
PP

JILL RUTTER  
Private Secretary



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PUBLIC EXPENDITURE SURVEY 1986: DEPARTMENT OF ENERGY  
Note of a Meeting held in the Chief Secretary's Room,  
H M Treasury, at 9.30am on Friday, 19 September

Present:

H M Treasury

Chief Secretary  
 Mr F E R Butler  
 Mr Monck  
 Mr Moore  
 Mr Turnbull  
 Mrs Diggle  
 Dr Bird  
 Miss Rutter

Department of Energy

Secretary of State for Energy  
 Mr Gregson  
 Mr Buckley  
 Mr Wilcock  
 Mr Bretherton  
 Mr Thynne  
 Mr Pash  
 Mr Dart

I: Departmental ProgrammeRunning Costs

It was agreed that the Department's running cost targets for the Survey period should be set at the level agreed provisionally by officials.

Departmental Expenditure

2 The Secretary of State for Energy said that in order to keep within his baseline he had had to trim back a number of bids made within his Department. Any further squeeze would result in decisions which would be wrong in themselves and politically unpopular. It was not possible, against the background of the imminent Sizewell Report and Chernobyl to cut back expenditure on either nuclear waste disposal or renewable energy R & D. He was offering savings on the Coal Firing Scheme. The energy efficiency budget would be lower in later years than in 1986-87. And the Offshore Supplies Office had an important role to play at present since oil companies were cutting back their investment programme.

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3 The Secretary of State was prepared to offer savings of:

1987-88	1988-89	(£ million) 1989-90
-9	-11	-13

on his Departmental baseline (exclusive of what might be agreed on the AEA). In 1989-90 the figure offered was in addition to the £10 million reduction previously agreed for the CFS. The savings would reduce the baseline to:

		(£ million)
310	319	315

AEA

4 The Secretary of State supported the idea of transferring part of the responsibility for financing fast reactor research to the CEGB. Lord Marshall was already in favour. It remained to persuade the Electricity Council. It might be necessary to phase in a transfer of up to £25 million a year, or it might be possible to settle on a step change in financing arrangements. The Chief Secretary asked for a report back within ten days. Mr Walker said he would report back as soon as possible.

5 Turning to the AEA's EFL, the Secretary of State was prepared to drop the bid for a new neutron source subject to examining it again next year after discussions between the AEA and officials. The Chief Secretary accepted this. In addition, the Secretary of State could offer savings of £3 million, £1.5 million and £2.4 million in the 3 PES years. These would not merely defer expenditure. The Chief Secretary

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hop for further savings of £3 million in 1987-88 in order to make room for the £2½ million a year venture capital fund the AEA wanted.

6 It was agreed that when the Secretary of State reported to the Chief Secretary on his discussions with Lord Marshall, decisions would be taken on the AEA and departmental expenditure at the same time.

II: British Coal

7 The Secretary of State thought it important to show confidence in Sir Robert Haslam's management of the coal industry. It would take a little time to put together his new plans. Substantial progress had already been made, with 31 pits shut since the strike, together with colliery amalgamations, and at least 3 further closures in the pipeline. Haslam intended to link pay to productivity and had ambitious plans for more closures; he was reviewing BC's capital investment programme and this might lead to reduced bids.

8 It was agreed that Department of Energy officials would prepare a paper on Sir Robert Haslam's latest plans within the next 2 weeks. This would be the basis for further discussion between the Secretary of State and the Chief Secretary.

9 Discussing the general strategy for the coal industry, the Secretary of State made it clear that the new profit objectives demanded further closures. The industry was no longer production led but market driven. There was a possibility that more redundancies this year, and increased costs, could improve prospects in the later IFR years. Ministers agreed to defer further discussion of miners' redundancy costs until more information was available.

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III: Electricity

10 The Secretary of State explained that the Sizewell report was due on 17 October and that he was eager to make a rapid decision once it was available. The Chief Secretary pointed out that the timetable implicit in the ESI's bid was unrealistic in assuming S2 consent in autumn 1986. The Secretary of State agreed.

11 It was decided to adopt a working assumption of S2 consent at the end of calendar 1987, on the understanding (similar to the agreement in the 1985 IFR) that the agreed EFL's would need to be adjusted if this timetable assumption proved incorrect. Officials would agree the figures separately.

12 As for other items <sup>in</sup> the ESI's capital bid, the Chief Secretary suggested that it was too soon to provide for a new coal station; and that further savings on capital might also be found. The Secretary of State was prepared to look at the case for deferring a decision on the coal station until the 1987 IFR. The scope for further capital savings was limited by the need for additional resources for the AGRs, and there was also pressure from suppliers to maintain investment on the transmission and distribution network. It was agreed that officials should discuss what capital savings could be identified.

13 The Chief Secretary suggested that it should also be possible to have a contributions holiday for the employer's input to the ESI pension fund once the triennial actuarial valuation was available in respect of end March 1987; credit should be taken now for the expected savings. The Secretary of State agreed that officials should examine this option, but stressed any savings scored on this account would have to be subject to a best endeavours understanding.



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14 Turning to profits, the Secretary of State said that the Electricity Council rejected the case for a tariff increase next year and intended small real price decreases in 1988-89 and 1989-90. This revised tariff path would not add to the ESI's bid because there would be offsetting savings.

15 The Secretary of State felt unable to press the Electricity Council to raise prices higher than their intentions. He had no powers to do so. In 1987-88 higher prices would mean exceeding the financial target and putting electricity at a competitive disadvantage against gas. The industry's imminent debt freedom meant that higher price increases than commercially necessary would be open to challenge in the courts. It was already earning a better return than any other energy utility in the world. Price decreases would be indicated if the same pricing formula as gas were to be adopted. £1.3 billion a year should be adequate return for the Treasury.

16 The Chief Secretary pointed out that the electricity industry's own proposals for a bonus scheme envisaged reward for exceeding the financial target. He envisaged that the ESI should progressively move toward the target of a 5 per cent real return on capital which applied to nationalised industries generally. It was very important that a prudent public expenditure path should be presented in the autumn statement, not least because of its impact on public perceptions of the economic background to gas privatisation. The ESI could and should make a contribution to improving that overall picture.

Conclusions

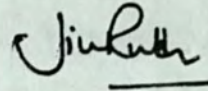
17 Summing up, the Chief Secretary said that he would hope to settle the Departmental programme in correspondence once the Secretary of State had established the position on the

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AEA's EFL. Further action on coal would have to await the paper by Department of Energy on Sir Robert Haslam's proposals. Officials would also consider the capital programme and a possible contributions holiday on pensions. He noted the Secretary of State's position on electricity tariff increases. He did not think that this was a question which could be settled bilaterally.



JILL RUTTER

Private Secretary

Distribution

Those present  
Principal Private Secretary  
PS/Sir Peter Middleton  
Mr Robson  
Mr Hoare

H M Treasury  
24 September 1986

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CCRC

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD  
WHITEHALL PLACE, LONDON SW1A 2HH



From the Minister

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The Rt Hon John MacGregor CBE MP  
Chief Secretary to the Treasury  
HM Treasury  
Parliament Street  
LONDON SW1

1. CAP  
2. NBP, /

22 September 1986

Dear Chief Secretary,

PES 1986: AGRICULTURE FISHERIES AND FOOD

*attached*

Since my letter to you of 5 June there have been several developments which alter the Agriculture Departments' net bids. These are set out below.

Intervention Board Market Support (including EC Schemes administered by other Departments) and projects assisted by the EC

The latest estimates of CAP market support show considerable changes since June. The outlook for cereals intervention in 1987/8 has improved because of higher exports to the EC following the drought in Southern Europe. This is unlikely to be repeated next year but a more permanent change seems to be the recent fall in the £ which has led to a rapid rise in MCAs and a reduction in IBAP expenditure. The future movement of the £ is impossible to forecast but I understand that your officials insist that the most realistic assumption is a continuation of the current level of MCAs over the survey period. Against that of course we now have to set the effects of the Green Pound devaluation which you have agreed we should seek. This still leaves us with very substantial savings.

Your officials have over a long period urged the Intervention Board to take a more pessimistic view of

- (a) the likely movement in storage costs and
- (b) cereals yields

since the assumptions used in these two areas critically affect forecast expenditure towards the end of the survey period.

/Reworking the figures ...

✓



Reworking the figures submitted in June to include these assumptions would add nearly £200m in 1988/89 and £300m in 1989/90 to IBAP's programme. In recent years we have repeatedly been forced to accept provisions which were lower than our original bids, against our better judgement, only to find that actual expenditure turned out a good deal higher. I see merit in accepting your officials' proposals on methodology, thereby putting us on a more realistic footing for the future. There would of course be significant offsetting savings in the form of FEOGA receipts and so in our net contribution to the EC (programme 2.7).

Taking all these factors into account, together with small adjustments on the other CAP items gives rise to a net addition of:

			£m
	1987/88	1988/89	1989/90
	101	325	412

Full details are set out in Annex I.

#### Intervention Board Administration

Your officials have been told of a revision to the administration bid which following increases in agency charges now stands at:

	1.8	1.9	1.8
(of which running costs)	(0.6)	(0.7)	(0.6)

This bid may need further revision depending on the outcome of the MLC negotiations on pay with its fatstock inspectors.

#### Domestic Programmes

##### ALURE

Your officials participated in the work of the inter-departmental working party on alternative uses of agricultural land and sources of rural employment (ALURE) and I am reporting on the outcome to the Prime Minister. It is clear to all the Agricultural Ministers that we cannot deny that there may be as much as a million "surplus" hectares over the next decade and that we face an unacceptable problem if we take no action to assist the rural economy to adjust towards that situation. We must also look for some action which will reduce the weight of surpluses which now end up with IBAP. The broad shape of what we can do is indicated in the ALURE report, even though further work is needed to fill out the ALURE ideas so that the detailed proposals are targeted as closely as possible on our objectives. We wish to bid for £20 million in 1987/88 rising to £30 million in 1989/90 for the implementation of ALURE proposals. The basis for these figures is set out in the attached table, which also shows offsetting savings on CAP support (which would continue to rise after the PES period and would be permanent, whilst

/the costs would rise .....



the costs would rise more modestly after the PES period and would have a finite life). My officials will be happy to discuss with yours the assumptions on which the figuring is based.

### Fisheries

In my letter of 5 June I said that we would have to review the provision for fisheries when we know more about the Commission proposals for a continuation of grants for construction and modernisation of fishing vessels. The age structure of our fishing fleet is causing considerable concern and it is essential to continue with these grants if we are to maintain a competitive industry.

To complement this scheme I now propose a further measure of assistance to modernisation, to fishermen purchasing second hand vessels, involving expenditure of £1m per year. There are other small but desirable adjustments to existing schemes. We have found some offsetting savings, the net result being bids for £5.7m in 1987/8 and £1.2m in 1988/9, and a proposed reduction of £3.4m in 1989/90. Full details are in Annex II.

### Capital Grants

Our officials have examined in great detail the likely expenditure in this area over the survey period. The present position is set out in Appendix A which also contains the note you requested on options for control of expenditure, which has been agreed with your officials.

### Property Services Agency

As foreshadowed in my letter of 5 June, we have been seeking to quantify what provision is required as a result of the transfer of responsibility earlier this year from the Property Services Agency for Part I works for office and storage accommodation. Under this heading we need to rebuild two buffer depots which have been destroyed by, in one case, fire and, in the other, by exceptional weather conditions. Both are in areas of the country where it has been agreed that we should increase our flour stocks in order to match population distribution, and where storage space is at a premium. The provision required is £2.9m in 1987/88 and £1.2m in 1988/89. The need for these projects - and hence the need to transfer financial provision along with responsibility - has been known to PSA for some time. I should also note that this work will fall to be classified under programme 9.4 (civil defence) which is ring fenced from the agricultural programme.

A similar PSA issue arises over the need for alternative housing for those of my staff currently located in Great Westminster House, where the lease is expiring. I have already made a bid for the likely increase in rent for a new building but it has become apparent recently that the PSA have not made provision for the removal and fitting out costs associated with the move although it is their responsibility. Your officials insist that it is necessary to enter a bid, which is £3.7m in 1987/88, £2.2m in 1988/89 and £0.4m in 1989/90, but I feel strongly that this should not be met at the cost of other items within my programme.

/Administration .....



Administration

I also need to register a bid in respect of the manpower resources required to implement the standard option on the Property Repayment Services which is estimated to require the equivalent of 17 posts. Your officials have suggested that the cost of this manpower increase will be offset by the reduced level of accommodation charge under the standard option but the PSA have argued that this reduction will be needed to meet the cost of the increased responsibility which Departments have for small works. My total bid for increased manpower also includes the 5 additional posts for the Salmon Advisory Committee which I understand you have agreed.

My officials have agreed with yours minor amendments to other items.

A copy of this letter goes to the Prime Minister, the Lord President, Tom King, Malcolm Rifkind, Nicholas Edwards and to Sir Robert Armstrong.

*Yours sincerely,*  
*Valerie Neill*

*M.P.* MICHAEL JOPLING  
(Approved by the Minister  
and signed in his absence)



Illustrative estimates of additional expenditure and possible savings arising from the implementation of ALURE recommendations for each PES year

	Additional Expenditure (£m)		
	1987/88	1988/89	1989/90
<u>EXPENDITURE (including Forestry Commission)</u>			
<u>1. Forestry and farm woodlands</u>			
(i) Traditional forestry (20,000 ha/year expansion) (1)	3.9	4.0	4.1
(ii) Farm woodlands (15,000 ha/year from mid 1987/88 - half on poor grade 3 land and half on grade 4) (2)	3.7	8.6	12.4
<u>2. Conservation and recreation (3)</u>			
Environmentally Sensitive Areas	6.2	6.3	6.5
<u>3. Diversification (3)</u>			
(i) Action under Section 22, Agriculture Act 1986	3.1	3.2	3.2
(ii) Marketing support	1.0	1.1	1.1
<u>4. R and D (3)</u>			
Novel crops and livestock and woodlands	0.9	0.8	0.9
<u>5. Administrative costs (4)</u>			
Total additional expenditure	20.4	26.2	30.7
<u>POSSIBLE SAVINGS (CAP support) (5)</u>			
Land occupied by forestry and farm woodlands	- 9.8	-28.6	-39.1

Notes

- The figures assume that simply removing existing limitations on the use of Grade 3 and Grade 4 land for private forestry plantation will, on its own, double the rate of planting. Thus, the estimates are based on current Forestry Commission grant levels. If, in fact, the response were less and either increased grants or planting by the Commission itself were necessary to generate sufficient additional plantation, the costs would rise.
- The figures which for illustrative purposes are based on a 50:50 split between grade 3 and 4 land, assume that (as well as existing forestry grants) a woodland compensatory allowance (WCA) would be paid to farmers to cover the income foregone and that this would be enough to generate 15,000 hectares of new farm woodland plantation a year. The income foregone figures used are consistent with those used in developing the UK cereals set-aside proposals. The figures further assume that different WCAs would be paid on different grades of land - implying a sophisticated scheme. It is assumed that a scheme would not become operational until mid 1987/88.
- The figures for R and D (additional projects), diversification grants (new), environmentally sensitive areas (improvements on current plans plus new areas) and marketing (new) are MAFF estimates; for R and D they include £0.3m for the Forestry Commission (not discussed with them).
- Crude estimates for additional running costs are included, as are PES cash factors.
- The figures assume that every hectare planted with trees under the farm woodland scheme would, directly or indirectly substitute for a hectare of cereals (Grade 3 land) or of beef/sheep (Grade 4 land). A parallel, but smaller, effect is assumed for traditional forestry planting on the basis of poorer land. The savings relate to purchase and storage costs, premia and HLCAs and do not allow for increases in rates of payments.



## ANNEX I

BIDS (£m)	1987/88	1988/89	1989/90
IBAP 3.1			
(a) Latest forecasts, MCA = 0	+ 213	+ 260	+ 248
(b) MCA at current levels (19% cereals, 17% beef)	- 177	- 180	- 183
(c) Green £ devaluation (6% beef, 2% other livestock)	+ 51	+ 52	+ 53
<b>SUB TOTAL</b>	+ 87	+ 132	+ 118
(d) realistic storage costs	-	+ 33	+ 74
(e) realistic cereals yields	-	+ 147	+ 214
<b>TOTAL 3.1</b>	+ 87	+ 312	+ 406
<b>OTHER CAP</b>	+ 13	+ 14	+ 11
<b>EC AGENCY</b>	+ 1	- 1	- 1
<b><u>TOTAL MARKET SUPPORT</u></b>	+ 101	+ 325	+ 416
<b>BASELINE</b>	1571	1601	1642



**FINANCIAL ASSISTANCE FOR THE FISHING INDUSTRY**

Sea Fish Industry Authority

Grants for the Purchase and Modernisation of Fishing Vessels

This is the main form of direct support to the fishing industry. The scheme is based on a Community directive and involves the provision of grants to aid the purchase of new vessels and modernisation of others. The Directive runs out at the end of this year and the Commission is proposing a similar scheme to replace it. There has been a great deal of interest in the scheme this year, because of the possibility of the new scheme being less attractive, and applications already received will take spending up to the 1986/87 provision. Expenditure on current approvals will also take expenditure next year within £1.8m of the 1987/88 provision of £13.8m. It is estimated that spending next year under the new scheme will amount to £6.5m, leading to an additional requirement of £4.7m, after taking account of the £1.8m already available under the current provision. However in 1988/89 the existing provision will be sufficient for both the old and new scheme while in 1989/90 there should be a net saving of £4.6m.

A new scheme is essential if we are to maintain progress in modernising the fishing fleet so that we can catch the fish available to us under our Community quota and maintain our competitive position in relation to other Member States where financial assistance is also available. The effectiveness of this scheme is measured by reference to available statistics on fish landings and the age structure of the fleet.

De-Commissioning Grants

De-commissioning grants are paid to boatowners who permanently withdraw their vessels from fishing in Community waters. Withdrawal involves either scrapping, sale to a third country or conversion to a non-fishing purpose. The objective of reducing the capacity of our fishing fleet has now been substantially achieved and Ministers decided during last autumn's bilateral discussions that the PES provisions for 1987/88 and 1988/89 should be removed. But it is now clear that a provision of £0.5m will be needed in 1987/88 to cover payments which will be made next year on commitments accepted under the current scheme.



### Laying-up Premia

Laying-up premia are paid to owners who temporarily withdraw their vessels from fishing. Little use has been made of this scheme by the industry outside Northern Ireland because (they claim) the eligibility conditions were too restrictive. But the scheme does provide a safety net for the industry; and this point will be particularly important if, as proposed, the de-commissioning grant scheme is ended. There is already a PES provision of £0.25m for 1987/88, but a similar provision should be made for the final two years of the exercise.

### Joint Ventures and Exploratory Voyages

Joint ventures are arrangements entered into between Community fishermen and operators in third country waters to secure access to fish in return for payment or access to the Community market. Exploratory voyages are fishing operations in non EEC waters with a view to establishing a basis for long-term exploitation. It is proposed to remove the remaining provision for these purposes in 1987/88 (no provision remains for later years).

### Aid for Purchase of Second-Hand Fishing Vessels

This is a proposed new scheme for owners of old boats who purchase younger second-hand boats. There are at present too many elderly inefficient vessels in our fishing fleet. The objective of the scheme is to speed up the rate of modernisation of the fleet. The effectiveness of the scheme will be judged by reference to the rate of change in age structure and the volumes of fish landed in relation to available supplies.

### SUMMARY

£m

	<u>1987/8</u>	<u>1988-9</u>	<u>1989-90</u>
De-Commissioning Grants	+ 0.5		
Laying-up Premia		+ 0.2	+ 0.2
Sea Fish Industry Authority Grants	+ 4.7		
Aid for purchase of second-hand fishing vessels	+ 1.0	+ 1.0	+ 1.0
<b>Total additions</b>	+ 6.2	+ 1.2	+ 1.2
Exploratory voyages	- 0.5		
Sea Fish Industry Authority			- 4.6
<b>Net change</b>	+ 5.7	+ 1.2	- 3.4*

\*(Also 1.5 surrendered on Sea Fish Industry Development Programme)



APPENDIX A

## PES 1986: CAPITAL GRANTS: REPORT TO MINISTERS

## PART A: LATEST EXPENDITURE FORECASTS

	1986-87	1987-88	1988-89	1989-90
				£M
1. PES provision (UK)	124.0	126.9	131.0	134.3
2. August forecast	141.7	143.2	140.9	139.5
3. Implied bid	+17.7	+16.3	+9.9	+5.2
4. <u>of which</u> (by scheme)				
(i) Agriculture Improvement Scheme (AIS) (EC and national) and Environmentally Sensitive Areas (ESAs)	+3.3	+11.9	+9.3	+5.1
(ii) Agriculture and Horticulture Development Scheme (AHDS) and Farm and Horticulture Development Scheme (FHDS)	+0.2	+1.3	+0.4	+2.0
(iii) Agriculture and Horticulture Grant Scheme (AHGS)	+12.6	+2.3	+0.4	-1.0
(iv) Other	+1.5	+0.7	-0.2	-0.9
5. <u>of which</u> (by country)				
(i) England	-3.7	-3.9	-5.2	-3.7
(ii) Northern Ireland	+19.1	+20.0	+12.2	+4.4
(iii) Scotland	+ 0.6	-2.7	-1.7	+0.7
(iv) Wales	+ 1.7	+2.9	+4.7	+3.9



1. The above table shows the Agriculture Departments' latest forecasts of expenditure on all their capital grants schemes. The additional bids exclude the separate bids for the new Agriculture Development Programme (ADP) in the Scottish Islands and the proposed extension to the Northern Ireland ADP (Bids B.2 and B.3 in the "bidding letter" table) and the forecast saving on the NI ADP in 1987/88 (line C.1 of the bidding letter table). The forecasts should be treated with some caution, as there is as yet little experience to draw on in relation to the new Agricultural Improvement Scheme (AIS) which was introduced in October 1985 and the methodology used for forecasting the AHDS (the main old scheme which will continue to give rise to expenditure in the Survey years) has proved unreliable in the past. The four Agriculture Departments have chosen different assumptions to construct their AIS forecasts and these will inevitably need to be modified in the light of experience in each country.

2. The Treasury considers that the present forecasts (particularly for expenditure in Northern Ireland) fully bear out the view expressed by the present Chief Secretary and his predecessor that additional expenditure control mechanisms will need to be introduced, if Ministers wish to ensure that the agreed PES provision for capital grants will not be exceeded over the Survey period. The Agriculture Departments take the view that it is still too early to judge how farmers may react to the new schemes and note that expenditure in 1986/87 and to a lesser extent 1987/88 has been heavily affected by one-off events (anticipation of the ending of the AHGS and AHDS and an upsurge in expenditure on effluent disposal in Northern Ireland).

**PART B: EXPENDITURE CONTROL OPTIONS**

3. The Chief Secretary has proposed:

(a) setting annual commitment limits on plan approvals under the AIS(EC);

(b) cash limiting the AIS (national), ESAs, ADPs and, as far as is practicable, the remaining minor schemes.



4. The AHDS and FHDS (which also cover guidance premiums and farm accounts grants) and the farm structures (outgoers) scheme are closed to new entrants and the deadline for claims under the AHGS has passed. No change is proposed for these schemes. The imposition of a temporary moratorium on AHDS and FHDS payments might be practical. As with the other schemes the risk of successful legal challenge could be minimised if it was clear that the delay in payment would not be unreasonable. The Agriculture Ministers have agreed that the Agriculture and Horticulture Cooperation Scheme and grants to producer organisations and forage groups should be moved into the same cash-limited Vote as other marketing schemes and Food from Britain, to which they are more closely linked than to the main capital grant schemes.

5. Legal advice is that commitment limiting for the AIS(EC) may be operated exceptionally as a one-off device, but regular application would require amendment of the national regulations implementing Community Regulation 797/85. This would require the approval of the EC Commission and the Standing Committee on Agricultural Structures. If they regarded it as inconsistent with Regulation 797/85, amendment of that regulation would be necessary; otherwise our FEOGA contribution might be disallowed and the Commission might take Article 169 action against us for failure to comply.

6. Commitment limiting would not give a precise control over expenditure in any year since the timing of claims under plans remains uncertain. Nevertheless the conditions are already much tighter than in previous plan schemes: plans generally last only three years, the farmer must state in which year he will make his investment, plan variation is not allowed in the first two years, maximum grant payable is fixed on approval and grant must be claimed within a year of completion of the plan. In the Treasury view the ability to set an annual limit on commitments would be a useful additional control mechanism, given the likelihood that the Commission would object to full cash limiting.

7. Because of the unpredictability of the capital grant schemes, moving them to a cash-limited Vote would require specific action to enable expenditure on each of the major schemes to be limited.



Payment limitation of the AIS (National) may be operated as an exceptional measure, but again the Agriculture Departments' legal advice is that regular application would require amendment of the relevant regulations and Section 29 of the Agriculture Act 1970. No suitable bill is planned for the 1986-87 Parliamentary session. Cash limiting of the ESAs does not give rise to similar legal difficulties in relation to Section 17 of the Agriculture Act 1986, but it would be necessary to seek the approval of the EC Commission in order to secure a FEOGA contribution when the Commission's current proposals are adopted. For the ADPs, where payments rest upon EC legislation, Commission approval would have to be sought as part of the process of obtaining agreement to the programmes.

8. If demand is expected to outstrip the financial provision for the foreseeable future, it is necessary to consider whether the policy or the provision should be adjusted (or both). Both commitment and cash limiting, which involve deferment of approval/payment until the next financial year rather than outright rejection, are essentially short-term ways of dealing with a problem. In the Agriculture Departments' view, both systems create uncertainty among claimants and reduce the effectiveness of grants in influencing decisions. In the case of ESAs, a farmer refused grant may go ahead with operations which undermine the impact of expenditure already made on conserving the ESA. Strict financial limits thus reduce value for money.

9. Side-effects also have to be considered. A limit on one side of the AIS would encourage farmers to apply under the other side. If farmers expect a limit to be imposed in any year, they will rush to complete work and put claims in, thus bringing expenditure forward and creating a self-fulfilling prophecy. For practical administrative reasons it would be necessary to establish separate limits for the four countries, which could mean that at times farmers in different countries would not be treated in a uniform way. If a limit is reached because of an exceptional localised upsurge, farmers elsewhere will be aggrieved. The administrative workload would substantially increase because of the need to monitor claims more precisely, instruct local offices how to process claims equitably and when to defer them, handle hastily-prepared claims and deal with the host of complaints which would inevitably arise.



10. Officials in the agriculture departments consider that for financial management reasons related schemes should be treated in the same way and kept on the same Vote. They note that overspending is not a problem for most of the minor schemes and is most unlikely to be an issue for the ESAs, where the main part of expenditure is a function of area x hectare payment x participation (the last having been assumed to be as high as 75%). Monitoring and forecasting procedures are being improved with the aim of avoiding unforeseen overspends. They consider that if an overspend is forecast the response must depend on the reasons for the excess and that the drawbacks of rigid financial limits outweigh the benefits.

11. Treasury officials consider that the practical difficulties of operating capital grant schemes within cash or commitment controls can be exaggerated. If the expenditure forecasts are broadly accurate, commitment or cash limits should not be unduly burdensome and need not result in inequitable treatment between different parts of the country. If the forecasts are inaccurate, additional control mechanisms are needed to ensure that the agreed PES provision is not overspent, as in practice other mechanisms (such as reductions in grant rates or coverage) are unlikely to produce savings quickly enough.

Points for decision

12. Ministers are invited to consider:

(i) whether the forecast expenditure overrun in the Survey years should be resolved by:

(a) an increase in the expenditure provisions for capital grants; or

(b) changes in the grant schemes to provide the necessary offsetting savings; or

(c) some additional expenditure control mechanisms; or

(d) a combination of two or more of these options;



(ii) if Ministers accept that new expenditure control mechanisms should be introduced, do they wish to pursue the Chief Secretary's proposals for commitment and cash limiting and to instruct officials to put in hand the necessary legal drafting and consultations with the EC Commission?

(iii) do Ministers agree that any new expenditure control mechanisms should be introduced on a UK basis but if necessary operated separately by each country in the light of the expenditure position on its programme?

(iv) in the light of the answers to (i)-(iii) above and the action already taken to limit the prospective expenditure overrun in Northern Ireland, do Ministers wish to take further urgent action in the province in advance of similar action in the rest of the United Kingdom?







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PUBLIC EXPENDITURE SURVEY 1986: OAL/MPO  
Note of a meeting held in the Chief Secretary's Room  
HM Treasury at 6.00pm on Monday 15 September

Present

HM Treasury

Chief Secretary  
 Mr Anson  
 Mr Gilmore  
 Mr Turnbull  
 Mr Burr  
 Mr Hoare  
 Mr Meadows  
 Mr Kelly  
 Mr Tyrie

OAL

Minister for the Arts  
 Mr Wilding  
 Mrs Brown  
 Mr Leamy  
 Mr Thomas

MPO

Mr Phillips  
 Mr Parry

Secretary of State for Wales  
 Mr Jeremiah

Mr Scott SED

Arts Programme

The Minister for the Arts said that/ his department's bids were the result of a careful assessment of the/<sup>arts</sup> programme against the background of the Government's 1983 Manifesto commitment. He welcomed the Budget tax changes and the switch to grant-in-aid for the NMGs. For the Government, however, to be seen to be reducing its funding would jeopardise continued success in generating private support. His bids reflected the growing demand for, and interest in, the arts and their important contribution to overseas earnings from tourism. The arts were also a cost-effective means of generating jobs. The other main political parties were committed to large increases in arts spending. It was important that the Government should not go into the next Election against a public perception of penny-pinching on the arts. The Secretary of State for Wales underlined the wide and growing interest

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in the arts, and their role in triggering urban renewal and job creation.

2. The Chief Secretary said that he faced a very difficult task in containing the pressures on programmes within the Government's agreed objectives for public spending. He welcomed the Minister's acknowledgement of the importance of the Budget and other changes in encouraging increased private sector donations to the arts. Their importance to tourism also pointed to potential for increased earnings from that source. He had been impressed by the success of the National Trust in exploiting that potential. Against that background, he could not accept that the baseline did not represent an adequate level of public funding for the arts.

British Library St Pancras project

3. The Chief Secretary said that there were real difficulties over accommodating the additional bids for the BL St Pancras project. Its costs also represented a significant pre-emption of the arts budget. He proposed further consideration of the project at three levels:

- an urgent review of the scope for reducing and/or rephrasing the estimated costs of stages 1AA and 1AB.
- a radical review of the justification for stage 1B and subsequent stages. That review would need to take account of the implications of IT and the future of legal deposit. Amongst the options which it should consider would be the 'least cost' option for producing a viable building. The Chief Secretary could not agree to the bid for design work on stages 1B and 1C in advance of the outcome of that review;
- a review of the management control of the project, including the recommendations of the Ibbs report on capital expenditure contracts.

4. Amongst the options considered by the first two reviews would be a 'least cost' option for producing a viable building. It was suggested that failure to go ahead with design work on stages 1B



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and 1C in the meantime would lead to wasted expenditure if it was ultimately decided that those stages should proceed. It was pointed out, however, that the design work was not scheduled to begin until early in 1987-88 and that it would be possible to take a decision nearer the time (although without prior commitment on the public expenditure cost) in the light of the outcome of the reviews.

5. The Minister for the Arts said that he believed that there remained a strong case for the St Pancras project. To abandon it after stage 1 would also lead to an outcry from the libraries' world. He was nonetheless content to agree to the radical review proposed by the Chief Secretary, and to the other proposals for further work, although his department's own review of the scope for reducing the costs of stages 1AA and 1AB suggested that the scope for such reductions was severely constrained and subject to substantial cost penalties. The Chief Secretary welcomed the Minister's agreement to his proposals. He undertook to write to the Minister about his bid for the additional costs of stages 1AA and 1AB following the urgent review of the scope for reducing those costs.

Grants in aid

6. The Minister for the Arts said that it was only with the greatest reluctance that he was proposing to abandon the tapering down of the extra post-abolition central funding agreed in the last Survey. Failure, however, to meet him on that element of his bid (£4m in 1987-88 and £5m in 1988-89) would result in the Government being faced with all the problems which it had managed to avoid last year. His further proposal to increase the Arts Council's grant in aid by 4 per cent in 1987-88 was intended to allow the Council to maintain its present level of activity against the background of costs rising faster than general inflation. Salary costs had consistently risen faster than planned provision, and represented typically 75-90 per cent of total costs for the NMGs. The bid to increase their grant in aid was intended to compensate for the squeeze, in particular since 1985-86. The proposed increased grant in aid for the BL would allow it broadly to maintain its current level of activity against the restrictions which had inevitably

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had to be imposed on its current expenditure in the light of the St Pancras project.

7. The Chief Secretary said that, in the light of MISC 120's decision in the last Survey, he could not agree to abandon the post-abolition taper. Nor could he agree to what represented in effect an attempt to return to volume planning for grants in aid.

Other arts programme bids

8. In discussion of the other bids for additional provision for the arts programme, the Minister for the Arts made the following main points:

- at least partial restoration of the cuts in NMG purchase grants in 1985-86 was necessary if the institutions were to be able even selectively to continue to acquire pre-eminent objects for the nation;
- some increase in grant in aid was necessary to cover the running costs of new developments (eg the Tate in the North) to which the Government was committed and of projects (eg the Clore Gallery) whose capital costs were being met from private donations; such capital donations would not be forthcoming if there were no contribution from public funds;
- increased provision was necessary for the museum building/maintenance programme in order to accommodate even the highest priority needs and to meet the transitional costs of untying the NMGs from the PSA;
- the marketing/management initiative represented a key part of his strategy to give a clear lead to the arts bodies in more effective and efficient marketing; and
- the proposed increase in OAL's manpower ceiling represented essential strengthening of what was a small and over-worked team.

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9. The Chief Secretary regretted that the bids lacked clear targets and objectives for what would be achieved with the additional provision. The Minister had also failed to identify clear priorities between his bids. The Chief Secretary believed that they should be capable of being absorbed by offsetting savings elsewhere within the arts programme. In particular, he believed that it should be possible to absorb the transitional costs of untying the NMGs from the PSA, which the Treasury believed were anyway probably overstated. He undertook, however, to consider the Minister's bids further in the light of the discussion and to write to him, although he could not entertain bids on anything like the scale put forward. In the meantime, it would be helpful if OAL officials could undertake further work on target-setting; details should also be provided of phases 2 and 3 of the proposed Imperial War Museum redevelopment.

MPO programme

10. The Chief Secretary said that he wanted to consider further the Minister's proposal to free the Civil Service College from gross running cost controls. He asked the Minister how real the restraints would be bearing in mind that most of the College's business was in the public sector. The Minister for the Arts said that the College was not a monopoly. It was in competition for much of its business with external organisations, which provided four times as much civil service training. Gross running cost controls imposed an arbitrary level on the amount of business the College could undertake. If the Chief Secretary felt unable to agree to exemption he would have to seek an increase in MPO's gross running cost targets of between £500,000 and £600,000 a year to provide the necessary headroom. The Chief Secretary said he would consider the Minister's request further in the light of his arguments.

11. On the additional bids, the Minister for the Arts explained that:

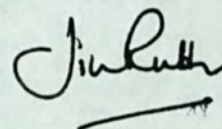
- he considered the condition of the residential accommodation to be appalling. There was a risk that departments would look to better equipped outside institutions to meet their training needs, though probably at an increased cost;



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- the extra accommodation in Richmond Terrace would be shared with Cabinet Office and was needed to relieve overcrowding and to allow some space in Standard House to be given up; and
- the proposed office automation system for the Parliamentary Council Office would produce real net savings in cost.

12. The Chief Secretary said he would consider the bids further and would write to the Minister, but he emphasised the problems of affordability.



JILL RUTTER  
Private Secretary

H M TREASURY  
20 September 1986

Distribution:

Those present  
PS/Chancellor  
PS/MST  
PS/Sir P Middleton  
Mr F E R Butler  
Mr Scholar  
Mr C Allan  
Mr Gray  
Mr Instone  
Mr Norton



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PUBLIC EXPENDITURE SURVEY 1986: EDUCATION

Note of a meeting held in the Chief Secretary's Room,  
H M Treasury, at 2.45pm on Monday, 15 September 1986

**Those present:**

H M Treasury

Chief Secretary  
Mr F E R Butler  
Mr Anson  
Mr Gilmore  
Mr Turnbull  
Mr Burr  
Mr Hoare  
Mr Kaufmann  
Mr Kelly  
Mr Perfect  
Miss Rutter

DES

Secretary of State for  
Education and Science  
Mrs Rumbold, Minister of State  
Mr Walden, Parliamentary  
Under Secretary of State  
Sir David Hancock  
Mr Stuart  
Mr Tanner  
Mr Saville

Mr Scott (Scottish Office)  
Mr Jones (Welsh Office)

The Chief Secretary explained that the public expenditure position was very difficult. Colleagues were committed to achieving the public expenditure plans but the wide range of bids required decisions on priorities. Two particular problems limiting scope for other bids were E(LA)'s decision on LA relevant current provision - which favoured the Education budget - and a number of big irresistible demand-led bids. He would therefore want to establish the priority the Secretary of State attached to his bids. He had only just received the Secretary of State's letter of 11 September on objectives.

2 The Secretary of State said his priority was to get higher priority for Education overall since Education had been cut more than other programmes. The relevant programmes - higher education and schools capital - were politically sensitive.

" Inner City Schools Initiative "

3 The Chief Secretary said the political and educational

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importance of this initiative proposal made it the first priority but this reduced the headroom for other bids. He could agree the figures of £4 million, £19 million, £33 million for the three Survey years (and £38 million for 1990-91) including £1 million a year in related running costs as maxima. The amounts to be included in the public expenditure plans and in running costs would depend on how many schools were set up and within what timescale. It was however difficult to be entirely confident about the proposal, including any contingent liability aspect, without knowing more about the likely sponsors of the colleges. Mr Baker said that in time the initiative would lead to savings in LA relevant current spending. There were already substantial backers for at least 10 schools and contracts would not be made unless funding for the future of the schools was secure.

Universities

4 The Secretary of State said that universities were adopting a better approach to management but progress was constrained by the drop in funding. Universities were faced with either running increasing deficits or academic decline. There were two solutions. The first was to close universities. He was simply not prepared to do that. The alternative was to maintain the number of universities and students throughout by increasing efficiency. The UGC was committed to rationalisation and selectivity. But to facilitate the process and to establish better financial management in the universities it was now necessary to make their financial position secure. This was the aim of the three elements of the university bid: level funding; pay restructuring; and equipment. About £29 million of the level funding element was to make good the shortfall between current provision and the cost of the expected 6 per cent 1986 pay settlement. Another £10 million of this part of the bid in 1987-88 was for maintenance and £5 million for libraries. The element of the bid for pay restructuring starting at £40 million would provide for a package costing a further 5 rising to 8 per cent on salaries. The universities' proposal would cost 18 per cent but he believed he could settle on his figures.

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5 He had told the universities to hold off from settling the 1986 pay round until after the Survey. But if he could not give them anything there would be a serious political reaction. The universities had been squeezed more than in any other western country in spite of the pledge at the last election to provide level funding.

6 The Chief Secretary commented that the Government had consciously reduced the funding of the universities with the aim of securing improvements in efficiency and value for money. To concede the level funding bid, based on the UGC's inflation projections rather than on the GDP deflator, would represent a return to volume funding. Level funding would also lessen the need for universities to attract other income. He was resisting bids for compensation for the 1986 pay settlements on other programmes: he could not make an exception for the universities. In reply, the Secretary of State said it would be harder for universities to increase their non-UGC income as there was a limit to the number of overseas students they could take and, though progress had been rapid, industrial funding at £48 million was still small. Moreover the Government had provided an assurance that increased private funding would not lead to a diminution in public support of the universities. If there was no compensation for pay increases there would be a volume of protest and difficulties in attracting and retaining staff would get worse. The NHS had received compensation for some of the additional costs of the pay award.

7 The Chief Secretary asked about progress on the CVCP response to the 20 May initiative, and how improvements would be delivered and monitored. He was concerned that if extra funding on a rising scale over the next three years was agreed pressure for change would be lost. Universities would incur additional staff costs without tackling the underlying problems. It would obviously be difficult to claw back extra funding if the universities failed to deliver satisfactorily. The Secretary of State said that he preferred

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to make the plans realistic and to build in conditions which allowed spending to be reduced to penalise unsatisfactory performance in future years. The performance indicators developed by Professor Richmond's group would provide the benchmark.

8 On pay restructuring, the Chief Secretary asked whether it was wise to make an addition to provision, which would be taken as a floor for negotiations. The Secretary of State said that he would be making a take it or leave it offer. He had much more direct influence on the negotiations for university teachers than in the case of the school teachers. The pay restructuring package was a good one which would allow the universities to pay staff in priority subjects more than others and relate salary to merit. It would help arrest the brain drain. He believed this was an opportunity which should not be lost: an early settlement would save money.

Science

9 The Secretary of State said that UK science spending compared unfavourably with that of other western countries. The science budget was buying less science. The proportion of alpha-rated projects which the research councils could accept had fallen from around 80 per cent to around 70 per cent. The UK was losing more scientists to the United States than were France or Germany. Mr Walden added that the research councils had become more efficient with the AFRC having shed 2,000 staff and the NERC also 30 per cent of its staff.

10 A particular problem that had arisen concerned SERC's international subscriptions, where exchange rate movements had eliminated the gains secured by Sir Keith Joseph last year. The Chief Secretary said that this raised a question about the priority attached to SERC's international subscriptions, and in particular the CERN budget. The Secretary of State said that, without compensation, SERC would have

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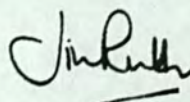
to cut studentships by 500 and the number of rounds of research grant applications from 2 to 3 to 1. They would also have to consider giving notice of UK withdrawal from CERN in 12 months from this December. He thought it would be undesirable to pull out of CERN altogether and unacceptable to do so before the review which the UK had instigated was completed.

**Maintained sector and voluntary schools capital**

11 In a brief discussion of maintained sector and voluntary schools capital, The Secretary of State said that LEA's gross capital expenditure in each of the last two years had been around £500 million, and was likely to be around the same level this year. The baseline, however, implied spending of only some £350 million in 1987-88. The allocation total implied by the baseline would leave some LEAs unable to meet even their contractual commitments. The Chief Secretary said that it was important to look at the total spending power, including from capital receipts and virement, available to LEA's. LEAs outside London would have some £760 million and London boroughs about £430 million, of spending power from capital receipts in 1987-88. It was agreed that officials should seek to agree the relevant figures in advance of a further meeting.

**Next Steps**

12 It was agreed that a further meeting would be needed. The Chief Secretary commented that consideration of the smaller bids and running costs would inevitably be influenced by the size of the larger bids, which necessarily put pressure on the rest.



**JILL RUTTER**

Private Secretary

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**Distribution**

See attached list



Distribution

Those present

Principal Private Secretary

Sir Peter Middleton

Mr Scholar

Mr P Gray

Mr Tyrie

Mr Cropper

H M Treasury

18 September 1986



FILE



cc: Nick Gibbons  
(Lord Pres's Office)

Prof. Griffiths

10 DOWNING STREET

*From the Private Secretary*

SIR ROBERT ARMSTRONG

STAR CHAMBER

The Prime Minister this morning discussed with the Lord President the possible composition of the Star Chamber. They agreed that Mr. Biffen, Mr. MacGregor, Mr. Tebbit and of course the Lord President himself were certain candidates. Other likely candidates were Mr. Edwards, if he had settled his PES bid, and perhaps Mr. Younger, if he had settled too, though there was some doubt about whether both Mr. Edwards and Mr. Younger would need to be included. If not, the preference seemed to veer towards Mr. Edwards. The Prime Minister was also inclined to agree with the Lord President's suggestion that Mr. Kenneth Clarke should be a member.

DS

David Norgrove

18 September 1986



B. R.  
MR. NORGROVE *per*

Star Chamber

The Prime Minister gave some preliminary consideration of the composition of the Star Chamber during her conversation this morning with the Lord President. Certain candidates were: Mr. Biffen, Mr. MacGregor, Mr. Tebbit and of course the Lord President himself. Other likely candidates were Mr. Edwards, if he had settled his PES bid, and perhaps Mr. Younger, if he had settled too although there was some doubt as to whether both Mr. Edwards and Mr. Younger need to be included. If not, the preference seemed to veer towards Mr. Edwards. The Prime Minister was also inclined to agree with the Lord President's suggestions that Mr. Kenneth Clarke should be included in the team.

Can I leave it to you to follow the composition up with the Prime Minister, the Lord President and the Cabinet Office.

N.L.W.

(N. L. WICKS)

18 September 1986





NEW ST. ANDREW'S HOUSE  
ST. JAMES CENTRE  
EDINBURGH EH1 3SX

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The Rt Hon John MacGregor OBE MP  
Chief Secretary  
Treasury Chambers  
Parliament Street  
LONDON  
SW1P 3AG

17 September 1986

Dear John,

NBP7

PES 1986: SCOTTISH COURTS ADMINISTRATION

I wrote to you on 30 May to set out my PES proposals for inter alia manpower and Departmental running costs. I am now writing about bids arising from the consequences of our plans to introduce a community charge in place of local authority domestic rates.

The new bids are as follows:-

	<u>1 April 1987</u>	<u>1 April 1988</u>	<u>1 April 1989</u>	<u>1 April 1990</u>
Manpower	-	+17	+39	+39
		<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
		£m	£m	£m
Departmental running cost limits		+0.2	+0.7	+0.6

These bids which it has only now been possible to finalise are required for one of my minor Departments, the Scottish Courts Administration. While the cost of administering a civil penalty system for failing to comply with certain requirements of the community charge legislation will fall on local authorities, the operation of appeal machinery will require new expenditure by central Government because of the associated expansion of the workload of the Sheriff Courts. These bids, which I regard as absolute minimum requirements, would permit the SCA to begin the necessary recruitment of staff by mid 1987-88 so that the courts would be in a position to deal with appeals in 1988/89.

We have not yet taken decisions on the final shape of the appeal procedures. I should make clear, however, that the bids are predicated upon there being no recourse to the sheriff to make application for time to pay in respect either of civil penalties imposed or arrears in payment of the Community Charge itself. If such applications to the sheriff are permitted then the resource consequences would be considerably more substantial.



I do not know at this stage, of course, the precise extent of resources within my block next year, nor the full extent of the claims of this totally new demand upon them. I cannot, therefore, yet judge whether I shall be able to accommodate them, but meantime I thought you ought to be aware of the minimum manpower and running costs implications.

Copies of this letter go to the Prime Minister, Willie Whitelaw, Nicholas Ridley, Nicholas Edwards and to Sir Robert Armstrong.

Yours ever,  
Malcolm Rifkind

MALCOLM RIFKIND







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cc/BG

1986 PUBLIC EXPENDITURE SURVEY: TRADE AND INDUSTRY

Note of a meeting in the Chief Secretary's Office at 9.45 am on Thursday 11 September 1986

Present

The Chief Secretary Mr F E R Butler	The Secretary of State for Trade & Industry	
Mr Monck	Sir B Hayes	DTI
Mr Burgner	Mr Knighton	DTI
Mr Moore	Mr Russell	DTI
Mr Mountfield	Mr P Smith	DTI
Mr Gray	Mr Priddle	DTI
Mr Waller	Mr Warman	DTI
Mr Bush	Sir G Borrie	
Mr Hood	Director General	
Mr Hoare	of Fair Trading	
Mr Stevens		
Mr Ross-Goobey	Mr J Gill	ECGD

1. The Chief Secretary said that the background to the current round of bilateral discussions with spending Ministers was the decision taken at Cabinet in July to limit growth in public expenditure to the plans in the Public Expenditure White Paper; he noted that the Secretary of State had supported this decision. The position was particularly difficult this year because of a large number of irresistible demand-led bids and the decisions already made in E(LA) about local authority current expenditure. The policy of limiting growth in public expenditure and restraining the PSBR yielded great cash-flow benefits to industry.

2. The Secretary of State said that he accepted the importance of containing growth in public expenditure. His programmes had already made a major contribution toward the restraint of public expenditure - in large part because of the turn around in the fortunes of DTI's nationalised industries. But he was worried about the overall industrial picture: manufacturing investment was still 17% below the 1979 level. Trends were not encouraging

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- in particular he was concerned about the trade figures. The sectors which DTI programmes tended to support, for example, electronics had not shown a significant growth in profitability since 1982-3. The bids he had put forward had been carefully scrutinised and represented areas, notably support for R&D, where he was satisfied that additional expenditure was justified on merit.

3. The Chief Secretary indicated that there were two major areas of the Secretary of State's programme, space and launch aid where further bids were likely. He invited the Secretary of State to say what the latest position on these was and to give some indication of the timescale in which they might be expected to come forward.

4. The Secretary of State said that on space, a final plan from the BNSC had not yet been received, but was expected within the next few weeks. On launch aid, the timing depended very much on BAe. It was likely that both bids would be large. Recent information suggested that BAe's deadline for a final decision had been put back, probably to next March. The Chief Secretary noted that further collective consideration of these items would be needed, but they were a factor which he would have to bear in mind when considering the bids currently under discussion.

#### EXPORT CREDIT GUARANTEE DEPARTMENT

5. The Secretary of State said that ECGD's interest make-up requirements were considerably reduced. Although this was in large part the result of interest rate estimating changes, the figures also reflected genuine cost reductions on account of changes in Consensus terms and also reduced margins and capital market financing which were currently the subject of negotiation with the banks. The Chief Secretary asked that progress should be made in studying how FREF might be made more selective. The Secretary of State agreed that ECGD and Treasury officials should continue their work on the subject: there was a PAC remit anyway to look at cost effectiveness. However, he believed that the quest for greater FREF selectivity would not bear fruit and, in view of the general lack of project business and the fierce international competition for what there was, changes in the



direction sought would cause a considerable row.

6. The Secretary of State said that the £2m per annum additional bid for TTC reflected his judgement that the facility provided a useful service to exporters but was unsuited to ECGD's trading account. The figure of £2m needed to be seen in the context of the much larger reduced requirements on ECGD's programmes generally. The Chief Secretary responded that estimating changes could not be used as offsetting reductions. Account needed to be taken of the growth of private sector facilities and the fact that a good deal of the assistance went to large companies who should be prepared to bear the burden themselves. He asked the Secretary of State to consider what priority he really attached to this additional bid.

7. The Secretary of State offered compensating savings from the Mixed Credit Matching Facility (MCMF). However, it was pointed out that £1m per annum had already been offered up, and that the spare resources left within the facility were insufficient to compensate for TTC. Moreover, unless the facility was closed down there was a risk that future business would be a call on the Reserve. It was agreed, however, that officials would examine the scope for offsetting savings from the MCMF, though the results would need to be assessed in the light of the outcome of the bilateral as a whole.

8. The Chief Secretary raised the likelihood of a shortfall in the savings from discussions with the banks on the FREF structure and remuneration. He recognised the uncertainties as the negotiations were still going on, but would have to bear the problem in mind in considering the overall DTI position.

#### OFFICE OF FAIR TRADING

9. The Director General of Fair Trading said that the main element of this bid was £1m in 1987-88 for the computerisation of OFT's licensing branch. More than £2m had already been spent on the project, but work had been delayed because of problems with a contractor.



10. The Chief Secretary noted that money had been made available from the Reserve for this in 1985-86, but had not been spent for the reasons outlined by the Secretary of State and said that he could not accept this bid. If the Secretary of State attached a high priority to it he would have to find offsetting savings from within the cash limited expenditure of his other departments. The Secretary of State said that he did not accept that he should be required to find savings on DTI programmes to fund an increase for the Office of Fair Trading. It would be absurd if this project had to be cancelled. The Chief Secretary noted that in the 1985 Survey the then Secretary of State had agreed to scale down one of his bids for DTI in 1986-87 to make room for this item. The Director General pointed out that the OFT was constitutionally independent from DTI.

11. The Chief Secretary refused to accept that this was a technical bid as the Secretary of State suggested. If it were to be accepted he would look more toughly at other DTI programmes. He noted that the Secretary of State clearly thought that the bid was justified.

#### NATIONALISED INDUSTRIES

12. The Chief Secretary recalled the agreement at Cabinet on 17 July that the provision for nationalised industries should be held to baseline and where possible below that.

#### British Steel Corporation

13. The Chief Secretary recognised the uncertainty underlying the figures. There was a timing problem because the BSC's full Corporate Plan assessment would not be available before the IFR figures were finalised. Nevertheless, he saw scope for savings below baseline. In particular, the contingency provisions were large with an erratic profile.

14. It was pointed out that not all the likely influences on BSC were unfavourable, and factors such as lower energy prices and more favourable exchange rates would have a positive effect on BSC's finances.



15. The Secretary of State said that the figures in the bid had already been scaled down compared with BSC's original proposals. Sir Brian Hayes pointed out that the contingency provision was a residual. In the light of present uncertainties he did not believe that a cut below baseline could be justified. The size of the contingency reflected a foreseeable event - the liberalisation of the European steel market at the end of 1987. BSC estimated that this would reduce the sterling prices of steel products by 5 per cent. Some EC countries would undoubtedly subsidise their industries and an assumption of stable prices was therefore optimistic. It was pointed out that it was by no means certain that steel prices would fall following liberalisation of the EC steel market. Even if they did, the effect would be muted in the first year.

16. The Chief Secretary saw possibilities for savings on the purchase of overseas stockholding facilities, working capital and asset sales. The Secretary of State said that the purchase of overseas stockholding facilities was clearly in the commercial interests of BSC, and there were no powers to prevent it. However, some savings might be possible through economies on working capital, and asset sales might be increased to £5 million a year, but large overall savings were not possible without a major new policy decision. His objective was to prepare BSC for privatisation post-election. He did not wish to prejudice that. But he would be prepared to make some small change in the bid for BSC.

#### Post Office

17. The Chief Secretary asked about the position on HAL/CON. The Secretary of State noted that the HAL/CON project had not yet been approved. If approved the project would allow the Post Office to compete in the profitable end of the parcels market. The Chief Secretary asked what had happened over the past year to justify a major increase in the remaining capital expenditure bid. In reply, it was pointed out that the Post Office was under capitalised: it had now reappraised its capital requirement. A large proportion of the projects included in the bid were designed to improve efficiency (such as computerisation) and quality of service. However, it was also noted that some projects were generalised improvements in offices without any direct financial benefit.



19. The Chief Secretary suggested that there was some scope for savings in working capital. Although overall the Post Office had a growing surplus of working capital, the MMC had indicated that the average duration of stocks held could be reduced from 9 months to 3 months which would save £5 million at one depot alone. Also, the Post Office had been consistently conservative in its assessment of asset sales.

20. The Secretary of State said that he would consider the point on working capital. He accepted that the Post Office had a record of badly underestimating the value of buildings for sale recently.

#### National Girobank

21. The Secretary of State said that either the Girobank could be starved of funds or it could be given funds to allow it to develop. The Chief Secretary noted that there was no adequate appraisal of the forecast capital requirements. It was agreed that discussion of the National Girobank should be deferred pending discussions by officials on the detail of the bid.

#### British Shipbuilders

22. The Secretary of State said that BS were in severe difficulties over the longer term because of worldwide excess capacity. However, in the short term the order situation was relatively favourable. He agreed that the savings which the Treasury sought on working capital could be found, with some difficulty, by BS.

#### Conclusion

23. The Chief Secretary said that, in order to reach agreement, he would be prepared to look for about half of his original demand in the first year, and somewhat more in the later years. He asked the Secretary of State to consider savings under baseline for his industries as a whole of £30 million in 1987-88, £35 million in 1988-89 and £60 million in 1989-90. The Secretary of State said that he foresaw considerable difficulties in a move of that extent.

#### **DEPARTMENT OF TRADE AND INDUSTRY**

24. It was agreed that the items would be considered in the order



they were set out in the (revised) table attached to the Chief Secretary's letter of 24 July. It was agreed that regional support would be considered at a separate meeting with the Scottish and Welsh Secretaries and would not therefore be discussed at the bilateral.

B1-3: Agreed additions/reductions

25. The Secretary of State noted that his agreement to find offsetting savings to cover part of the cost to the MoD of advancing the order for AOR02 depended on a decision being taken during the current Survey to place a firm order with Swan Hunter for this vessel.

C1, C2: ERDF (non-quota) payments and BT flotation expenses

26. The Chief Secretary said that he was prepared to accept these bids.

C3: Eureka

27. The Secretary of State said that Eureka was regarded as a successful scheme for promoting international collaborative R&D and the UK had played a leading role in its development. Savings had been found from within the DTI programme to fund the first 10 projects. Further funds were now needed if the scheme was to develop; the bid represented the minimum which he considered necessary.

28. The Chief Secretary said that it was accepted policy that Eureka should be funded from within agreed provision; if the Secretary of State wanted to increase spending on this scheme he should do so by reordering priorities on domestic R&D. Work undertaken by DTI last year to assess the impact of industrial support schemes on Large and Regular Users had cast doubt about the level of additionality which was being generated. It was possible to argue about the precise level, but on the department's own interpretation additional spending did no more than match £ for £ the funds which had been made available. This was disappointing. If the schemes represented good value for money



some leverage should be expected. It was also important that programme effectiveness was properly assessed and that positive benefits were seen to flow from these schemes. The level of corporate profitability ought also to be an important factor in determining companies attitudes to investing their own resources in R&D. As corporate profitability rose, the need for Government funding to support R&D should decline. There was some evidence of increased corporate investment in R&D since 1983.

29. The Secretary of State said that projects were subjected to an extensive and careful appraisal before they were accepted for support. He agreed that it was disappointing that the level of additionality had not been greater; but he did not accept this was an argument for not continuing to provide support. Evidence suggested that if the level of funding provided by the department was reduced industry would not itself move to fill the gap. Corporate profitability/liquidity did not seem to be a major factor in determining industry's attitude to investing funds in R&D.

C4: Pull Through

30. The Secretary of State said that he was prepared to withdraw this bid.

C5: EC R&D

31. The Secretary of State said that decisions on the new R&D framework would not be taken before the December Research Council and that it would be necessary for further collective discussion of this before then. The bid which he had put forward largely reflected imbalances in the distribution of the EUROPE baseline, which had been set on the basis of programmes as they existed in 1984 and had not been amended since. The new framework envisaged a considerable shift in the balance of the programme away from energy R&D in favour of industrial R&D. Some redistribution of the baseline was, therefore, necessary. It was noted that even if the baseline was reallocated this might not in itself cover the full cost of the framework if a large (6 BECU) programme was agreed. The Secretary of State accepted this, and said that he would be pressing for a small (4½ BECU) programme, but that it might not be possible to achieve this.



32. The Chief Secretary agreed that further attention should be given to the question of redistributing the EUROPEs baseline. It was agreed that officials would consider this, without commitment.

C7-8: PSA Services

33. The Chief Secretary said that the decision to transfer responsibility to departments for certain PSA services was taken because departments were in the best position to assess the relative priority they attached to this expenditure compared with other items in their programme. The PSA had not transferred money for new works out of its baseline and in consequence he was faced with a large number of bids from departments. He would have to look to the Secretary of State to make offsetting savings. The Secretary of State indicated that this was likely to cause problems but agreed to reflect on the Chief Secretary's comments.

C9: Companies Registration Office

34. It was agreed that there should be further discussion of this item between officials.

D(i)1: Strategic Mineral Stockpile/D(i)2-4 Other Savings

35. The Chief Secretary queried the realism of the savings offered on the mineral stockpile. The Secretary of State said that this was a very low priority for the DTI. If colleagues took a different view he believed they should provide some resources to cover the savings. It was agreed that officials should look further at this. The Chief Secretary said he regarded the further savings offered by the Secretary of State which were linked to the discussion on regional assistance, as estimating not policy savings.

D(ii)2-5: Chief Secretary's proposals for reductions

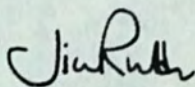
36. These would be discussed at a further meeting.

Conclusions

37. Summing up the Chief Secretary said that he had made an offer on the nationalised industries. Items B1-3 were agreed and C1



and 2 were accepted. Taken together these represented a small net addition to the DTI programme. The Secretary of State had withdrawn C4. It was agreed that officials should look at C5, C9 and D(i)1. D(i)2-4 were linked to the further discussion on regional assistance. There would be a further meeting after the quadrilateral meeting on regional assistance.



JILL RUTTER

Private Secretary

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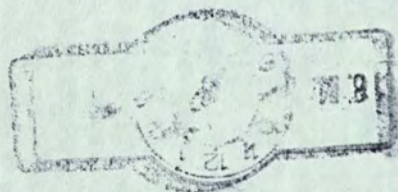
Those present

Principal Private Secretary

PS/Sir Peter Middleton

HM TREASURY

17 September 1986





**PUBLIC EXPENDITURE SURVEY 1986: WALES**

**Note of a meeting in the Chief Secretary's room, HM Treasury on Monday 15 September 1986**

Present:

**TREASURY****WELSH OFFICE**

Chief Secretary  
Mr FER Butler  
Miss Peirson  
Mr Gray  
MR Norton  
Mr Wetherell  
Mr Judge  
Mr Davis

Secretary of State for Wales  
Mr MG Jeremiah

The Chief Secretary said that the difficult public expenditure position this year meant that he had to seek savings wherever he could. As well as the impact of decisions taken at E(LA) there were irresistible bids on many programmes including Agriculture and Social Security.

**REGIONAL ASSISTANCE**

2. The Chief Secretary proposed only a brief discussion on Regional Assistance to be followed by a Quadrilateral meeting at a later date. The Secretary of State said that his position was less difficult than that of Mr Rifkind; he was neutral on the question of distribution between the three spending departments. However postponement of the RDG2 moratorium would cause him severe difficulties; he would have to resist it because there was no money available in his programme. He also felt that the review of criteria for assistance had been unproductive so far.



3. The Chief Secretary drew attention to the problem of controlling expenditure. The Secretary of State said that the difficulty was how to accommodate the surge in RDG1; this was a current year problem. Summing up this part of the discussion the Chief Secretary said that he was concerned at possible abandonment of the moratorium and that if it was suggested at the quadrilateral that increased provision was required he would need offsetting savings.

**LOCAL AUTHORITY CURRENT EXPENDITURE: WELSH CONSEQUENTIALS**

4. The Secretary of State argued that the Chief Secretary's proposal for less than the full consequential implied that the Treasury was arguing for cessation of the normal block arrangements. He had a great number of internal bids which he would not be able to concede in full; while he accepted the need for Wales to carry its share of the pressures on English departments through the formula system he could not accommodate further cuts on top of that without making Survey bids of his own. The Secretary of State highlighted the following areas as causing particular pressures within his block:

4.1 The need to develop a proper infrastructure in order to encourage the private sector to invest in the Valleys.

4.2 The Health Service was in a serious state, due in part to particularly Welsh factors, such as an unusual wage structure.



5. The Chief Secretary agreed that he would not want to start arguing individual bids with the Secretary of State: he also accepted that in general there was no over-provision on the Welsh block. However there were very particular problems this year in terms of what could realistically be afforded within the agreed planning totals. There was no logic in giving full formula consequentials on a local authority settlement that was designed to set realistic plans for LA spending in all three territories in 1987-88. The Welsh Office had a good record in avoiding overspending relative to plans, which was an automatic call on the Reserve. Mr Judge pointed out that provision for LA Current in Wales for 1987-88 was set at the GDP deflator plus one per cent above 1986-87 budgets, compared with rises in line with only the GDP deflator in England and Scotland.

6. The meeting discussed the heavy call of the Health programme on the Welsh block. The Secretary of State said that social deprivation made it hardly surprising that per capita spending was higher than in England.

7. The Chief Secretary said that the internal bids raised in the Welsh Office would need to be pared down but that he was prepared to offer one-third of the excess LA Current consequential for each year (32, 27, 32) on the understanding that these figures would be increased if necessary to ensure that the total consequentials, including those from other programmes, did not fall below £60 million in any year. In exchange the Secretary of State would have to absorb any addition on regional assistance.



8. The Secretary of State replied that he could not see any scope for progress on that basis: it would only create deeper trouble in later years.

#### INDUSTRY

9. The Chief Secretary drew attention to his proposed reduction on Industry. The Secretary of State replied that much depended on whether he would transfer provision for land reclamation to the WDA. This brought us back to the block provision: he was acutely aware that he was falling behind England on land reclamation. The WDA gross baseline of under £77million had already been subject to substantial cuts in the 1985 Survey. The Chief Secretary said that he would want to see the proposals for any additional expenditure on land reclamation setting out clear objectives and output measures.

10. Mr Butler asked if there was a case for reductions on merit as a result of the review in the case of the WDA, and because of the change in funding arrangements in the DBRW. The Secretary of State said the DBRW was under pressure, and he would need flexibility on how he apportioned cuts between the two bodies. He saw some room for manoeuvre with the WDA's investment function, but the construction budget was under pressure. Factories were needed to attract inward investment. In the New Town industrialists were telling him that more expenditure on infrastructure was needed..



**RUNNING COSTS AND MANPOWER**

11. The Secretary of State said that he could agree the manpower figures worked out between officials but that he was reluctant to agree to an increase in running costs worked out on the basis of the GDP deflator. He was prepared to modify the Welsh Office position to the following overall figures:

£m

38.216m	39.339m	40.448m
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12. It was agreed that officials would explore a compromise between the above figures and the following Treasury position:

£m

37.841m	38.780m	39.490m
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**CONCLUSION**

13. In conclusion the Chief Secretary promised to write to the Secretary of State.

**HM TREASURY**

September 1986

Copies to:

Those present

PPS

PS/Sir Peter Middleton

Mr Turnbull

Mr Tyrie



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NOTE OF A MEETING ON THURSDAY 11 SEPTEMBER IN THE CHIEF SECRETARY'S OFFICE TO DISCUSS THE 1986 PUBLIC EXPENDITURE SURVEY: SOCIAL SECURITY

Present:

Chief Secretary	Secretary of State for Social Services
Mr F E R Butler	Minister of State for Social Security
Miss Peirson	Mr France
Mr C D Butler	Mr Mayne
Miss Noble	Mr Chislett
Mr P Gray	Mr Wallace
Mr Gibson	Mr Laurance
Miss Rutter	

The Chief Secretary said that since he had written to the Secretary of State on 25 July expenditure on the social security programme during the Survey period was now projected to be much higher. He had been faced in June with economic and estimating additions of £800 million in 1987-88 rising to £1800 million in 1989-90; now the latest revisions meant that the additions were £1,400 million in 1987-88 rising to £2,500 million by 1989-90. These higher totals had come as a severe blow. In his July letter he had described the estimating changes as enormous and had made clear that he was only prepared to agree to additions where they were unavoidable and to the extent that they could not be met by the most vigorous search for savings. After the latest substantial increases, the same message had to be repeated more strongly.

2. The Secretary of State for Social Services said that forecasts of social security expenditure varied from month to month; he understood that the latest forecast for 1986-87 was £200 million lower than last month. So the estimating increase could come down, though he accepted that there were clearly going to be higher figures than he had predicted when he wrote to the Chief



Secretary in June. The Secretary of State for Social Services also drew attention to the unrealistic unemployment assumption (3 million) on which the Survey figures were based; this was producing a higher estimating and lower economic change figure than would be the case with a realistic unemployment assumption. Other factors underlying the latest estimating increase were higher rents and higher take up of disability benefits both of which were clearly unavoidable.

3. The Chief Secretary said that he agreed that there was a need for a full understanding of the reasons for the latest increase. However, whatever the explanation the latest figures were most unwelcome news. Their size had meant that he had been obliged to take an even tougher attitude towards other programmes, so it would not be possible for him to entertain any increases on the social security programme which were at all avoidable.

4. The Chief Secretary then proposed that the meeting should consider the Secretary of State's policy bids and the note by officials on Severe Disablement Allowance, and then look at the possible savings packages identified by officials.

#### PROPOSED ADDITIONS TO PROGRAMME

5. The Chief Secretary accepted the following bids (references are to the attached updated version of the table accompanying the Chief Secretary's letter of 25 July):

B1; Extension of Invalid Care Allowance;

B2; Effect of Economic Assumptions;

B3; Estimating Changes;

B4; Housing Benefit Start Up Costs.

B7; Extension of Severe Disablement Allowance (SDA).

6. The Secretary of State for Social Services said that the costs here depended on the timing of the ruling by the European Court of Justice (ECJ), which was expected in the first half of next year. The issue was whether the discrimination inherent in



the former Housewives Non-Contributory Invalidity Pension (HNCIP) had been repeated in the transitional arrangements for SDA. The judgement only affected past cases (those who had been unable to satisfy the discriminatory housewife's duties test for HNCIP); it would not widen the rules of entitlement for SDA. It was very unlikely that the UK would win the case. The Chief Secretary said that he was prepared to make provision now for the likely loss of this case on three conditions. First, it should be clearly agreed now that there was no question of going beyond "contingency 1" in the note by officials unless there was a clear legal requirement. Secondly, if the court case was won, DHSS would not claim the savings. Thirdly, nothing should be said before the judgement had been given to suggest that provision had been made for it. The Secretary of State for Social Services said that he could accept the second condition but would need to consider the first carefully. Regarding the third condition, he drew attention to the credit which the Government had earned for announcing extra provision for invalid care allowance the day before the European Court had given its judgement in the recent Drake case. The Chief Secretary said that his concern was that there should be no announcement till it was absolutely certain what the judgement was going to be. The Secretary of State for Social Services asked if the Chief Secretary could write setting out the proposed conditions; he had not yet been able to consider fully the note by officials.

B5; Social Fund Start Up Costs.

7. The Secretary of State for Social Services said that this bid was needed to get the Social Fund going in its first year of operation when repayments would be lower. Unless the Fund was pump-primed in this way it would be artificially constrained. The whole concept of the Social Fund demanded that it should be introduced in a smooth manner. The Chief Secretary said that he could not understand why this pump-priming had not been allowed for in the original social security review arithmetic. In discussion, it was pointed out that during the review the Social Fund costings were based on the concept of an on-going fund; this extra bid was merely a cash flow requirement in the first year of



the Fund's operation. Furthermore, it was offset by the saving offered on the uprating date. On the other hand, it was pointed out that the proposed saving was not linked in any way to the extra Social Fund costs and should not be used to justify them. The Treasury had not seen any calculations to justify the scale or profile of the extra expenditure proposed in 1988-89. The Secretary of State for Social Services agreed that the Treasury should have more detailed estimates. He added that the prize of achieving the successful introduction of the Social Fund was a major one. The bid represented an investment in the Fund, which was a means to bring current expenditure on single payments under control; otherwise, if the Fund was not successful, there would be an inevitable return to a highly regulated system of single payments on which expenditure would escalate. The Minister of State for Social Security pointed out that during the passage of the Social Security Bill the Social Fund had come in for particularly strong criticism. Concern had been expressed that the Social Fund might be exhausted before the end of the year and that the level of funding represented a sharp cut back on expenditure on single payments. It was essential that the Social Fund had a trouble free introduction and funding difficulties were avoided. The Chief Secretary said that he wholly agreed with the need for the Social Fund. However, he simply could not accept this extra bid on top of the massive estimating increase he was facing for all years of the Survey period. He was not prepared to consider any addition to the Social Fund for 1988-89 until the review measures had been fully recosted.

B6; Review Related Contingency Bid.

8. The Secretary of State for Social Services said that £11 million of this bid in each of the Survey years related to expenditure on funerals and maternity. Of this, £7 million was due to revised estimates of likely expenditure based on more up to date data; the remaining £4 million was made up of two elements of £2 million each for an increase in the amount of the maternity payment from £75 to £85 and the passporting of housing benefit recipients to the maternity payment grant. The Chief Secretary said that he understood the make-up of the bids. He might be



prepared to consider the extra £7 million for 1987-88 if a saving was offered for this year and it was agreed that the costs in the later Survey years were absorbed in the review recosting. As far as the two smaller bids were concerned, he was simply not in the business this year of accepting these sorts of avoidable increases. The Secretary of State for Social Services said that he noted the Chief Secretary's position and would consider each of the bids again.

B8; Minor Bids.

9. The Secretary of State for Social Services said that the bid to allow Easter school leavers to continue for 1987 to receive supplementary benefit was withdrawn. The other bids were; to uprate the pensions of British emigrants to Canada; to allow people reaching age 75 to retain mobility allowance at a frozen rate for 5 years; to allow arrears of supplementary benefit to be paid for more than 52 weeks where there had been an official error, and to provide for the continued funding after 1987-88 of voluntary sector insulation projects currently funded by single payments.

10. The Chief Secretary said that he had carefully considered the arguments for each of the other bids and had no doubt that a case could be made then. However, in the light of the enormous pressures he was facing in this Survey he simply could not entertain any of the proposed bids. He did not see how the bid for British emigrants to Canada could be justified when there were many demands on limited resources from deserving UK residents. The Canadian Government could improve the position of poorer UK emigrants itself by changing its lengthy residence qualification for means tested benefits. As far as mobility allowance was concerned, he again recognised the political difficulty, but everyone had been aware of the position since 1978, when the age limit of 75 had been introduced. There could also be significant long-term costs. Again, he could not agree to this bid. He wondered whether the arrears bid was really a high priority. On energy conservation grants, he recognised that Ministerial statements had been made about alternative arrangements once



provision for single payments had ended, and he would be prepared to consider this bid if a specific offsetting saving was offered. The Secretary of State for Social Services said that in effect the Chief Secretary's reply amounted to a nil response on all the bids. He would reconsider the bids in the light of this.

#### B9; Administration

11. It was agreed that the consideration of the administration bid should be remitted to officials for further work. Mr F E R Butler suggested that officials should look at the implications of reducing the running cost bid by £30 million. The scope for major reductions in the capital bid also needed to be considered.

#### PROPOSED REDUCTIONS TO PROGRAMME

12. The Chief Secretary said that he accepted the reductions proposed by the Secretary of State - C1; Uprating Date Saving and C2; Minor Savings - though he noted that no specific measures had yet been identified to produce the minor savings. In discussion, it was noted that the reductions were linked to the minor bids; if the Treasury had been willing to accept these then savings would have been offered. The Secretary of State for Social Services said, however, that he had no definite proposals to make.

#### FURTHER SPECIFIC PROPOSALS BY CHIEF SECRETARY

#### C3; Deferral of Abolition of the Earnings Rule for Pensioners

13. The Chief Secretary said that the Government was committed to abolishing the limit as soon as it could, but without any timetable. The limit had been raised to £75 while the Government was in office, so its record was defensible. In view of the pressures he was under as a result of the Secretary of State's demand-led bids, it was essential that this bid was deferred. The Secretary of State for Social Services said he would reconsider this bid.



C4; Extending to 12 months Benefit deduction for Voluntary Unemployment.

14. The Secretary of State for Social Services said that the benefit deduction had just been extended from 6 weeks to 13 weeks; he could not see how a further extension could possibly be justified. Furthermore, the savings quoted in the table (£160 million) were exaggerated; he believed the figure was more in the range of £70 to 90 million. Mr Wallace pointed out that the savings could be as low as £50 million. The Chief Secretary said that the enormous increase in the social security programme was itself a justification for savings measures. The Minister of State for Social Security said that if the penalty for voluntary unemployment was too severe it was likely that the adjudicating authorities would determine that shorter periods were more appropriate. To achieve the deduction for the full period, discretion would need to be taken away from the adjudicating authorities. The extension from 6 to 13 weeks had been criticised by both the Opposition and Government backbenchers during the Committee stage of the Social Security Bill and a further extension would lead to even greater criticism. The Chief Secretary replied that the Government would face even greater criticism if its commitment to controlling public expenditure appeared to have gone astray.

C5; Further Policy Savings.

15. The Secretary of State for Social Services asked whether the Chief Secretary was seeking savings only for 1989-90, or was anxious also to achieve reductions in the early years and particularly 1988-89. He did not see that it made sense to get into a major political row in the run-up period to an Election to secure savings in the early years. The Chief Secretary said that he was concerned about all years in the Survey period; when the Public Expenditure White Paper was published all three years of the Survey would be closely examined. He added that since July there had been major estimating increases in all three years; there was no question of only being concerned about large savings



in 1989-90. He required large savings in 1988-89 as well. It was confirmed that the savings packages had been constructed on the basis of requiring primary legislation only during the 1987-88 session, with the measures to take effect from January 1989.

15. The Chief Secretary then asked about outstanding measures from the 1985 Survey: the proposed six month 50 per cent reduction in mortgage interest eligible for supplementary benefit and the introduction of a capital cut off (£6000) for eligibility for housing benefit. The Secretary of State for Social Services said that on mortgage interest the report of the Social Security Advisory Committee (SSAC) had now been received. He did not think that he would be able to get the full 6 months period for supplementary benefit savings through the House. It would be possible to go down from 6 months to 3 months and still secure £20 million savings rather than the £30 million hoped for. The Chief Secretary said that the SSAC report was entirely predictable and no basis on which to move away from the original intention. It would probably be necessary to consider this with colleagues.

16. The Secretary of State for Social Services said that the housing benefit capital cut off was a difficult issue. There was no difficulty about introducing the cut off for April 1988, but he now understood that there was a doubt as to whether the Social Security Act allowed for introduction of the cut off from April 1987. The other problem related to the local authorities. At present they were close to walking out from negotiations over the changes involved in the reformed housing benefit scheme and the introduction of the capital rule at short notice could trigger a walk out. It would be necessary to announce the measure, send it to SSAC, get the regulations through the House, issue instructions to local authorities and so on; he doubted if it was now administratively feasible. Furthermore, the politics of the capital cut off were bad; it would result in losses for 320,000 pensioners. He would write to the Chief Secretary and fully explain the problems in the next few days.

17. The Secretary of State for Social Services then asked whether the Chief Secretary had considered the timing of the statement



giving details of the April 1987 uprating in relation to his search for savings on the social security programme. The uprating announcement would be made early in the week beginning Monday 20 October, after the September RPI was announced on 17 October. This meant it would be necessary to agree measures affecting the uprating in advance of the final Cabinet discussion of public expenditure. Some of the measures in the packages identified by officials were very controversial, for example, the proposal not to increase child benefit in 1987-88. The Chief Secretary said he was fully aware of the timing problem. Obviously it would be necessary to settle any savings measures relating to the uprating early on, but there were many measures in the savings packages identified by officials which were not related to the uprating.

18. There was then a brief discussion about some of the savings measures identified by officials. The Secretary of State for Social Services said that the politics of introducing an earnings rule for widows were very difficult, even though he acknowledged that their present treatment was generous. Proposals to restrict widows benefit had been considered during the reviews and abandoned as being politically impossible. All the other measures in the packages had been rejected in the past and presented great political difficulties. The increase in the housing benefit taper would affect many pensioners; the proposal to only increase the housing benefit needs allowance in line with retirement pension offered a small return for a measure which would be strongly criticised. He also noted the high administrative costs associated with the proposal to remove entitlement to unemployment benefit for period covered by holiday pay. The Chief Secretary said that it was easy to reject the measures as being politically difficult but the plain fact was that large savings were essential. For a measure like the housing benefit needs allowance proposal there would be no cash losers. And there were arguments in favour of the other measures. He thought that there was a good case for offsetting occupational pensions above £35 against unemployment benefit, even though he recognised the sort of people it would particularly affect. The Secretary of State for Social Services said that he had not considered the measures in any detail but would now do so. He added that he thought a more



defensible way of achieving saving was to do something about those people claiming unemployment and supplementary benefit but who were not really searching for jobs. The Chief Secretary said that they would need to discuss the report by officials on fraud and abuse; this showed that substantial benefit savings were clearly being lost. The Secretary of State for Social Services said that this was because the posts had not been properly ring fenced.

19. It was agreed that there would be a further bilateral consideration of outstanding issues on the social security programme, probably at the same time as the further bilateral on health issues.

*Jim Bull*

HM TREASURY

16 September 1986

Circulation: PS/Secretary of State for Social Services  
 PS/Minister of State for Social Security  
 Officials present  
 Principal Private Secretary  
 PS/Sir Peter Middleton  
 Mr Anson  
 Mr Turnbull  
 Miss King  
 Mr Tyrie





**SECRET**

**DHSS: SOCIAL SECURITY**  
(£ million except where stated)

	<u>1986-87</u>	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
<b>A. Expenditure Baseline*</b>				
A1. Benefit expenditure	40969	42458	43834	44930
A2. Administration -				
- running costs	1634	1586	1612	1653
- other	177	153	171	175
Total baseline (excluding LA relevant current and IFR items)	42780	44197	45617	46758
<b>B. Proposed Additions</b>				
B1. Extension of ICA (already agreed)		55	55	51
B2. Effect of economic assumptions		333	392	734
B3. Estimating changes		1052	1124	1747
B4. Housing benefit start up costs		25	-	-
B5. Social Fund starting costs		-	25	-
B6. Review related contingency bid		11	40	40
B7. Extension of SDA		41	11	9
B8. Minor Bids		5	7	11
B9. Administration				
- normal work		147	156	169
- operational strategy		32	68	43
- reform implementation		97	-6	-21
(of which running costs)		(215)	(152)	(156)
Total		1798	1872	2783
<b>C. Proposed Reductions</b>				
(i) Identified by Departmental Minister				
C1. Delay 1988 uprating by 1 week		-	-25	-
C2. Other minor reductions		-5	-7	-11
Sub-total		-5	-32	-11
(ii) Further specific proposals by Chief Secretary				
C3. Defer earnings rule abolition of pensioners				-100
C4. Extend to 12 months benefit deduction for voluntary unemployment from Autumn 1987			-160	-160
C5. Further policy savings				-500
<b>TOTAL</b>				-771



N. B. M.



PRIVY COUNCIL OFFICE  
WHITEHALL, LONDON SW1A 2AT

16 September 1986

Dear Alex,  
*at that*

The Lord Privy Seal has seen a copy of your letter of 8 September to Joan MacNaughton, proposing that the Chancellor should make his oral Autumn Statement on 6 November, with the printed document to be published a week later.

The Lord Privy Seal would be content with this arrangement.

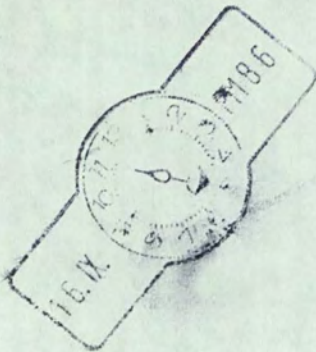
I am copying this to Joan MacNaughton, David Norgrove and Murdo Maclean

Yours,  
Steven.  
S N WOOD

A C S Allan Esq  
Private Secretary to  
the Chancellor of the Exchequer



ECON POL : Public Exp PT35





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1986 PUBLIC EXPENDITURE SURVEY: HEALTH AND PERSONAL SOCIAL SERVICES

Note of a meeting held in the Chief Secretary's Room  
H M Treasury, at 5.30pm on Tuesday, 9 September 1986

Those present

HMT

Chief Secretary  
Mr F E R Butler  
Miss M Peirson  
Mr P Gray  
Ms P Boys  
Miss Z Everest-Phillips  
Mr A Tyrie

DHSS

Secretary of State for  
Social Service  
Mrs T Banks  
Mr I Burns  
Mr J Mayne  
Mr A Laurance

Mr H Robertson (Scottish Office)

Mr J Davies (Welsh Office)

The Chief Secretary opened by saying that the problems in achieving the planning total were such that he was having to take a tough line on all programmes. That meant he had to pay particular attention to the relative priorities the Secretary of State attached to his bids.

2 The Secretary of State stressed the importance of maintaining the progress already made in making the best use of resources and improving health care. The Government did not spend as much as other European countries; but he believed it made better use of resources available. If this was to be sustained, it was necessary to ensure sufficient

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provision to meet unavoidable pressures on the service from demography and medical advances. Waiting Lists and the position of London would be big political issues. The hospital building programme was a major success. That should not be reversed.

**I Hospital and Community Health Services (HCHS)**

3 The Chief Secretary noted that he had already conceded the bid for demography (B1).

4 He was, however, unable to accept the bid for the consequential costs of the 1986 Review Body pay awards (B2) for two reasons:

- (i) it would increase pressure from other colleagues whose programmes were affected by Review Body settlements, and
- (ii) it would give the wrong signal to the Review Bodies for the next pay round. It would completely undermine the Government's attempts to make the Review Bodies grasp the importance of affordability.

An exception had been made in 1986 when some additional cash had been made available to the Health Service to meet the in-year cost of Review Body awards but that could not be repeated in the Survey years.

5 The Secretary of State pointed out that the Health Service was already producing savings of £150 million a year from its cost improvement programmes (cips). Rejecting this bid would mean cutting the health service by some £100 million. Mrs Banks observed that the issue was largely presentational; one could claim that pay costs had been met from the resources released by cips and that additional cash had been provided to allow for service improvements. It was important, however, to give general managers the right incentives for maintaining

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cips. Mr Griffiths had stressed that that meant linking cips to service improvements.

6 The Chief Secretary said that other programmes facing similar demands and which had no other source of income such as cips in the NHS had been given the same message about absorption of pay costs. Any concession would have implications for the success of the running costs regime. It was important to maintain the existing cash planning principle for public expenditure generally; to allow for pay increases implied a partial return to volume planning. The Secretary of State did not accept this. He said that the Health Service suffered not only from the Review Body awards but also from pay rises for non-Review Body staff. If the Review Bodies were not prepared to accept the affordability argument in setting their recommendations, it became necessary to find the cost from somewhere. It was not clear where it could be found within the HCHS.

7 The Chief Secretary pointed out that in agreeing to the Review Body recommendations for 1986 Cabinet had taken a view on how the costs should be met. The extra cash in-year for the Health Service had been exceptional: consequential costs in 1987-88 should be offset by economies elsewhere. The Secretary of State said that if Cabinet did not agree to the additional sums, the result would mean a cut in the Health Service of £100 million; they would have to take a decision on whether to accept this.

B3: Waiting Lists

8 The Secretary of State underlined the need to reduce waiting lists, which were generally seen as an indicator of the Health Service's performance. His bid would allow sums to be made available to health authorities who could demonstrate a need, where improving throughput of patients necessarily incurred extra costs, for example in use of

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operating theatres. The Chief Secretary suggested that the improved procedures within health authorities could resolve this problem without additional funding. It was wrong to pre-empt the conclusions of the review Mr Fowler had just set in train.

B4: RAWP

9 On RAWP, the Secretary of State explained that his bid constituted bridging finance to enable health authorities which were losing resources, principally the four Thames regions, to cope in the short term with gaps created by hospital closing before new facilities opened. The Chief Secretary said that this was an argument he had heard used elsewhere, for example on the schools programme, where school closures had led to short-term funding difficulties. He was not convinced, however, that it made sense to apply additional resources in areas where the long term aim was to reduce expenditure. Miss Peirson thought that slowing the transfer of funds away from London offered a solution; Mrs Banks pointed out that this would create difficulties for authorities whose plans took into account increasing allocations.

B5 -B8

10 The Secretary of State outlined the case for his four service bids on HCHS current. AIDS (B5) was proving very expensive to treat and the number of sufferers increasing very rapidly and hit the London area in particular; there was pressure for wider and more frequent screening for breast and cervical cancer; several service improvements underlay the bid for supra-regional services; and the bid for Community Care was for bridging finance, to allow facilities to be set up to receive people into the community ahead of hospital closures. These were all additional burdens on the Health Service which could not be met within existing provision.

11 The Chief Secretary accepted that these bids could be

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justified on health and political grounds but said that the Health Service had to adapt to respond to changing medical problems, through cost improvements and reordered priorities, within the overall total of what could be afforded .

13 The Chief Secretary recognised the difficulty on Community Care but stressed the constraints on public expenditure, and said that in this context one had to take into consideration the substantial increase in board and lodging payments, much of which could be accounted for by the Care in the Community policy. It was important that attention was paid to tightening up on this, to ensure that resources were correctly targetted. The impression was that any additional resources would in fact simply go to supplement joint finance. The Secretary of State pointed out that board and lodging payments did not help to ease the problem of providing proper care in the community and that whereas joint finance would in the long run solve these difficulties, there was a need for extra provision in the short term.

## II HCHS capital

13 It was agreed that it was sensible to change to a presentation of NHS capital figures on a gross basis. The Secretary of State said that his bid would allow health authorities which were in the process of rationalising their estate to free large sites more quickly by moving separable units or facilities. The Chief Secretary pointed to the proposed reduction of £50/75/100 million at C5 which was supportable on two counts:

- (i) the capital programme had done very well over recent years, with a 20 per cent real increase in spending plus all the savings released through efficiency etc;

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(ii) the level of sales, the proceeds of which were fed back to offset gross spending, was such that the programme could sustain a cut of this order with no reduction in real terms. Also, the figures for HCHS capital spending should be presented gross of income from sales.

14 The Secretary of State agreed with the point on presentation but opposed the proposal to cut the programme now after the expansion of recent years.

III Centrally administered health and personal social services (CAHPSS)

15 The Chief Secretary expected that these two bids (B11 and 12) ought to be possible to resolve fairly quickly. The sums at stake were small and ways should be examined of absorbing the costs or of finding offsetting savings. On welfare food, for example, the introduction of skimmed milk for babies over one year old should be examined as a possible area for savings which could be supported on health grounds and which would be politically acceptable. Miss Peirson suggested that it might be possible to secure a discount on milk prices through a token system. Mr Burns agreed that these could be looked into. The Chief Medical Officer was due to report soon on the health implications of providing for skimmed milk in place of full milk.

16 The Secretary of State agreed also to look at possible ways of reducing the size of the EC medical cost increase or of securing offsetting savings.

IV Family Practitioner Services (FPS)

17 The Chief Secretary recognised that progress had been made on improving the quality of the FPS demand forecasts and accepted that this bid (B14) would be difficult to resist. Nevertheless, he would want to look at the scope for offsetting

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savings. On the DDRB award consequentials the issue was, again, the scope for savings. He was not convinced of the case for additional provision for blood test strips or Hepatitis B vaccine (B16 and 18). The Secretary of State agreed to look at the idea of issuing vouchers for blood test strips instead of providing them on prescription.

18 The Chief Secretary said that he perceived a clear link between the bid for FPS reassessment (B13) and the proposed reinstatement of the primary care savings (C4). Ms Boys suggested that it should be possible to score firm estimates of savings for the last two Survey years. The Secretary of State accepted savings of £127 million and £128 million being scored as suggested but noted that no exact propositions could be made at this stage in the consultative period to match these figures.

19 The Secretary of State said that he was keen to procure savings by changing the role of the General Practice Finance Corporation (GPFC) and that he hoped that a single-clause Bill would be sufficient for this. Mr Burns pointed out that there were questions of legislation and tax treatment of any proceeds which needed to be resolved with the Treasury.

20 The Secretary of State said that he was not prepared to make an increase of more than 20 pence (to £2.40) in the prescription charge for political reasons. Such savings were already scored in the baseline: he was therefore withdrawing his option for savings at C2.

21 In summing up, the Chief Secretary made the following observations:

- i) The bid for HCHS demography (B1) had already been accepted;
- (ii) he was strongly opposed to B2 (Review Body pay consequentials);

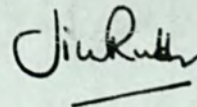
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- iii) the Secretary of State had accepted the link between B13 and C4, with the qualification that targets for the savings proposed could not be precisely stated;
- iv) the scope for savings, particularly those from the GPFC, needed to be looked into further;
- v) he accepted the bid for FPS demand and inflation (B14) but that savings needed to be looked for;
- vi) officials were to do further work on the CAHPSS bids (B11 and 12) with the aim of clearing these away soon;
- vii) the proposed savings at C6 needed to be further examined.

He said that the Secretary of State had clarified the case for each of his bids and in turn the Treasury had explained its need to find savings. The position would be reconsidered at the next bilateral.



JILL RUTTER  
Private Secretary

H M Treasury  
12 September 1986

Distribution

Those present  
Principal Private Secretary  
Sir Peter Middleton

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PUBLIC EXPENDITURE SURVEY 1986: HOME OFFICE

Note of a meeting held in the Chief Secretary's Room  
H M Treasury, at 9.30am on Tuesday, 9 September 1986

Those present:

HMT

Chief Secretary  
 Mr F E R Butler  
 Mr C D Butler  
 Mr Gilmore  
 Mr Gray  
 Mr Pirie  
 Mr Revolta  
 Mr Sutton  
 Mr Tyrie

Home Office

Home Secretary  
 Sir Brian Cubbon  
 Mr Train  
 Mr Halliday  
 Mr Edwards  
 Mr Chisholm  
 Mr Weatherill  
 Mr Robertson - Scottish  
 Office (Observer)

I Introduction

The Chief Secretary began by thanking the Home Secretary for the offsetting savings identified which he accepted. Discussion would proceed on the basis of the net bids as set out in the bidding letter table (third revision of 2 September). He did not need to elaborate the difficulties he faced in the Survey, caused by large irresistible bids and decisions made in E(LA) on local authorities. He was subjecting all programmes to vigorous scrutiny. He noted that the Home Secretary had not felt able to rank his bids in order of priority. His own proposed reductions focussed on the prisons programme as the most promising area for offsetting savings.

2. The Home Secretary accepted that the position was more difficult than usual. He noted that most of the areas where he had bid for extra resources, especially prisons and CICB, were more in the public eye

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than a year ago. He had given considerable thought to identifying priorities among his bids but had concluded that there were no grounds on which he could choose between them.

II CICB - B3

3. The Home Secretary said that he shared the Treasury's concern about the rate of growth in this demand-led area of spending. He had been prepared to offer larger savings than colleagues collectively had felt appropriate; in the light of the previous H discussion he proposed increasing the lower limit to £500. Announcing that change now would complicate handling of the Criminal Justice Bill in which the CICB would be put onto a statutory basis. He favoured announcing the new lower limit during the passage of the Bill and implementing it by secondary legislation after the Bill had become law. He felt that the gain by way of savings from the proposed £10 application fee would be far outweighed by the outcry it would cause. Securing savings through increased efficiency would lead to increased spending on compensation awards and did not seem a sensible option. A sizeable part of his bid was aimed at reducing the arrears of cases which were now forecast to have reached 70,000 by April 1987. He regarded it as essential to show evidence of progress here to meet the inevitable criticism during the passage of the Bill. His bid implied a reduction of 10,000 cases a year to clear the backlog in 7 years. He did however see scope for flexibility on the speed with which the problem was tackled, and he proposed that officials do further work on this.

4. In reply, the Chief Secretary noted that the total bids for CICB implied a real terms increase of 78 per cent over the three Survey years. He acknowledged that part of the increase sought would need to be found, but this underlined the need for offsetting savings elsewhere in the Home Secretary's programmes. Speedy implementation, whether or not in the context of the Criminal Justice Bill, was important to maximise the savings. Mr Hurd had originally proposed to H a lower limit of £600. £550 would yield a further £1.5 million in a full year on top of the £3.4 million implied by Mr Hurd's present proposal for

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a £500 lower limit, significantly more than the application fee would save. It was important to distinguish between efficiency savings and savings in administrative costs; the latter need not increase the number of cases handled and the total of compensation paid out. He proposed linking administrative savings to a commitment limit under which the Board would so manage its caseload as to keep within agreed levels of spending on compensation, broadly as they do at present to keep within Estimates provision. The element of the bid intended to tackle the problem of arrears presented particular difficulties. It was far too large to be acceptable unless equally large offsetting savings were eventually to be identified. Criticism about the existing level of arrears could be met by pointing to the very considerable increases in resources for the CICB which were in prospect even if the backlog were not tackled.

5. In discussion it was noted that the cash limit already imposed on administrative costs had much the same effect as the proposed commitment limit. The timing of savings across the Survey period would depend on the date of the change in the lower limit and whether it was retrospective, and also the speed with which arrears could be reduced. The eventual combination of increased lower limit, administrative savings and measures to deal with arrears would be influenced by presentational considerations.

6. Summing up, the Chief Secretary said that he would not press for the application fee in view of the Home Secretary's willingness to show flexibility on the element of his bid intended to reduce arrears. It was agreed that officials would work out detailed proposals for reductions in bid B3 covering the lower limit, administrative savings and the arrears problem and taking account of points raised in discussion particularly on timing and retrospection.

III Prisons (Building) - B1, C2 to C5

7. The Home Secretary recalled that last year's discussion of options for reducing the prison population had focussed on a sentencing policy. He fully endorsed the need to press for alternatives to custody and would be taking opportunities to stress this again to the judges. But

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there was no escape from the constraints on his influencing them or interfering with the decisions of the courts in order to slow the flow of sentenced offenders. The disturbances at the end of April had focussed public attention on the prisons, and although the steady rise in the population had not continued this year, the long-term trend was upward whichever projections were followed, and overcrowding remained a central concern. He had already accepted that his predecessor's objective of ending overcrowding by the end of the decade could not be achieved. While he did not want again to set targets and dates, he was extremely concerned to resist attempts to put a further brake on progress towards that objective. Any such change in policy would lead to a confrontation with the Prison Officers' Association (POA) that would jeopardise the difficult and important negotiations now underway to reform shift and complementing systems. For all these reasons he had to resist any attempt to cut into the existing building programme or to refuse to extend it.

8. The Chief Secretary noted that the Government had committed considerable resources to this area since 1979. His options for reduction in the prisons programme stemmed from the need to reduce or offset the Home Secretary's total bids. Because they were high in cash terms and in relation to his baseline, it seemed inevitable that prisons would have to provide a large share of the offsetting savings.

(a) Prison Building Programme Options

9. Discussion then turned to the agreed paper by officials.

(i) Projections of the prison population

10. The Treasury argued that the Home Office were planning on the basis of projections which took insufficient account of demographic factors that pointed to a decline in the sectors of the overall population that formed the largest part of the prison population; which were subject to considerable uncertainty given that last year's surge in the prison population had not been sustained; and which assumed that remand prisoners would continue to represent a large proportion of the prison population.



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11. In reply the Home Office accepted that the projections were inevitably uncertain; they were however as likely to be too low as too high, hence their decision to adopt for planning purposes the mean between the demographic and non-demographic projections. They had carefully examined the problem of remand prisoners. There could be no simple read-across to reductions in prison population because the length of time spent on remand in custody itself affected the courts' decision on whether to pass a custodial sentence. A reduction in the number of remand prisoners would help only at the margins by reducing the seasonal peaks and consequent overcrowding which the present aim of matching average prison population to CNA already accepted as inevitable. Since the publication of the statistical bulletins on which the agreed paper was based, clearer evidence had emerged that the surge in the prison population last year reflected a shift in sentencing practice towards more and longer sentences. Even if this trend reversed, which did not seem likely, its effects on the prison population would not disappear rapidly.

(ii) Alternatives to custody

12. The Chief Secretary noted that he was fully aware of the costs to other Ministers' programmes of time limits on remand. The Home Secretary emphasised that he remained keen on time limits, although he appreciated colleagues' worries about resources.

13. The Chief Secretary said that of the options discussed in the paper by officials, supervised release seemed most likely to lead to a reduction in the need for prison places. Probation was many times cheaper than keeping someone in prison. The Home Secretary replied that the Lord Chief Justice's suggestion was being considered. But he could not promise changes in the Criminal Justice Bill; they would involve a wider reform of the parole system and would take longer to prepare. He warned that changes in this area could conflict with public pressures for harsher sentences. In reply to this the Chief Secretary noted that the change could be restricted to suitable types of offence. The support for this idea from the judges, which the Home Secretary accepted had been a stumbling block to much important reform in this area, was a strong argument in favour of supervised release. However

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he accepted that more detailed work would be needed, and that change could not be envisaged before 1988-89.

14. On finances and fine enforcement, the Chief Secretary drew attention to the drop from 50 per cent to 40 per cent in the use of fines since 1979, and asked about progress in the deduction of fines at source from benefit payments. Targets should be set to increase the use of fines and to improve fine enforcement. In reply the Home Secretary noted that setting targets for the use of fines could be seen as seeking to exert undue influence on the courts' decisions. He agreed to provide further information on this topic and indicated that there might be scope for increasing the forecasts of receipts (which would have the effect of reducing his net bids).

15. On alternative sentences for motoring offences, it was noted that the North Report was expected at the end of the year. The numbers of unsuspended prison sentences were a very small proportion of all sentences for motoring offences, but still represented a significant element of the burden on the prisons. They would however include the most serious offences, eg causing death by dangerous driving, for which it would be hard to provide acceptable alternatives to custody. The Chief Secretary recorded his interest in seeing that full consideration was given to the ideas to be included in the North Report.

(b) Options for reduction

(i) General

16. Introducing discussion of his options for reduction C2 to C5, the Chief Secretary emphasised the size of the bids that had to be offset. Even conceding half of the Home Secretary's bids in full would more than cancel out the savings from cancelling all 7 prisons in the current programme not already contractually committed. While he did not press for that option, he did see considerable scope for some cancellations or a rephrasing of the programme.

17. The Home Secretary stressed that any changes to the existing programme would need to be made public. The POA were well aware of what was planned and would be vigorous in opposition. He had no doubt

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that cuts in the existing building programme would precipitate trouble with the POA; they would certainly undermine his negotiating position, which was not in any case particularly strong, on the package of reforms currently under discussion. While he was prepared to discuss the phasing of the programme at the margins, he had to resist strongly on principle any attempt to cut significantly into the existing building programme.

18. In discussion, the Treasury argued that assumptions about the numbers of prisoners and numbers of places available were fundamental. The demographic projections of prison population showed that the programme of 16 prisons would by 1993 increase CNA to within about one prison's capacity of average population. This was a dramatic improvement on the current position. Recent experience had shown that there was considerable flexibility in the prison system which could cope with a far greater excess of population over CNA than envisaged on present plans for 1993.

19. As to the number of places, the Treasury believed that more could be done to eliminate the use of cells for other purposes. The Resource Control Review had highlighted this problem and a recent spot check by a Regional Supervisor of Works indicated that the problem remained. Even if expenditure were needed to provide alternative storage or office space, this would be cheaper than building new prisons.

20. The Treasury also stressed that the CNA figure was arbitrary. It took little or no account of cell sizes or the extent to which cell sharing was feasible without straining kitchen and other facilities. When integral sanitation on a 1 in 3 basis was introduced, full advantage was not taken of the opportunity this provided to increase CNA by classifying all cells as suitable for two prisoners; similarly appraisals on which the choice between 1 in 3 and 1 in 1 integral sanitation was based took insufficient account of these possible gains in CNA.

21. Replying, the Home Office noted that much progress had been made on cell reclamation since the Resource Control Review. Over two years, cells equivalent to about one prison's capacity had been brought back into use without great expense. To go further would involve significant expenditure. They would however provide further details on progress to date.

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22. Where cells were built for one prisoner CNA was, by and large, based on one prisoner to a cell. The significance of the CNA figure was understood by staff and pressure groups, and changes would be controversial. Without refurbishment and the introduction of integral sanitation, it was simply not on to accept doubling up as a regular feature by increasing the CNA. Future levels of CNA they had quoted already took account of extra places to be created by refurbishment schemes, but the pace of integral sanitation was regrettably slow and had been criticised by the PAC.

23. Summing up this part of the discussion, the Chief Secretary emphasised that he did not envisage simply juggling the statistics to improve the match of CNA and population. CNA was reviewed annually and it would be reasonable in that context to adjust the figures to take full account of the actual capacity of existing prisons whether or not refurbished. He considered it essential to explore these alternatives fully, given the pressure on resources and the costs of new prison building.

24. The Home Secretary stressed that fudging the figures would not be defensible, although adjustments within that constraint would obviously be helpful.

25. It was agreed that officials should prepare a paper covering the points raised in discussion about population projections, cell use, the assumptions governing the CNA figure and the scope for legitimate adjustments to it.

(ii) C3 (cancel Milton Keynes and Bicester)

26. The Chief Secretary noted that Lindholme had been converted for use as a prison last year, but no decision had been reached on whether it should replace one of the 16 in the existing programme. The purchase of the site for Milton Keynes had been twice postponed; it was evident that this project could be slipped further. In reply it was stressed that Milton Keynes and Bicester were intended to relieve the local prisons in the Midlands which included some of the smallest and most expensive to run. The consequent loss of around 1,100 CNA places would

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seriously affect the strategy of reducing overcrowding.

(iii) C4 (savings on DOW schemes)

27. The Chief Secretary stressed that he was not seeking the cancellation of the four large place-creating schemes identified in the agreed paper by officials. The cost of these schemes provided a convenient benchmark to indicate the scale of savings he sought; how those savings were found within the DOW programme was a matter for the Home Secretary.

28. In reply it was noted that cancelling the four large schemes would not greatly affect future levels of CNA places until after 1993, while cuts in smaller refurbishment schemes could have a more serious short-term effect on CNA.

29. It was agreed that officials should look at the implications for numbers of places of alternative ways of finding savings from the DOW budget.

30. Summing up discussion of prison building bids and options for reduction, the Chief Secretary said that unless the Home Secretary was able to withdraw his other bids, he must continue to press all his options for offsetting savings. They would be able to look again at a package of savings in the light of the further work to be done by officials.

IV Prisons (Other) - B2 and C1

31. The Chief Secretary noted that his proposed savings on overtime (option C1) were bound up with the negotiations now underway with the POA. The Home Secretary recalled that he had not entered any bids for prisons pay or manpower, despite the inadequacy of the existing baseline, because of the uncertainty surrounding the outcome of those negotiations. It was unrealistic to expect savings below baseline on the scale envisaged, and inaccurate to suggest that his correspondence with the Chief Secretary about prison service reforms had implied that savings below baseline could be achieved.



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32. In discussion it was noted that the overtime savings envisaged were only one way of achieving savings by firm management action without a negotiated deal on new shift and complementing systems. The Home Office argued that if the negotiations succeeded, the scale of savings against the baseline would depend upon the revised pay scales that would form part of the deal; while if the negotiations failed, although some improvements could be achieved by management action the baseline would have to be increased. They considered that they would need an additional bid of:

£ million            +14            +21            +33

to maintain their baseline at a realistic level.

33. Summing up this part of the discussion, the Chief Secretary agreed to look again at whether the savings he had proposed should all be quantified as savings below the existing baseline.

34. Turning to his bid B2, the Home Secretary stressed the need to adjust the baseline to reflect a realistic assessment of future levels of sales of prison quarters. The POA had twice rejected a discount sales scheme; to seek to revive the issue would increase uncertainty and it was better to concentrate on achieving a realistic level of sales of the remaining surplus quarters, not all of which were as desirable as those already sold. The bid for the prison education service was intended only to fund adequately the existing level of service, not to extend it.

35. In discussion of the education element of the bid, the Home Office explained that the complex system of reimbursing local authorities for teachers employed in prisons had concealed a serious underfunding which the new Chief Prison Education Officer was anxious to remedy. Education was an important element in the prisons' regime and the prison service had been criticised by the House of Commons Education, Science and Arts Select Committee. The need for a thorough review of the education service to improve its efficiency was accepted, but it was essential to sort out the funding first.

36. In reply, the Chief Secretary stressed the importance of setting

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clear objectives and quantified performance targets, and monitoring progress in achieving them. The Home Office offered to produce a further account of the reasons underlying this element of the prisons (other) bid.

V Local Authority Capital (Fire) - B4

37. The Home Secretary recalled the circumstances in which he had withdrawn his bid for fire capital in PES 1985. He noted that the real terms increase since 1979-80 was not 300 per cent but 3 per cent; these figures were distorted by classification changes, and a better indicator was real terms growth since 1981-82 (38 per cent to 1984-85, 27 per cent to 1985-86). He regarded it as essential to maintain the service at its present level to comply with minimum standards of fire cover. In previous years, the local authorities could top up any shortfall in provision, but this year had shown vividly how the joint boards, which lacked that flexibility, could suffer if provision was inadequate. Negotiations with the Local Authority Associations to establish better arrangements for distribution of allocations were still proceeding, but he was hopeful that the result would ensure that this year's problems did not recur. His bid split roughly in half between the Shires and the joint boards, and he attached equal importance to ensuring that all authorities had adequate provision.

38. In reply the Chief Secretary noted that the position was complicated by the 80 per cent commitment on allocations for the Other Services Block. The Shires had retained their freedom to vire and to use other sources of funding. Provision for the Other Services Block would form part of his bilateral discussions with Mr Ridley. He was confident that the resulting level of provision would suffice for the Shires; but he accepted that the Home Secretary had to ensure an adequate level of provision for the joint boards.

39. After a brief discussion it was agreed that officials would produce an agreed note setting out the figures for allocations and corresponding PES provision represented by Mr Hurd's bid. The Home Secretary noted that he would need to look again at the level of provision for the Shires in the light of the outcome of the Chief Secretary's bilateral with Mr Ridley; the Chief Secretary accepted this.

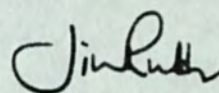
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VI Conclusion

40. Summing up the Chief Secretary said that he had wanted to go through the remaining bids to get a sense of priority which the Home Secretary attached to them. He would be resisting them firmly, given the tightness of the overall public expenditure position. Further work had been identified on the CICB, prisons and fire capital which could be considered at the next meeting.



JILL RUTTER

Private Secretary

Distribution:

Those present  
Principal Private Secretary  
Sir Peter Middleton

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10 DOWNING STREET

1. ~~NS~~

To see. I  
plan just to forget this  
correspondence now:  
PET & TB would  
I think want it to go  
ahead if they are  
"Others".

slw  
10/9

2. pa.



PRIME MINISTER

## SEMINAR AT CHEQUERS

May I come back to you on this?

The Chancellor was earlier quite keen on a seminar on the economy, partly so that you could be aware of the full background to the public expenditure survey and the Autumn Statement. But more important, it does seem right that twice a year or so there should be a reasonably relaxed opportunity for you to discuss the performance and prospects for the economy with the Chancellor. Our performance next year could be particularly important, and you could talk over, for example, the economic and political aspects of a current account deficit, which was a concern to you before the holidays. A wider meeting also gives you the opportunity to hear from Peter Middleton and Terry Burns. (I know that they from their side certainly welcome the opportunity to hear your views.)

I very much hope you will agree to retain the seminar even though I too have no wish to break into a Sunday!

*- I am quite happy if others wish to go ahead or*

*DNS*

(DAVID NORGROVE)

9 September 1986

*I very much agree with David. The next year is so vital that a reflective, in depth discussion of the economy is, I think, essential.*

*N.L.W  
9-9*



PRIME MINISTER

SEMINAR AT CHEQUERS

*I don't think it is worth "spoiling" a Sunday with a 1/2 day discussion which is not really wanted. me*

You will remember the plan to hold a small seminar at Chequers this autumn to discuss the economy and the public expenditure round. The idea was to have a session in the morning on the economic prospects with the Chancellor and another, with the Lord President, in the afternoon to discuss public expenditure. The afternoon session would in particular have allowed you to comment on options for changes to programmes and attitudes to bids which the Star Chamber would be pursuing with spending ministers in the coming weeks.

The Chancellor has now gone cold on the idea of a public expenditure discussion then, though he remains in favour of a discussion of the economy. His main reason is that he believes 19 October will be too early. He also fears that a discussion of bids could spill over into a discussion of public expenditure totals which I am told he would not want, for example, Lord Whitelaw and Brian Unwin to be involved in. The Chief Secretary has agreed with the Chancellor.

Neither of the Chancellor's reasons seems terribly good. The Lord President and Brian Unwin think 19 October would not be too early, and they run the Star Chamber. A discussion of the programmes and bids is likely to be needed with you early in the following week and the discussion could perfectly well be confined to individual programmes and not totals.

Nevertheless if the Treasury Ministers do not want a discussion then I am sure you would not want to insist on it.

A discussion of the economy would seem worthwhile. One possibility would be to start at 1030 and run on to lunch. People could leave after it or continue if that seemed worthwhile. Alternatively, the session could be held in the afternoon. But it would then be more open ended and people would get caught up in the Sunday evening traffic returning to London. Agree to start at 1030 and to offer lunch?



I suggest that those attending should be the Chancellor, Chief Secretary, Peter Middleton, Terry Burns, Brian Griffiths, Nigel Wicks and myself. Content?

In preparing papers for the meeting I have asked the Treasury to pay particular attention to the economic and political aspects of the current account deficit which may emerge next year.

DN

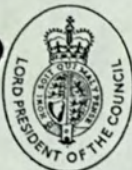
David Norgrove

9 September 1986



CCBG

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PRIVY COUNCIL OFFICE  
WHITEHALL, LONDON SW1A 2AT

9 September 1986

Dear Alex

**PUBLIC EXPENDITURE: TIMING OF THE AUTUMN STATEMENT**

Thank you for your letter of 8 September to Joan MacNaughton.

The Lord President is content with the Chancellor's proposed timetable for the announcement of this year's public expenditure decisions.

I am sending a copy of this letter to David Norgrove, Steven Wood and Murdo Maclean.

N SAN

Yours ever  
Nick Gibbons

N F J GIBBONS  
Asst Private Secretary

A C S Allan Esq  
Private Secretary to the  
Chancellor of the Exchequer

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Recon Pol

RESC 9735







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

8 September 1986

Joan MacNaughton  
Private Secretary to the  
Lord President of the Council

NBP?

Dear Joan,

The Chancellor has asked me to write to you about the timing of this year's Autumn Statement. Clearly, this depends primarily on the date on which Cabinet takes its final public expenditure decisions. This could in theory be either Thursday 6 November or Thursday 13 November; but the latter would imply an Autumn Statement uncomfortably close to the planned BGC Impact Day (the date of which has not yet been announced, but which in fact is already firmly fixed for 21 November).

If, then, the final Public Expenditure Cabinet is to be on Thursday 6 November (the equivalent date to last year's), this would normally point to an Autumn Statement on the following Tuesday, 11 November. However, that will not be possible since the House will not be sitting then. In the special circumstances created by the later than usual opening of Parliament, the Chancellor would therefore wish to depart from the previous practice of making his oral statement on the day on which the Autumn Statement is published, and instead make it on Thursday 6 November and publish the Autumn Statement document the following Thursday, 13 November. I understand that the Chancellor spoke to the Chief Whip about this at the end of July, and established that the House would still be sitting on 6 November.

The Prime Minister has agreed that the aim should be to follow that sequence: final public expenditure decisions on Thursday 6 November; an oral statement the same afternoon; and publication of the printed Autumn Statement on Thursday 13 November. I should be grateful if you, Stephen Wood and Murdo Maclean (to whom I am copying this letter) would let me know if the Lord President, the Lord Privy Seal and the Chief Whip are content.

I am also copying this letter to David Norgrove.

Yours  
Alex

A C S ALLAN  
Principal Private Secretary



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## 1986 PUBLIC EXPENDITURE SURVEY: CROWN PROSECUTION SERVICE

Note of a meeting held in the Chief Secretary's Room  
H M Treasury, at 2.00pm on Thursday, 4 September 1986

## Those present:

HMT

Chief Secretary  
Mr F E R Butler  
Mr B T Gilmore  
Mr C D Butler  
Mr D C W Revolta  
Mr P R C Gray

Attorney General  
Solicitor General  
Mr J R Merchant  
Mr D Kirk  
Mr M Saunders

The Attorney General opened the meeting by describing some of the problems involved in establishing the CPS. Practical experience was limited to the period since 1 April but already it was clear that serious understaffing existed among the administrative grades. This had led to legal staff performing administrative tasks on top of their own workloads. He admitted that expenditure forecasting had so far been little better than crystal ball gazing but cost estimating was improving with experience. The Solicitor General said that the problem of understaffing had led to press criticism. He hoped that the introduction of computers would lead to improvements in case tracking but was pessimistic about computerisation achieving staff savings at least in the short term. He thought that the staffing levels for legal grades was about right although currently there was a severe shortage of legal staff in London. This had led to a heavy reliance on agents which not only increased costs but also tended to generate additional work.

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2 The Chief Secretary explained that his overall target was to keep public expenditure within the planning total and to meet the objectives which Cabinet had agreed for running costs and manpower. This would be extremely difficult unless he adopted a very tough attitude on departmental bids, a number of which were considered to be irresistible. As far as the CPS was concerned, he had already had to find substantial amounts of new money, even before the last Estimates round, in order to establish baseline provision. The Attorney General was now seeking further large increases in expenditure which could only be found at a cost to other departments. He would not be able to entertain all the extra bids proposed. His request for efficiency savings was no more than he was asking of other departments. Targets for efficiency were essential in the context of affordability.

3 The Attorney General said he understood the Chief Secretary's problems but saw difficulty in achieving efficiency savings in an organisation which was still not fully operational. Workloads had been increasing significantly over recent years and it was not possible simply to apply a percentage cut to prosecution work. Although he hoped his department could achieve at least the 1 per cent efficiency saving in the latter years of the Survey, he thought it highly unlikely that it could do so in 1987-88.

4 The Chief Secretary suggested that the revised bidding letter table should serve as the agenda for the meeting.

B1(a):BRINGING PES INTO LINE WITH THE 1986-87 ESTIMATES

5 The Chief Secretary pointed out that to concede this bid would effectively increase the existing running costs baseline by between 54 and 73 per cent. Although he appreciated the Attorney General's difficulties, he had to insist that targets for efficiency savings were built in now.

6 The Solicitor General, in referring to paragraph 4 of the Chief Secretary's bidding letter, pointed out that there

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were difficulties in applying efficiency savings to prosecution work. Prosecutors had to take decisions on what cases should proceed to court. As a guide, only those where there was more than a 50 per cent chance of a successful conviction were proceeded with. The CPS had no control over the volume of cases and it would not be in the public interest to make management decisions on, for example, what categories of offence might not be prosecuted. The Chief Secretary emphasised that he had raised the issue of efficiency savings to emphasise the need for this to be considered within the CPS. He had done the same for all other departments and could not accept that prosecution should be exempted from this requirement. In discussion it was suggested that decisions on how work was organised, the time taken to review each case etc did not have to wait until the CPS was fully operational. There were questions which could be considered now, eg when to stop asking for additional information, how judgements could be made sharper, how decisions were taken. The Attorney General reaffirmed that although efficiency savings in 1987-88 were not obtainable, it should be possible to achieve a 1% improvement thereafter, and indeed to do better than this. He was concerned about the reduction which the Chief Secretary proposed for 1989-90 because no account had been taken of increases in volume. Although he could accept it now, he reserved the right to come back to the Chief Secretary on it nearer the time.

**Bl (b) ADVANCE DISCLOSURE**

7 The Attorney General pointed out that bids Bl (b), (c), (f) and (g) were all imposed on the Crown Prosecution Service by Home Office policies: similarly Bl (d) should be the responsibility of the Lord Chancellor's Department. The Chief Secretary said that he had already registered his concern with the Home Secretary that advance disclosure of information was not proving the success that Ministers and others had originally expected. He had stressed that no additional resources could be made available to meet the continuing costs of this work. As the policy had originated in the Home Office,

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he thought it reasonable that Home Office should offer a PES transfer. In discussion it was pointed out that advance disclosure was an existing part of the CPS's workload. The current level of take-up was about 60 per cent and private agents were having to be brought in to help with the assessment and summarising of statements. The Attorney General said that he had been convinced that advance disclosure would lead to savings but admitted that the results so far had proved a disappointment. Although it was his second largest bid, he did not see it as having a high priority and agreed that even if the policy were to be abandoned, critics would not be able to argue that defendants were being denied justice. If no offsetting savings could be secured from the Home Office, the decision to drop the scheme would have to go to Cabinet. It was agreed that, if necessary, the issue would be reconsidered at next year's Survey.

**B1 (c): BAIL APPLICATIONS**

9 The Attorney General said that this work had not been taken into account when the baseline was set up because it had been thought that the police would continue to perform the task. The Chief Secretary said that the costs would have to be absorbed on the grounds of affordability.

**B1 (d): PAYMENTS OF WITNESS EXPENSES**

The Attorney General felt that this expenditure task should have remained the responsibility of the courts. The CPS had been forced to take it on. He intended to speak with the Lord Chancellor about the issue. The Chief Secretary said that this was another area where the costs would have to be absorbed.

**B1 (e): SPECIFIED PROCEEDINGS**

11 The Chief Secretary drew attention to the fact that the decision to restrict specified proceedings had been taken



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without regard to the financial consequences. Again the costs would have to be absorbed.

**B1 (f): TIME LIMITS**

12 The Solicitor General said that time limits had proved an excellent discipline in Scotland. He would regret having to abandon the policy proposed for England and Wales, which he saw as leading to improvements in productivity. The Chief Secretary said that since there would be savings in Home Office expenditure, it would be appropriate for the Home Office to make a PES transfer as he had mentioned in his bidding letter. He suggested that the Attorney General should continue to press the Home Secretary using the argument that if no money was forthcoming, the work could not be done. He would have to resist the bid unless such a PES transfer was secured.

**B1 (g): TAPE RECORDING OF POLICE INTERVIEWS**

13 The Chief Secretary said that this was another area where he expected the Home Office to make a PES transfer and it would be for the Attorney General to approach the Home Secretary on the grounds that no new money was available.

**B2: CAPITAL**

14 The Chief Secretary accepted this bid but stressed that the implementation of IT Strategy needed close monitoring with a view to achieving efficiency savings.

**B3: CROWN PROSECUTION COSTS**

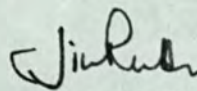
15 The Attorney General explained the background to the bid for Counsel fees and why the revised bid was higher than the original despite the reduction in price. The bid which included Bar sessional fees as well as Crown Court cases had been accurately calculated.



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CONCLUSIONS

16 The Chief Secretary said that he was faced with very large increases to the Attorney General's programme which, if conceded, would have a significant effect on the overall public expenditure totals. He was unwilling to accept the bid for catching up as it stood but was willing to suggest a package which would allow for the establishment of a realistic baseline. He was prepared to offer a global net addition to the existing baseline of £40 million in 1987-88, £50 million in 1988-89 and £55 million in 1989-90, on the strict understanding that there would be no further requests to him for additional expenditure to cover time limits or tape recordings; these issues would have to be resolved between the Attorney General and the Home Secretary. It would be essential to hold to the figures agreed and not seek supplementary provision during the year. The amounts offered covered the whole of the Attorney General's programme, not just the running cost elements; the allocation of the additional expenditure to individual items should be agreed by officials; particular attention would have to be paid to the effect on cash limits. The Attorney General said that he hoped to respond to this offer as soon as he returned from the Commonwealth Law Conference (Monday 15 September). The Chief Secretary said that if this offer was not accepted a further meeting would be needed, at a later and more difficult stage in the expenditure round.



JILL RUTTER

Private Secretary

H M Treasury

10 September 1986

Distribution

Those present  
Principal Private Secretary  
PS/Sir Peter Middleton  
Mr Tyrie

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1986 PUBLIC EXPENDITURE SURVEY: DEFENCENote of a meeting held in the Chief Secretary's RoomH M Treasury, at 9.45am on Thursday, 4 September 1986

Those present:

HMT

Chief Secretary  
Mr F E R Butler  
Mr Kitcatt  
Mr Turnbull  
Ms Seammen  
Mr Tyrie  
Miss Rutter  
Mr F Martin

MOD

Secretary of State for Defence  
Sir Clive Whitmore  
Mr C T McDonnell

The Chief Secretary welcomed the Secretary of State to the first bilateral in the 1986 Survey. He suggested that it might be helpful if he began by explaining the overall position. The Survey posed difficult problems for both him and the Secretary of State. For the Secretary of State there were the problems indicated by LTC 86. His problem was to achieve the public expenditure totals agreed by Cabinet, against the background of unavoidable increases in demand-led programmes and the demands for additional resources for other programmes with a high political profile. This would be extremely difficult, and meant that the overall position in the Survey was very tight. This in turn meant not only that he could not accept the Secretary of State's additional bids but also that he had no alternative but to request reductions in the present baseline for defence. He appreciated that this was unwelcome, and would involve an increased real terms decline. But the programme had benefitted substantially from real growth in past years and he felt that in a wide range of areas - particularly research and development and equipment procurement - there was evidence that considerable savings were yet to be

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achieved. He was therefore asking that the programme should, for the first time, release a share of these savings to help achieve the Government's overall public expenditure objectives.

2. The Secretary of State for Defence welcomed the Chief Secretary's recognition of the difficulties faced by his programme. In turn he appreciated the difficulty of the Survey position overall. He had inherited a programme involving a small real terms decline. The effort in LTC 86 had been to bring the programme under control, so as to avoid traumatic decisions in the run-up to the General Election. This effort had required his department to use every available efficiency saving to offset the present shortfalls in provision. Likewise it would be necessary for his department to achieve further savings, to offset likely increased demands in such contexts as airborne early warning. It was therefore impossible to attempt to call on such savings twice. He had been advised by his officials to submit more additional bids, in view of the pressures on the defence budget. He had, however, made a deliberate decision to keep the list short. But the Chief Secretary's proposal to cut the defence budget would involve problems of a quite different order. The public presentation of the present defence budget had been manageable. By contrast the announcement of cuts in the defence budget - that the Government was planning reductions in defence spending - would involve extreme difficulties. It would open the Government's handling of defence to criticism on a number of fronts; that it was consciously eroding the benefits of the 3 per cent growth commitment; that it was reducing defence expenditure to as low a proportion of GDP as the last Labour Government; and, particularly, that it was the decision to proceed with Trident which was the cause of the resource problems faced by the defence programme. The result would be extreme political difficulties in the pre-election period. For that reason, the Secretary of State argued that the question of reductions in the defence budget was not a matter which could be agreed bilaterally; rather it required consideration by Cabinet.

3. The Chief Secretary acknowledged that the reductions he had requested would not be without presentational difficulty. But

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there were powerful counter arguments that could be deployed; the steep increase in the absolute level of defence expenditure and the continuing benefits of the improved capital stock which real growth had provided; the continuing increases in output provided by improved efficiency; and the fact that the UK would continue to spend a much higher proportion of GDP on defence than did comparable European allies. Moreover, the Government's position on defence expenditure should not be looked at in isolation; it would have to be presented in the overall public expenditure context.

4. The Secretary of State responded that while these were valid arguments, they would not answer the main criticism that would be put to the Government - that as a matter of policy it was now cutting defence expenditure. In this respect the Chief Secretary's proposals implied a major change in the Government's stance on defence which could not be disguised. He recognised that they stemmed from the need to achieve the totals for public expenditure agreed by the Cabinet. But he needed to be able to show that the defence programme was in a level funding position; if that were the case, he would do what he could to help the Chief Secretary.

Additional bids

5. The Chief Secretary thanked the Secretary of State for setting out his position and suggested that against this background it might be helpful to discuss the individual bids. He accepted that B1 (contribution to advanced order for AOR02) was an agreed addition, and invited the Secretary of State's comments on B2 (3% uplift for 1989-90). The Secretary of State said that the purpose of this bid was to provide level real terms provision. In his view anything less than level funding was not politically sustainable: and he needed this additional cash to provide a margin which would enable him to cope with likely problem areas. The Chief Secretary emphasised that he would be resisting similar bids from other departments.

6. Turning to bid B3 (Falklands costs subsumed) the Secretary of State recalled that in the 1985 Survey his predecessor had

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agreed to absorb his bid for Falklands costs in 1988-89 within the existing baseline. The implication of this settlement was that Falklands costs were now part of the defence baseline. He regarded this as a sensible arrangement for the future. However, the baseline for the new Survey year, 1989-90, had been calculated after deducting Falklands costs. In the Secretary of State's view this was unreasonable, and the bid was designed to restore the proper position. In response the Chief Secretary emphasised two points. First, that since actual Falklands costs were declining significantly, it would not be right to roll forward the higher 1988-89 figure to later years. And second, whether or not the bid was on the basis presented by MOD or for the lesser amount of actual Falklands costs, the money was simply not available to meet it. The Secretary of State observed that this meant in practice that the Chief Secretary was asking for a further cut in the defence budget of some £198 million. He could not accept this. The Chief Secretary agreed that it would be sensible to drop the arrangement of a separate addition for Falklands costs, and suggested that the discussion should rest there for the moment.

7. On bid B4 (costs of 1986-87 AFPRB award) the Chief Secretary emphasised that he would resist this bid throughout the Survey. The collective agreement to the Review Body awards had been on the understanding that the costs would be absorbed in later years; to accept the bid would be to undermine entirely the affordability arguments which the Secretary of State had agreed must be forcefully put to the AFPRB; it would open the way to similar demands in other programmes which it was the Chief Secretary's intention similarly to resist. The Secretary of State sought the Chief Secretary's confirmation that these other bids would be resisted; he observed that an addition had been made to the DHSS budget to offset this year's pay settlement for nurses, and other pay settlements e.g. teachers, police and fire were also accommodated. The defence budget was facing programme cuts year after year because of the desire to take credit for standing by the commitment to comparability while failing to face up to the financial consequences. Again, refusal of the bid in practice meant a cut in the defence budget. This could not continue year

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ter year. The Chief Secretary pointed out that to concede the bid would not only undermine the affordability argument but also the new running costs regime; indeed, if compensation were granted for such pay settlements, it would undermine the Government's whole public expenditure strategy.

8. The discussion then moved to bid B5 (Dockyards pensions). The Secretary of State suggested that this was essentially a matter of book-keeping; the change would be PSBR neutral, bringing forward costs which would otherwise fall to Superannuation votes in later years. It was not equitable to load such costs onto the defence budget. Moreover, to do so would compound the presentational difficulties of the contractisation policy, producing net costs for the defence budget. The Chief Secretary pointed out that contractisation would require him to find up to £200 million at the outset to fund the transfer of accrued PCSPS rights, which had an immediate PSBR cost. Moreover, the savings to Superannuation votes would not accrue for many years, whereas the bid would involve immediate additions to public expenditure. Contractisation would provide medium term efficiency gains to MOD. He could not, therefore, accept the bid. The Secretary of State said that he hoped, if he were to drop this additional bid, the Chief Secretary would bear in mind that it nonetheless represented a real cost to the defence budget.

9. The Chief Secretary continued that he similarly could not accept bid B6 (PRS major civil works). He explained that while the change in financial responsibility for major civil works had much to commend it, it had produced bids for additional expenditure which in total were substantial. Given that the MOD bid was small in comparison with the block budget, he hoped that the Secretary of State would be willing to withdraw it. The Secretary of State observed that the problem appeared to stem from a failure to make adequate provision for PSA in past years. He would nevertheless agree to withdraw the bid, in the light of the Chief Secretary's explanation of the overall difficulties he faced.

Proposed reductions

10. The Chief Secretary thanked the Secretary of State for this agreement and suggested that the discussion turn to the question



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of reductions. Just as the Secretary of State had aimed for realism in his additional bids, so had he in his proposals for reductions. Indeed, the position in the Survey overall suggested that larger reductions were needed. The measures in hand to improve efficiency and value for money in a large number of areas of MOD activity appeared to indicate that there was scope for savings over and above those taken into account in LTC 86; he hoped that the Secretary of State would be willing to release part of these savings as a contribution to the achievement of the agreed public expenditure objectives.

11. The Secretary of State responded that it was his aim to achieve further savings. But they were needed by the defence programme. The crucial question was not the availability nor use of such savings; it was rather the fact that he needed to be able to argue that the programme had been accorded level funding.

12. The Chief Secretary noted the Secretary of State's position, but against the background of his overall task, he had to maintain all his proposals for reductions.

Running costs and manpower

13. The Chief Secretary said that he recognised the significant effort which MOD had made to control and reduce running costs and manpower. Discussions were in hand at official level regarding the application of the formal running cost regime to MOD and he hoped that these would be successfully concluded. He suggested that the question of MOD's running cost figures should rest on whatever resolution of the bids emerged, in which case there would be no need for further separate discussion. The Secretary of State agreed.

Conclusion

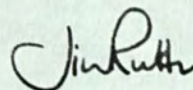
14. In conclusion the Chief Secretary thanked the Secretary of State for a useful discussion which had succeeded in establishing both sides position clearly. Matters could not

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be taken further at this stage. He would wish to consider the position further in the light of meetings with other Departments.



JILL RUTTER

Private Secretary

H M Treasury

8 September 1986

cc Those present  
Principal Private Secretary  
Mr C D Butler  
Mr Hansford  
PS/Sir Peter Middleton

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file

cc: Prof. Griffiths

10 DOWNING STREET

*From the Private Secretary*

1 September 1986

**TIMING OF PUBLIC EXPENDITURE CABINET AND AUTUMN STATEMENT**

The Chancellor this afternoon discussed with the Prime Minister the timing of the Public Expenditure Cabinet and the oral Autumn Statement. The Chancellor's preference was to hold the Public Expenditure Cabinet on Thursday 6 November and to make a statement to the House that afternoon, with the published Autumn Statement following in the next week. This would among other things help to distance publication from the impact day for the flotation of BGC. The Prime Minister agreed.

You undertook to ensure that the Lord President, the Lord Privy Seal and the Chief Whip are content with this timetable.

(DAVID NORGROVE)

Alex Allan, Esq.,  
H.M. Treasury.

VC





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

*CIBG*

*M.B.M.*

The Rt Hon John MacGregor CBE MP  
Chief Secretary  
HM Treasury  
Parliament Street  
LONDON  
SW1P 3AG

26 August 1986

*Dear Chief Secretary,*

*at top*  
PES 1986 - DEPARTMENTAL MANPOWER CEILING AND RUNNING COST LIMIT

In my letter of 23 May I said I had no additional bid for my Department in the PES Round. Unfortunately, a subsequent development now compels me to make a small additional bid to my Department's manpower ceiling and running cost limit. This arises from the need to strengthen the Department's Petroleum Engineering Division's resources in those areas concerned with the safety of North Sea operations in which my Department discharges a number of statutory obligations.

For some time there has been serious under-manning in the Department's Petroleum Engineering Division as a result of difficulties in recruiting the necessary specialists and our manpower planning has allowed for this situation to persist. A recently completed report on the relevant sections of the Division by my Department's Staff Inspectors has concluded that even at full complement the resources of the Division would be inadequate for the task and has recommended the creation of 12 new posts. I have accepted this recommendation. To do otherwise would be to run the risk of my Department being accused of giving inadequate attention to essential safety issues. Moreover, I should point out that the workload imposed by proper attention to our safety obligations is largely independent of any downturn in the North Sea activity that might arise from the recent fall in oil prices.

Fortunately this latter development has improved the prospects for recruiting the necessary specialists and so over coming our under-manning problems. I have therefore had to consider carefully whether the desired increase in PED's manpower could be accommodated within the Department's overall manpower ceiling and running cost limit. After the most careful scrutiny of our resources making all due allowance for the forthcoming reduction in Gas Division following privatisation and the hoped for reduction of current pressures on our Atomic Energy Division and on the EEO after Energy Efficiency Year I am satisfied that this is simply not possible.

Accordingly, while we expect to keep within our manpower ceiling and running costs limit for the current year, I must now request that my Department's manpower ceiling for each year of the current PES period should be increased by 15 with the consequent necessary increase in





our running costs bid on the basis envisaged in my letter to you of 21 July of £0.25m in 1987-88 and £0.5m in each of the two subsequent years.

My officials will be in touch with yours about the details in preparation for our September bilateral. I trust they will be able to make better progress than on the issues I sought to settle in my letter of 21 July which I understand your officials are still disputing.

Copies of this go to the Prime Minister, and Lord President.

PETER WALKER

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



Econ. Policy : Public Expenditure PT35





CAG



Prime Minister (2)

To note that a standard approach  
to the evaluation of employment  
measures has been agreed.

Treasury Chambers, Parliament Street, SW1P 3AG

MEAT 8/8

Rt Hon Lord Young of Graffham  
Secretary of State for Employment  
Department of Employment  
Caxton House  
Tothill Street  
LONDON  
SW1H 9NA

8 August 1986

Dear David,

MT

**COST EFFECTIVENESS OF PUBLIC EXPENDITURE MEASURES RELATED TO EMPLOYMENT**

at Har PT31

In April 1985, Peter Rees wrote to Tom King and asked that when new or expanded public expenditure measures were put forward with a main or secondary aim of cutting unemployment or increasing employment, their cost effectiveness should be evaluated compared to other programmes. The Prime Minister endorsed that proposal. This minute updates that request in the light of recent inter-departmental work.

A report on methods of evaluation has been prepared by an inter-departmental group of economists under Department of Employment chairmanship (the Reid Group). The official level interdepartmental Manpower Group has now endorsed this report. The report has set out a method of assessing cost effectiveness which can be used on a consistent basis.

This method has three main elements:

- a. estimating first year net Exchequer cost per person taken off the unemployment count wherever this is possible;
- b. assessment of the direct medium term effects including the likely profile of expenditure and its direct effects on employment and unemployment; and
- c. identification and assessment of supply side effects.

It is clearly important to maintain a balance between these three elements quantifying them as far as possible. On the one hand it is important to identify the short term cost effectiveness of different policies. On the other hand the supply performance benefits are crucial in that as the Group agreed they are the only ones which can be expected to



survive and perhaps to contribute to increased employment and reduced unemployment in the long-term.

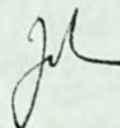
... In the light of this work I think it important that all proposals for new or expanded programmes with a main or subsidiary aim of reducing unemployment or increasing employment should be assessed on the basis recommended by the Reid Group and endorsed by the Manpower Group. The annex to this letter sets out the areas that should be covered in such assessments which will need to be discussed with the relevant Treasury expenditure division (a good example is the assessment of the Enterprise Allowance Scheme which is near the start of Annex 1 to the Reid Group report). I also suggest that the requirement should be incorporated into any relevant guidance documents on policy appraisal and evaluation being prepared in Departments.

At Cabinet it was agreed that during the course of my bilaterals in this year's PES I should follow up with colleagues the need to set targets and performance measures against which programmes could subsequently be evaluated. Clearly having the cost effectiveness of any measures which are employment related assessed on a consistent basis will be extremely helpful for this.

This does not, of course, affect the way in which we consider the financing of additional bids in the Survey. For that purpose we shall need, as normal, to focus on the gross public expenditure costs of colleagues' proposals.

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

Yours ever,



J MACGREGOR



ASSESSMENT OF PROGRAMMES WITH EMPLOYMENT AIMS

The following items should be included in an assessment of programmes with a main or secondary aim of cutting unemployment or increasing employment:

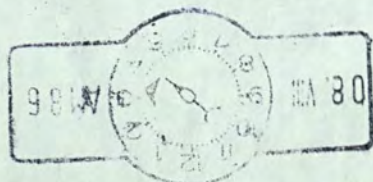
- (i) Description of the programme; estimated gross annual expenditure (cash terms);
- (ii) Objectives of the programme; with particular reference to employment or unemployment aims;
- (iii) Estimate of first year direct net Exchequer cost per person taken off the national unemployment count\*, calculated after taking account of deadweight, substitution and displacement (see Annex 1 to the Report) using methodology set out in the report;
- (iv) Description (quantified where possible) of medium term direct effects on employment, unemployment and Exchequer costs; including number and duration of jobs created, impact on supplying firms, and profile of direct expenditure costs. Include also results of any investment appraisal (see 2.14-24 of the report)<sup>+</sup>
- (v) Evidence of significant effects on supply performance, using the checklist in Annex 3 of the report;
- (vi) Other relevant effects eg on particular groups or areas, on attitudes, and on wider social factors;
- (vii) Recommended monitoring and evaluation arrangements



Notes

\* First year net exchequer cost per person off the count can normally but not always be estimated. The importance given to it must depend in part on the objectives of the programme and the timescale over which it is intended to achieve its objectives. Other important qualifications are in 2.9-2.12 of the Report.

+ In estimating the number and duration of jobs directly created, evidence should be provided (where available) on any cumulative build-up of benefits or any increase in deadweight and displacement over time. The estimates are direct in the sense that they do not allow for indirect macro-economic consequences. A quantitative measure of medium term cost per job or person off the count cannot be calculated (2.14-2.24). The most important reason for this is that such a calculation would require knowledge of the indirect macro-economic effects of the programme, arising in particular from its effects on the output and labour markets and on the financial markets. Whereas these effects can be assumed to be relatively small in the short term, this assumption is not likely to be valid in the medium term.





CONFIDENTIAL

FUE

VC



10 DOWNING STREET

From the Private Secretary

30 July 1986

Dear Joan,

MEETING AT CHEQUERS TO DISCUSS THE ECONOMIC PROSPECTS  
AND PUBLIC EXPENDITURE

RF | This is to confirm the provisional arrangements for a meeting at Chequers on Sunday 19 October to discuss the economic prospects and public expenditure. The present intention is that the morning should be devoted to discussion of the economic prospects and the afternoon to public expenditure with an overlapping cast list for the two sessions. Precise arrangements can be decided nearer the time.

It is just possible that Sunday 26 October may turn out to be a better day for the meetings. You told me that the Lord President has another engagement that day but would probably be prepared to shift it if that was absolutely necessary. I hope we shall not need to ask him to do that.

I am copying this letter to Alex Allan (HM Treasury), Jill Rutter (Chief Secretary's Office), Kieran Murphy (Sir Peter Middleton's office), Anna Lemessany (Sir Terence Burns' office), Professor Brian Griffiths and Brian Unwin (Cabinet Office).

Yours,

David

DAVID NORRGROVE

Miss Joan MacNaughton,  
Lord President's Office.

CONFIDENTIAL

CAJ





13

SECRET AND PERSONAL

P 02198

cc Mr Unwin (this page)  
and pa

From: J B UNWIN

25 July 1986

MR NORSGROVE - NO 10

PUBLIC EXPENDITURE: STAR CHAMBER

Announcement on 13 November would come after the Guildhall speech and the PM's speech in the debate on the Address. These speeches would provide a good opportunity for a defence of the decisions and might be awkward if the

You may like to have the attached copy of a minute I sent to the Lord President yesterday about the Star Chamber. Announcements had not been made.

JBW 28/7

2. In addition to the substance, on which the Treasury will not be able to form final views until they have a good idea of the outcome of the autumn forecast, there are various procedural issues on which the Prime Minister's mind will clearly need to be taken. The membership of the Star Chamber is clearly one of these.

3. The putative timetable in my paragraph 4 would fit in quite well with a Chequers round up on Sunday, 19 October. We should by then have completed a first round with the Ministers whose programmes are in dispute, and so be in a position to assess the main problems and blockages. Such a session on Sunday, 26 October would still be feasible, but I think that would be a little late.

4. A particular point to which I would draw your attention is the strong Treasury view that the announcement should be made on the same afternoon as the Cabinet's decision. The reason for this, of course, is to minimise the scope for leaks on what is likely to be a very market sensitive announcement.

J B UNWIN

Cabinet Office





**CABINET OFFICE**

**With the compliments of**

**J. B. UNWIN**

**70 Whitehall, London SW1A 2AS  
Telephone 01 233**



12

SECRET & PRSONAL

P 02196

From: J B UNWIN  
24 July 1986

LORD PRESIDENT

**PUBLIC EXPENDITURE: STAR CHAMBER**

Following last week's Cabinet I have discussed with Treasury officials the likely timetable and arrangements for this year's Star Chamber, and I thought that it might be helpful to share the outcome with you. No firm decisions need to be taken at this stage, but we shall need to start putting the arrangements in place soon after the summer holidays.

Size of task

2. At present it looks as if it will be about the same as last year. The Treasury expect to have to deal with the following programmes:-

- Education
- Housing
- DOE Other
- Health
- Social Security
- Home Office
- Scotland

It may be possible to settle the defence programme in advance. This has bearing on the membership of the Star Chamber (see paragraph 7 below).

2. A crucial question, of course, is the terms of reference for the Star Chamber. As we have previously discussed, you will need to establish clearly in advance with the Chief Secretary and Chancellor how much discretion you are to have. There are various options on both substance and tactics and I will report to you again on this later in the light of further discussion with the Treasury. Given that realistically the only movement can be upwards, this will clearly be an extremely market sensitive aspect of the negotiations.

SECRET & PERSONAL



Timetable

3. There are various constraints here. These include the dates for the proroguing and reassembly of Parliament, and, the terminus ante quem of the British Gas flotation towards the end of November. A further consideration is that, given the likely market sensitivity of the announcement, the Treasury feel strongly that it should be made on the afternoon of the same day as the Cabinet's decision (you may recall that last year the announcement was made on the following Tuesday).

4. Taking these and other considerations into account, the Treasury at present envisage the following timetable:

1-30 September	Chief Secretary's bilaterals
2 October	Oral report to Cabinet. Prime Minister sets up Star Chamber (on basis of authority given at 17 July Cabinet)
6 October	Party Conference
13-31 October	Star Chamber meets
6 November	Cabinet discussion followed by announcement on same day.

Note: This timetable would entail keeping Parliament sitting until 6 November. Alternatives would be to hold Cabinet and make the announcement on Tuesday, 4 November - though this would make the timetable exceedingly tight; or to extend the whole timetable for an extra week, with Cabinet and the announcement on 13 November.

5. This would be a tight timetable, but is feasible. It would give the Star Chamber some 3 weeks, as last year, to complete its work and for you to make a report to the Cabinet. Announcement on the same day as the Cabinet's decision would, of course, assume endorsement of your recommendations; and the statement itself would necessarily be less full than the customary autumn statement. It should be possible to publish the economic forecast, and to say something about



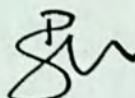
pects for the economy and the fiscal adjustment, but detailed breakdown of the public expenditure planning totals would have to follow later.

6. This timetable would also fit in quite well with the tentative plan which I understand the Prime Minister has for taking stock with you at Chequers on Sunday, 19 October. If, as last year, we had at least one go at all the main programmes during the preceding week it should be possible to let the Prime Minister have a first appraisal for that weekend, indicating where the main difficulties and blockages were likely to occur. This would then help to provide you with guidance for the more serious assault during the following week.

#### Membership

7. You will want to consider this with the Prime Minister in due course. A change this year is, of course, that Mr Brittan will no longer be available (he served last year in a personal capacity rather than as Secretary of State for Trade and Industry). A possible replacement for him, if you still wish to have a team of five, would be Mr Younger, provided the defence programme is settled with the Treasury in advance. Otherwise the team, as before, could consist of the Chancellor of the Duchy, the Lord Privy Seal, the Secretary of State for Wales and the Chief Secretary. As last year, the Chief Whip could receive papers and be available for consultation as necessary, without actually being a regular member of the team.

8. You will obviously wish to reflect on this and, as stated above, consult with the Prime Minister. However, I think it would be useful to settle the composition as soon as possible after the holidays so that we can ensure that those concerned are free during the relevant period. We have already arranged with No 10 to keep a close check on projected overseas visits by Ministers who might be involved with the Star Chamber so as to avoid if possible any repetition of last year's inconvenient absences.



J B UNWIN



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# Cash Limits 1985-86

# Provisional Outturn

(AND 1984-85 OUTTURN)

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# Cash Limits 1985-86 Provisional Outturn

(AND 1984-85 OUTTURN)

*Presented to Parliament by the Chief Secretary to the Treasury  
by Command of Her Majesty  
July 1986*

*cap*

HER MAJESTY'S STATIONERY OFFICE LONDON

Cmnd 9

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[RESTRICTED UNTIL AFTER PUBLICATION]

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**CASH LIMITS 1985-86 PROVISIONAL OUTTURN (AND 1984-85 OUTTURN)**


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1. This White Paper gives provisional outturn figures for cash limited expenditure, including external financing limits (EFLs) of nationalised industries, in 1985-86 and revised figures for 1984-85.
- Original cash limits** 2. The original cash limits for <sup>on</sup> 1985-86 for central government voted expenditure were published in the Supply Estimates and listed in the Summary and Guide to Estimates 1985-86 (Cmnd 9450). The original cash limits relating to local authorities' capital expenditure and certain other expenditure were announced by written PQ on 19 March 1985.
- Provisional outturn** 3. Tables 1 and 2 give provisional outturn figures for 1985-86 compared with final cash limits. These figures may be subject to some adjustment when the final accounts are available.
- Changes to original cash limits** 4. Table 3 shows changes to the original cash limits other than token increases. Increases in cash limits due to the carry forward of end-year flexibility are separately identified.
- Cash limit breaches** 5. On the current figures there were five breaches of cash limits. The Overseas Development Administration (Class - II, vote 8) overspent their £26.57 million administration cash limit <sup>(h)</sup> by £0.16 million. Four cash limits relating to capital expenditure by local authorities and new towns were breached: Department of the Environment/LA1 (£1,911.3 million) by £709.0 million; Scottish Office/LA1 (£410.4 million) by £0.3 million; Welsh Office/LA1 (£275 million) by £16.9 million; and Department of the Environment/NT1 (-£126.5 million) by £2.8 million.
- Nationalised industries** 6. Table 4 <sup>shows the</sup> ~~gives~~ original external financing limits (EFLs) of nationalised industries in 1985-86, revised EFLs and provisional outturn figures for each industry.
- 1984-85 Revised outturn** 7. Table 5 gives final outturn figures for central government cash limited expenditure in 1984-85. Table 6 shows revised figures for the same year for the capital expenditure ~~blocks~~ of local authorities and <sup>for</sup> certain other bodies. These may still be subject to some ~~subsequent~~ revision. Provisional outturn figures for 1984-85 were published in July 1985 in the White Paper "Cash Limits 1984-85 Provisional Outturn" (Cmnd 9569).



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- Changes to original cash limits** 4. Table 3 shows changes to the original cash limits other than token increases. Increases in cash limits due to the carry forward of end-year flexibility are separately identified.
- Cash limit breaches** 5. On the current figures there were four breaches of cash limits. The Overseas Development Administration (Class II, vote 8) overspent their £26.57 million administration cash limit by £0.16 million. Four cash limits relating to local authority capital expenditure were breached; the Department of the Environment local authority cash block DoE/LA1 (£1,911.3 million) by £709.0 million, the Scottish Office local authority cash block SO/LA1 (£410.4 million) by £0.3 million, the Welsh Office local authority cash block WO/LA1 (£275.8 million) by £16.9 million, and the Department of the Environment new towns cash block DOE/NT1 (£126.5) by £2.8 million.
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Table 1 Cash limits 1985-86: Provisional outturn central government votes

Class and vote	Accounting department	Description of expenditure	Cash Limit £ thousand	Provisional outturn £ thousand	Overspend (+) or underspend (-) £ thousand	Overspend (+) or underspend (-) % $\leftarrow$	
I	1	Ministry of Defence	Pay etc. of the armed forces and civilians, stores, supplies and miscellaneous services	6,719,842	6,692,957	-242,218	-1.4 (a)
	2	Ministry of Defence	Defence procurement	8,703,338	8,478,175		
	4	Property Services Agency	Defence accommodation services	1,254,456	1,262,847		
	5	Ministry of Defence	Dockyard services	415,310	416,834		
	6	Ministry of Defence	Sale of government shares in Royal Ordnance plc	100	15		
II	1	Foreign and Commonwealth Office	Overseas representation: diplomatic, consular and other foreign and commonwealth services	389,432	372,432	-17,000	-4.4
	3	Foreign and Commonwealth Office	British Broadcasting Corporation external services	90,018	88,202	-1,816	-2.0
	4	Foreign and Commonwealth Office	British Council	50,104	50,104	0	0.0
	7	Overseas Development Administration	Overseas aid	1,078,700	<del>1,042,000</del> 1,048,900	<del>-36,700</del> -29,800	<del>-3.4</del> -2.8 (b)
	8	Overseas Development Administration	Overseas aid administration	26,568	26,729	161	0.6
III	2	Intervention Board for Agricultural Produce	Central administration	22,499	21,698	-801	-3.6
	4	Ministry of Agriculture Fisheries and Food	Other agricultural and food services and support for the fishing industry	144,083	140,452	-3,631	-2.5
	5	Ministry of Agriculture Fisheries and Food	Departmental research, advisory services and administration	206,748	204,569	-2,179	-1.1
	6	Forestry Commission	Forestry	53,416	52,929	-487	-0.9
IV	2	Department of Industry	Miscellaneous support services	80,677	79,640	-1,037	-1.3
	4	Department of Trade and Industry	Export promotion, trade co-operation, corporative and consumer affairs	61,682	61,518	-164	-0.3
	5	Department of Energy	Industrial support, and research and development	288,974	279,146	-9,828	-3.4
	6	Department of Industry	Scientific and technological assistance	379,399	364,419	-14,980	-3.9
	8	Export Credit Guarantee Department	International trade: export credit services and insurance of investment overseas (central services)	29,138	28,435	-703	-2.4



Table 1 (Contd)

Class and vote	Accounting department	Description of expenditure	Cash Limit £ thousand	Provisional outturn £ thousand	Overspend (+) or underspend (-) £ thousand	Overspend (+) or underspend (-) £ thousand
IV	10	Registry of Friendly Societies	2,299	2,293	-6	-0.3
	11	Office of Fair Trading	8,279	7,438	-841	-10.2
	12	Department of Employment	837,950	824,933	-13,017	-1.6
	14	Department of Employment	14,314	13,983	-331	-2.3
	15	Department of Employment	1,363,908	1,363,905	-3	0.0
	16	Department of Employment	251,012	249,328	-1,684	-0.7
	17	Department of Trade and Industry	147,907	140,750	-7,157	-4.8
	18	Department of Energy	22,711	22,423	-288	-1.3
	20	Department of Employment	93,283	92,368	-915	-1.0
	22	Department of Trade and Industry	2	0	-2	-100.0
	23	Office of Telecommunications	1	0	-1	-100.0
	24	Department of Trade and Industry	1	0	-1	-100.0
	25	Department of Energy	1,500	1,401	-99	-6.6
	26	Her Majesty's Treasury	1	0	-1	-100.0
	27	Department of Trade and Industry	100	100	0	0.0
	28	Her Majesty's Treasury	1	0	-1	-100.0
V	1	Trustees of British Museum	13,097	13,032	-65	-0.5
	2	Trustees of Imperial War Museum	4,445	4,378	-67	-1.5
	3	Trustees of National Gallery	6,639	6,612	-27	-0.4
	4	Trustees of National Maritime Museum	4,336	4,314	-22	-0.5
	5	Trustees of National Portrait Gallery	1,777	1,765	-12	-0.7



Table 1 (Contd)

Class and vote	Accounting department	Description of expenditure	Cash Limit £ thousand	Provisional outturn £ thousand	Overspend (+) or underspend (-) £ thousand	Overspend (+) or underspend (-) %
V	6	Office of Arts and Libraries	8,954	<del>8,941</del>	<del>-13</del> <del>-2,013</del>	<del>-0.1</del> <del>-22.5</del>
	7	Trustees of Tate Gallery	5,645	5,640	-5	-0.1
	8	Office of Arts and Libraries	10,698	10,690	-8	-0.1
	9	Trustees of Wallace Collection	877	870	-7	-0.8
	10	Office of Arts and Libraries	130,197	129,861	-336	-0.3
	11	Office of Arts and Libraries	48,720	48,720	0	0.0
	12	Office of Arts and Libraries	1,251	1,155	-96	-7.7
VI	1	Department of Transport	821,009	819,428	-1,581	-0.2
	2	Department of Transport	149,460	<del>148,225</del> 148,779	<del>-335</del> -681	<del>-0.4</del> -0.5
	4	Department of Transport	104,945	101,738	-3,207	-3.1
	5	Department of Transport	750	674	-76	-10.1
VII	2	Department of Environment	35,038	33,428	-1,610	-4.6
VIII	2	Department of Environment	147,725	146,868	-857	-0.6
	4	Department of Environment	79,920	79,517	-403	-0.5
	5	Department of Environment	143,413	141,244	-2,169	-1.5
IX	1	Lord Chancellor's Department	90,360	89,962	-398	-0.4
	2	Northern Ireland Court Service	7,758	7,739	-19	-0.2
	7	Home Office	297,352	291,014	-6,338	-2.1
	8	Home Office	614,258	608,511	-5,747	-0.9
	9	Treasury Solicitor's Department	17,157	15,750	-1,407	-8.2
	10	Crown Agent	14,031	13,991	-40	-0.3
X	1	Department of Education and Science	211,118	198,948	-12,170	-5.8
	3	Department of Education and Science	1,514,432	1,507,945	-6,487	-0.4



Table 1 (Contd)

Class and vote	Accounting department	Description of expenditure	Cash Limit £ thousand	Provisional outturn £ thousand	Overspend (+) or underspend (-) £ thousand	Overspend (+) or underspend (-) %
X	4	Department of Education and Science Central administration	52,159	51,640	-519	-1.0
	5	Department of Education and Science Agricultural and Food Research Council	52,725	52,725	0	0.0
	6	Department of Education and Science Medical Research Council	122,310	122,310	0	0.0
	7	Department of Education and Science Natural Environmental Research Council	67,880	67,880	0	0.0
	8	Department of Education and Science Science and Engineering Research Council	298,388	298,388	0	0.0
	9	Department of Education and Science Economic and Social Science Research Council	23,667	23,587	-80	-0.3
	10	Trustees of British Museum (Natural History) British Museum (Natural History)	11,432	11,415	-17	-0.1
	11	Department of Education and Science Research Councils etc: Other science	6,150	6,132	-18	-0.3
XI	1	Department of Health and Social Security Hospitals and community health services, etc England	8,989,096	8,983,827	-5,269	-0.1
	3	Department of Health and Social Security Miscellaneous health services and personal social services, England	365,798	361,192	-4,606	-1.3
XII	5	Department of Health and Social Security Administration and miscellaneous services	771,634	764,897	-6,737	-0.9
XIII	3	Privy Council Office Pay and general administrative expenses	1,160	1,090	-70	-6.0
	4	Her Majesty's Treasury Economic and financial administration	45,437	44,903	-534	-1.2
	5	Customs and Excise Economic and financial administration	356,832	356,791	-41	0.0
	6	Inland Revenue Economic and financial administration	880,615	880,566	-49	0.0
	8	National Investment and Loans Office Economic and financial administration	1	0	-1	-100.0
	9	Department for National Savings Economic and financial administration	153,100	152,229	-871	-0.6
	11	Management and Personnel Office Central management of the civil service	34,375	34,375	0	0.0
	12	Her Majesty's Treasury Computers and telecommunications	16,957	15,876	-1,081	-6.4
	13	Public Record Office Pay and general administrative expenses	10,487	10,091	-396	-3.8



Table 1 (Contd)

Class and vote	Accounting department	Description of expenditure	Cash Limit £ thousand	Provisional outturn £ thousand	Overspend (+) or underspend (-) £ thousand	Overspend (+) or underspend (-) %
XIII	14	Office of Population Censuses and Surveys	26,521	25,447	-1,074	-4.0
	15	Land Registry	79,244	79,047	-197	-0.2
	16	Charity Commission	5,229	5,204	-25	-0.5
	17	Cabinet Office	14,838	14,738	-100	-0.7
	18	Office of Parliamentary and Health Service Commissioners	1,873	1,837	-36	-1.9
	19	Her Majesty's Stationery Office	4,308	4,308	0	0.0
	21	Ordnance Survey	17,445	14,375	-3,070	-17.6
	22	Her Majesty's Treasury	3	0	-3	-100.0
	23	Cabinet Office	81,000	80,818	-182	-0.2
XIV	1	Property Services Agency	594,294	593,668	-626	-0.1
	2	Property Services Agency	302,368	297,843	-4,525	-1.5
	3	Central Office of Information	67,200	67,191	-9	0.0
	6	Government Actuary's Department	1,167	1,141	-26	-2.2
	7	Paymaster General's Office	12,013	11,695	-318	-2.6
XV	2	Department of Agriculture and Fisheries Scotland	66,053	63,677	-2,376	-3.6
	3	Industry Department for Scotland	131,200	131,159	-41	0.0
	4	Industry Department for Scotland	133,896	133,896	0	0.0
	6	Scottish Development Department	150,501	147,718	-2,783	-1.8
	11	Scottish Courts Administration	8,681	8,432	-249	-2.9
	14	Scottish Home and Health Department	1,523,278	1,518,978	-4,300	-0.3
	15	Scottish Education Department	149,176	147,967	-1,209	-0.8



Table 1 (Contd)

Class and vote	Accounting department	Description of expenditure	Cash Limit £ thousand	Provisional outturn £ thousand	Overspend (+) or underspend (-) £ thousand	Overspend (+) or underspend (-) %
XV 17	Trustees of National Library of Scotland	National Library of Scotland	3,444	3,419	-25	-0.7
18	Board of Trustees National Galleries of Scotland	National Galleries of Scotland	3,043	3,043	0	0.0
19	Board of Trustees National Museum of Antiquities Scotland	National Museum of Antiquities	644	644	0	0.0
21	Scottish Record Office	Pay and general administrative expenses	1,808	1,735	-73	-4.0
22	General Register Office for Scotland	Pay and general administrative expenses	3,079	2,733	-346	-11.2
23	Department For Registers Scotland	Pay and general administrative expenses	2	0	-2	-100.0
24	Scottish Office	Pay and general administrative expenses	101,251	101,169	-82	-0.1
XVI 1	Welsh Office	Civil defence, tourism, roads and transport, housing, other environmental services, education and science, arts and libraries, and centrally funded health services and personal social services, Wales	171,669	169,228	-2,441	-1.4
4	Welsh Office	Manpower Services Commission, Wales	80,749	80,749	0	0.0
5	Welsh Office	Agricultural services, support for the fishing industry, regional and industrial development, Wales	39,383	39,045	-338	-0.9
7	Welsh Office	Other services, Welsh Office	32,531	32,280	-251	-0.8
9	Welsh Office	Hospitals and community health services, Wales	603,538	603,510	-28	0.0
XVII 1	Northern Ireland Office	Law, order, protective and miscellaneous services, Northern Ireland	437,182	436,333	-849	-0.2
XVIII 1	Department of Environment	Rate support grants to local revenues, England	8,742,000	8,737,000	-5,000	-0.1
2	Welsh Office	Rate support grants to local revenues, Wales	828,562	825,803	-2,759	-0.3
3	Department of Environment	National parks supplementary grants, England	5,845	5,845	0	0.0
4	Welsh Office	National parks supplementary grants, Wales	2,029	2,029	0	0.0
5	Scottish Office	Rate support grant to local revenues, Scotland	1,691,800	1,656,546	-35,254	-2.1
9	Department of Transport	Transport supplementary grants, England	160,000	160,000	0	0.0
10	Welsh Office	Transport supplementary grants, Wales	26,509	26,509	0	0.0
17	Crown Estate Office	Pay and general administrative expenses	-574	-520	-54	-9.4
TOTAL CASH-LIMITED VOTES			55,789,250	55,307,630 <del>55,298,876</del>	-481,620 <del>-100,374</del>	-0.9

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

(b) <sup>mostly</sup> The underspend on the cash limit is offset to a substantial degree by higher European Community budget spending on overseas aid, the UK share of which is attributed to the public expenditure allocation for the aid programme.

Most of the underspend on the cash limit is necessitated and offset



**Table 2 Cash limits 1985-86: Provision outturn: Local authorities' capital expenditure blocks and certain other expenditure**

Department	Cash block	Description of expenditure	Cash Limit £ million	Provisional outturn £ million	Overspend (+) or underspend (-) £ million	Overspend (+) or underspend (-) %
Bank of England	BOE1	Bank of England administration costs in respect of note issue, exchange equalisation account and debt management	80.6	80.6	0.0	0.0
Department of the Environment	DOE/LA1	Capital expenditure by local authorities on roads and housing, schools, further education and teacher training, personal social services and other Environmental services	1,911.3	2,620.3	709.0	37.1
Department of the Environment	DOE/NT1	Capital expenditure in England by new towns on housing, roads, sewerage, and commercial and industrial investment	-126.5	-123.7	2.8	-2.2
Department of the Environment	DOE/HC1	Capital expenditure in England on housing financed through the Housing Corporation	700.0	698.5	-1.5	-0.2
Department of the Environment	DOE/UA1	External financing requirements of Urban Development Corporations, capital expenditure on the urban programme and derelict land reclamation	376.7	356.6	-20.1	-5.3
Home Office	HO/LA1	Capital expenditure by local authorities on police, courts and probation	129.5	71.2	-58.3	-45.0
Home Office	HO/MP1	Expenditure by the Metropolitan police on manpower, pay, pensions, premises, transport and other running costs	771.2	771.2	0.0	0.0
NORTHERN IRELAND						
Northern Ireland Departments	NID 1	Services analogous to Great Britain services covered by cash limits	2,189.2	2,161.8	-27.4	-1.3
SCOTLAND						
Scottish Office	SO/LA1	Capital expenditure by local authorities in Scotland on roads and transport, water and sewerage, general services urban programme, police and social work, schools, further education and teacher training	410.4	410.7	0.3	0.1
Scottish Office	SO/LA2	Capital expenditure in Scotland on housing by local authorities, new towns, the Scottish Special Housing Association and on schemes financed by the housing corporation, and industrial and commercial investment by new towns	424.8	410.2	-14.6	-3.4
WALES						
Welsh Office	WO/LA1	Capital expenditure in Wales by Local Authorities, new towns and the Housing Corporation on roads and transport, housing, schools, further education and teacher and teacher training, personal social services and other environmental services and by the Land Authority for Wales	275.8	292.7	16.9	6.1
<b>TOTAL</b>			<b>7,143.0</b>	<b>7,750.1</b>	<b>607.1</b>	<b>8.5</b>



Table 3 Changes to 1985-86 cash limits excluding token increases

£ thousand

Class and vote	Accounting department	End year flexibility	Other changes	Total	Reason for "other" changes	
CENTRAL GOVERNMENT VOTES						
I	1, 2, 4, 5 & 6	Ministry of Defence and Property Services Agency	131,936	-2,054	129,882	Reduction mainly reflects the surrender of VAT funds on vehicle maintenance contracted out. Announced on 11 February 1986.
II	1	Foreign and Commonwealth Office	1,751	4,155	5,906	Reduction of £1.0 million reflects an increase on class II, vote 3. Announced on 7 November 1985. An increase of £5.155 million, reflecting increased costs was announced on 6 February 1986.
	3	Foreign and Commonwealth Office		1,000	1,000	Transfer of £1 million provision from class II, vote 1 to enable the BBC to maintain progress on its audibility programme. Announced on 7 November 1985.
	4	Foreign and Commonwealth Office		1,645	1,645	Increase reflects increased costs. Announced on 6 February 1986.
III	2	Intervention Board for Agricultural Produce		1,468	1,468	Increase of £1.468 million, to meet increased administrative costs, was announced on 8 November 1985.
	4	Ministry of Agriculture Fisheries and Food		-282	-282	Increase of £0.408 million to provide for externally commissioned work on coast protection. Announced on 5 June 1985. A further increase of £0.56 million, to provide for additional expenditure on payments to producers in England discontinuing milk production. Announced on 29 October 1985. A reduction of £0.65 million to reflect savings announced on 13 December 1985. A further reduction of £0.6 million as a result of underspends on a number of services, announced on 12 February 1986.
	5	Ministry of Agriculture Fisheries and Food		-500	-500	Reduction made following underspending on a number of services and partly to offset additional expenditure on class III, vote 3 (non-cash limited), agricultural support. Announced on 12 February 1986.
IV	2	Department of Trade and Industry	384		384	
	5	Department of Energy		-1,200	-1,200	Reduction of £0.5 million, to offset increased spending by the Department of Education and Science on engineering and technological training, was announced on 13 June 1985. A further reduction of £0.7 million to offset an increase on class IV, vote 19 (non-cash limited), was announced on 8 November 1985.
	6	Department of Trade and Industry	466	-2,550	-2,084	Reduction of £2.5 million, to offset increased spending by the Department of Education and Science on engineering and technological training, was announced on 13 June 1985. A further reduction of £0.05 million to offset an increase on class IV, vote 27, was announced on 11 November 1985.
	11	Office of Fair Trading		800	800	Increase to meet increased costs of computerising the consumer credit licensing operation. Announced on 11 December 1985.
	12	Department of Employment		112,000	112,000	Increase of £140.0 million reflects an expansion of the community programme. Announced on 4 June 1985. A reduction of £28.0 million to take account of expected savings on the community programme and to offset additional expenditure on class IV, vote 15, was announced on 4 February 1986.



Table 3 (Contd)

£ thousand

Class and vote	Accounting department	End year flexibility	Other changes	Total	Reason for "other" changes
IV	14 Department of Employment		573	573	Increase covers the costs of the work research unit. Announced on 4 June 1985.
	15 Department of Employment	994	19,000	19,994	Increase made to cover extra requirements for YTS and for new pilot schemes for the long-term unemployed. Announced on 4 February 1986.
	16 Department of Employment	273	1,479	1,752	Decrease of £0.573 million offsets an increase on class IV, vote 14. Announced on 4 June 1985. Increase of £2.052 million to cover extra administration costs of the unemployment benefit service. Announced on 4 February 1986.
	17 Department of Trade and Industry		-50	-50	Reduction of £0.05 million to offset an increase on class IV, vote 27, was announced on 11 November 1985.
	25 Department of Energy		1,500	1,500	Increase, to meet costs arising from preliminary work on the sale of shares in British Gas. Announced in two stages, £0.65 million, on 13 June 1985 and £0.85 million on 8 November 1985.
	27 Department of Trade and Industry		100	100	Increase, to cover preliminary expenses in connection with the sale of shares in Rolls Royce, was announced on 11 November 1985.
V	8 Office of Arts and Libraries		100	100	Increase, to assist with the cost of setting up the Theatre Museum, was announced on 7 November 1985.
	10 Office of Arts and Libraries		420	420	Reduction of £0.1 million offsets an increase on class V, vote 8. Announced on 7 November 1985. Increase of £0.52 million in respect of items accepted in lieu of tax. Announced on 13 February 1986.
VI	1 Department of Transport	1,335	-4,000	-2,665	Reduction is in respect of delayed payment of reimbursement to county councils of redundancy costs of ex-local authority staff of road construction sub-units and partly offsets additional costs on class VI, vote 3 (non-cash limited). Announced on 12 February 1986.
	4 Department of Transport		-4,000	-4,000	Reduction is in respect of lower than expected costs of agency services and savings on salaries and other running costs and partially offsets additional costs on class VI, vote 3. Announced on 12 February 1986.
	5 Department of Transport		749	749	To meet costs arising from preliminary work on the sale of shares in British Airways plc. Announced on 11 November 1985.
VIII	2 Department of Environment	1,300	3,400	4,700	Increase of £0.25 million to cover a contribution to the Lord Mayor of Bradford's fire disaster appeal fund. Announced on 20 May 1985. A further increase of £3.15 million, to provide for additional expenditure by the Development Corporation on factory premises and to pay corporation tax, was announced on 11 November 1985.
	4 Department of Environment		10,430	10,430	Increase of £0.93 million to provide additional resources for the Historic Buildings and Monuments Commission's conservation programme in Canning Street, Liverpool. Announced on 24 October 1985. A further increase of £9.5 million to provide additional resources for the National Heritage Memorial fund. Announced on 25 February 1986.



Table 3 (Contd)

£ thousand

Class and vote	Accounting department	End year flexibility	Other changes	Total	Reason for "other" changes
VIII	5 Department of Environment	167	-5,573	-5,406	Reduction of £0.441 million reflects a transfer of responsibility for coast protection to MAFF. A further reduction of £0.013 million reflects a transfer to DES to support additional expenditure on housing management studentships. Announced on 5 June 1985. A reduction of £5.119 million, which in part offset an increase on class VIII, vote 2, was announced on 11 November 1985.
IX	2 Northern Ireland Court Service		355	355	Increase is required for repair costs to certain courthouses in Northern Ireland and for the procurement of alternative accommodation for the legal aid department in Belfast. Announced on 12 February 1986.
	7 Home Office		-9,000	-9,000	Reduction made to partially offset additional expenditure on class IX, vote 8, announced on 11 November 1985.
	8 Home Office	1,323	22,814	24,137	Increase is to meet the cost of acquiring, converting and bringing into use RAF Lindholme as a prison and of other measures taken to cater for a surge in prison population levels. The increase will also cover a shortfall in the level of receipts realised from the sale of staff quarters. Announced on 12 February 1986.
	10 Crown Agent		258	258	Reduction of £0.107 million is to compensate for a corresponding overspend in 1984-85 and follows the standard practice whereby an excess over the cash limit in one year is deducted from the cash limit in the next year. Announced on 16 January 1986. An increase of £0.365 million to take account of additional costs was announced on 5 February 1986.
X	3 Department of Education and Science	1,911	6,377	8,288	Increase reflects the transfer of funds to the Department of Education and Science from the Department of Trade and Industry, Department of Energy and the Industrial Department for Scotland to finance additional training in engineering and technology. Announced on 13 June 1985.
	4 Department of Education and Science	97		97	
	5 Department of Education and Science		2,385	2,385	Increase made to enable the Agricultural and Food Council to meet extra short term costs arising from restructuring of the council's work. Announced on 7 February 1986.
	7 Department of Education and Science	550		550	
	8 Department of Education and Science		428	428	Increase reflects the transfer of funds to the Department of Education and Science from the Department of Trade and Industry, Department of Energy and the Industrial Department for Scotland to finance additional training in engineering and technology. Announced on 13 June 1985.
	9 Department of Education and Science		74	74	Increase reflects transfer of funds from the Department of Environment to cover the costs of housing management studentships. Announced on 10 June 1985.
XI	1 Department of Health and Social Security	951		951	
	3 Department of Health and Social Security	1,307	-4,759	-3,452	Reduction made in order to partially offset additional expenditure on class XI, vote 2 (non-cash limited). Announced on 13 February 1986.



Table 3 (Contd)

£ thousand

Class and vote	Accounting department	End Year flexibility	Other changes	Total	Reason for "other" changes
XII	5 Department of Health and Social Security	515	9,241	9,756	Increase reflects the costs of additional staff, partly offset by savings on other items of expenditure. Announced on 7 February 1986.
XIII	5 Customs and Excise	157	1,750	1,907	Increase to cover the cost of increased operations, shortfall in certain fees and payments in lieu of interest on overpaid VAT. Announced on 24 January 1986.
	6 Inland Revenue		21,900	21,900	Increase to meet costs of investment in computers and overtime costs related to an initiative to reduce arrears of work in local tax offices. Announced on 10 February 1986.
	13 Public Record Office		-334	-334	Reduction takes account of the transfer of £0.334 million to class XIV, vote 1 to fund improvements in the air-conditioning system in the Public Record Office.
	15 Land Registry	100		100	
	16 Charity Commission		368	368	Increase provides for additional costs associated with the computer installation in the official custodians division. Announced on 14 June 1985.
XIV	1 Property Services Agency		-12,222	-12,222	Reduction of £12.222 million is to compensate for a corresponding overspend in 1984-85 and follows the standard practice whereby an excess over the cash limit in one year is deducted from the cash limit in the next year. Announced on 26 July 1985.
XV	2 Department of Agriculture and Fisheries Scotland		-950	-950	Reduction of £0.55 million reflects expected savings. Announced on 12 December 1985. A further reduction of £0.4 million made to offset extra spending on class XV, vote 1 (non-cash limited). Announced on 11 February 1986.
	3 Industry Department for Scotland		-6,802	-6,802	Reduction of £5.2 million arising from extra savings. Announced on <del>27</del> March 1985. A further reduction of £1.2 million reflects a transfer to the Department of Education and Science to fund increased training in engineering and technology. Announced on 13 June 1985. Further reduction of £0.402 million to partly offset additional expenditure on Class XV, votes 5 and 8. Announced on 25 March 1986.
	6 Scottish Development Department	4,648	-6,414	-1,766	Reduction of £4.8 million arising from extra savings. Announced on <del>27</del> March 1985. Reduction of £1.114 million reflects expected savings. Announced on 12 December 1985. Further reduction of £0.5 million made to partly offset additional expenditure on class XV, votes 5 and 8. Announced on 25 March 1986.
	14 Scottish Home and Health Department	6,961	-5,400	1,561	Reduction of £5.0 million arising from extra savings. Announced on <del>27</del> March 1985. Further reduction of £0.4 million reflects savings. Announced on 25 March 1986.
	15 Scottish Education Department	302	2,005	2,307	Increase of £1.463 million reflects the enactment of the National Heritage (Scotland) Act 1985 establishing a board of trustees of the national museums of Scotland. Announced on 12 June 1985. A further increase of £0.752 million was announced on 11 February 1986. A further reduction of £0.21 million to partly offset additional expenditure on class XV, votes 5 and 8. Announced on 25 March 1986.
	19 National Museum of Antiquities, Scotland		-511	-511	Reduction of £0.511 million partly offsets additional expenditure on class XV, vote 15. Announced on <del>11 November</del> 1985. 12 June



Table 3 (Contd)

£ thousand

Class and vote	Accounting department	End year flexibility	Other changes	Total	Reason for "other" changes
XV 24	Scottish Office	128	-952	-824	Reduction of £0.952 million partly offsets additional expenditure on class XV, vote 15. Announced on <del>14 November</del> 12 June 1985.
XVI 1	Welsh Office		-14,790	-14,790	Reduction partly offsets additional expenditure on class XVI, votes 2, 3 and 8. Announced on 25 March 1986.
	5	71	-7,787	-7,716	Reduction reflects changes announced on 9 October 1985, 12 December 1985 and 25 March 1986 and mainly arises from the Welsh Development Agency's success in achieving higher than estimated income which has allowed their savings to offset increased expenditure for class XVI, votes 2, 3 and 8.
	7		-500	-500	Reduction partly offsets additional expenditure on Class XVI, votes 2, 3 and 8. Announced on 25 March 1986.
	9	3,000		3,000	
XVII 1	Northern Ireland Office	254	11,580	11,834	Increase of £9.080 million reflects increased requirements for expenditure on law, order, protective and miscellaneous services, mainly covering increased compensation payments for criminal damage. Announced on 11 November 1985. A further increase of £2.5 million to cover higher levels of police overtime and other increased costs was announced on 12 February 1986.
XVIII 1	Department of the Environment		-430,000	-430,000	Total reduction of £430 million in respect of the abatement of block grant for 1985-86. This was announced in two stages: £400 million on 4 June 1985 and £30 million on 6 March 1986.
	2		-5,638	-5,638	Reduction of £5.6 million made in the light of Local Authority's budgeted figures for 1985-86 and taking account of abatement of block grant for 1985-86. Announced on 7 June 1985. A further reduction of £0.038 million to offset increased expenditure on class XVIII, votes 4 and 10. Announced on 16 January 1986.
	4		29	29	Increase of £0.029 million offset by a corresponding reduction on class XVIII, vote 1. Announced on 16 January 1986.
	10		9	9	Increase of £0.009 million offset by a corresponding reduction on class XVIII, vote 1. Announced on 16 January 1986.
TOTAL VOTED		160,881	-287,876	-126,995	



Non-voted cash limits

SMALLER TYPE

← Table 3 (Contd)

£ million

Cash block	Accounting department	End year flexibility	Other changes	Total	Reason for "other" changes
DOE/NT1	Department of the Environment	1.6	-113.6	-112.0	Reduction of £86.8 million reflects additional receipts resulting from the sale of housing stock and completely offsetting additional costs on DOE/HC1. Announced on 28 June 1985. A further reduction of £15.88 million to take account of higher than expected levels of receipts from the disposal of property was announced on 31 January 1986. A reduction of £10.962 million to offset additional expenditure of £9.5 million on class VIII, vote 5, and £1,462 million extra capital allocation to Bradford City Council was announced on 25 February 1986.
DOE/HC1	Department of the Environment	6.6	88.4	95.0	Increase to enable housing associations to acquire Central Lancashire Development Corporation's housing stock. The main increase was announced on 28 June 1985, but a supplementary increase of £1.63 million was announced on 31 January 1986.
DOE/UA1	Department of the Environment	14.2	-0.9	13.3	Reduction offsets a corresponding increase on class VIII, vote 4. Announced on 24 October 1985.
HO/LA1	Home Office	6.0		6.0	
HO/MP1	Home Office		8.0	8.0	Increase made to enable the Metropolitan Police to recruit up to agreed manpower levels. Announced on 30 December 1985.
NID1	Northern Ireland Departments	1.5	-1.3	0.2	Reduction partly to offset increased expenditure on class XVII, vote 1. Announced on 11 November 1985.
SO/LA1	Scottish Office	0.7		0.7	
SO/LA2	Scottish Office	11.4	-3.5	7.9	Reduction to partly offset increased expenditure on class XV, vote 8. Announced on 25 March 1986.
TOTAL		42.02	-22.9	19.1	



**Table 4 Nationalised Industries External Financing Limits 1985-86: Provisional outturns  
£ million**

	EFL for 1985-86		Latest estimated outturn
	As in Cmnd 9428	<i>Final Revised</i>	
National Coal Board	723	600	429
Electricity (England and Wales)	- 1,128	- 1,128	- 467
North of Scotland Hydro-Electric Board	9	- 30	- 39
South of Scotland Electricity Board	191	238	229
British Gas Corporation	- 352	- 176	- 190
British National Oil Corporation (2)	- 3	- 3	31
British Steel Corporation	360	414	413
Post Office	- 70	- 70	- 70
National Girobank	- 3	- 3	- 3
British Airways Board (3)	—	—	- 211
British Airports Authority	- 21	- 21	- 22
British Railways Board (4)	918	918	910
British Waterways Board	45	45	44
National Bus Company	48	48	48
Scottish Transport Group	13	13	11
British Shipbuilders (Merchant) (5)	0	0	49
British Shipbuilders (Warships)	36	36	4
Civil Aviation Authority	27	27	25
Water (England and Wales)	203	236	207
London Regional Transport	323	323	295
<b>Total Industries</b>	<b>1,318</b>	<b>1,466</b>	<b>1,692</b>

Notes

1. All figures to nearest £ million.
2. Because of uncertainties associated with oil trading, the BNOG External Financing Requirement is not expressed as a formal limit. BNOG ceased trading on 1 December 1985. Figures show outturn up to that point.
3. At the time Cmnd 9428, no EFL was formally published as it was the intention to privatise the industry during 1985-86.
4. The British Railways undershoot of £8 million is due to the transfer of the funding for certain rolling stock to local authorities.
5. The British Shipbuilders (Merchant) figures, EFL and outturn include receipts from the sale of the Warshipbuilding yards.



Table 5 Cash limits 1984-85: Final outturn central government votes

Class and vote	Accounting department	Description of expenditure	Cash Limit £ thousand	Outturn £ thousand	Overspend (+) or underspend (-) £ thousand	Overspend (+) or underspend (-) %	
I	1	Ministry of Defence	Pay etc. of the armed forces and civilians, stores, supplies and miscellaneous services	6,343,622	6,397,927	-132,023(a)	-0.8(a)
	2	Ministry of Defence	Defence procurement	8,322,162	8,174,240		
	4	Property Services Agency	Defence accommodation services	1,078,476	1,055,087		
	5	Ministry of Defence	Dockyard services	438,453	423,436		
II	1	Foreign and Commonwealth Office	Overseas representation: diplomatic, consular and other foreign and commonwealth services	374,788	371,539	-3,249	-0.9
	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	1,030,602	-30,961	-2.9
	9	Overseas Development Administration	Overseas aid administration	25,920	24,576	-1,344	-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	131,810	-10,324	-7.3
III	5	Ministry of Agriculture, Fisheries and Food	Departmental research, advisory services and administration	199,522	193,728	-5,794	-2.9
	6	Forestry Commission	Forestry	55,194	55,194	0	0.0
IV	2	Department of Trade and Industry	Miscellaneous support services	85,728	85,345	-383	-0.4
	4	Department of Trade and Industry	Export promotion, trade co-operation, corporative and consumer affairs	49,292	46,205	-3,087	-6.3
	5	Department of Energy	Industrial support	162,869	157,597	-5,272	-3.2
	6	Department of Industry	Scientific and technological assistance	377,967	377,266	-701	-0.2
	7	Department of Industry	Scientific and technological assistance: nuclear energy	199,954	189,730	-10,224	-5.1



Table 5 (Contd)

Class and date	Accounting department	Description of expenditure	Cash Limit £ thousand	Outturn £ thousand	Overspend (+) or underspend (-) £ thousand	Overspend (+) or underspend (-) %
IV	9	Export Credit Guarantee Department	26,269	25,810	-459	-1.7
	11	Registry of Friendly Societies	2,197	1,959	-238	-10.8
	12	Office of Fair Trading	7,204	6,919	-285	-4.0
	13	Department of Employment	683,622	654,874	-28,748	-4.2
	15	Department of Employment	13,180	13,151	-29	-0.2
	16	Department of Employment	1,213,879	1,212,885	-994	-0.1
	17	Department of Employment	241,298	239,277	-2,021	-0.8
	18	Department of Industry	140,547	137,599	-2,948	-2.1
	19	Department of Energy	22,349	22,197	-152	-0.7
	21	Department of Energy	2	0	-2	-100.0
	22	Department of Employment	90,298	89,942	-356	-0.4
	24	Department of Trade and Industry	2	0	-2	-100.0
	25	Department of Energy	1,242	656	-586	-47.2
	26	Her Majesty's Treasury	536	440	-96	-17.9
	27	Office of Telecommu- nications	1	0	-1	-100.0
	28	Department of Trade and Industry	500	69	-431	-86.2
V	1	Trustees of British Museum	12,865	12,771	-94	-0.7
	2	Trustees of Imperial War Museum	4,383	4,100	-283	-6.5
	3	Trustees of National Gallery	7,024	6,992	-32	-0.5
	4	Trustees of National Maritime Museum	4,304	4,275	-29	-0.7
	5	Trustees of National Portrait Gallery	1,866	1,866	0	0.0



Table 5 (Contd)

Class and code	Accounting department	Description of expenditure	Cash Limit £ thousand	Outturn £ thousand	Overspend (+) or underspend (-) £ thousand	Overspend (+) or underspend (-) %	
V	6	Office of Arts and Libraries	Science Museum	8,492	8,483	-9	-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	11,340	-57	-0.5
	9	Trustees of Wallace Collection	Wallace Collection	823	822	-1	-0.1
	10	Office of Arts and Libraries	Arts, the Arts Council and other institutions, the national heritage and the government art collection	124,141	124,111	-30	0.0
	11	Office of Arts and Libraries	Libraries, England	47,300	47,286	-14	0.0
	12	Office of Arts and Libraries	Central administration	1,049	906	-143	-13.6
VI	1	Department of Transport	Roads etc.; England	808,145	804,233	-3,912	-0.5
	2	Department of Transport	Transport services and central administration	145,628	136,370	-9,258	-6.4
	4	Department of Transport	Driver and vehicle licencing	100,462	95,963	-4,499	-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	113,737	-1,226	-1.1
	5	Department of Environment	Central administration and environmental research	164,995	161,179	-3,816	-2.3
IX	1	Lord Chancellor's Department	Administration of justice: England	85,641	85,626	-15	0.0
IX	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 services and civil defence, England and Wales	294,452	273,833	-20,619	-7.0
	8	Home Office	Prisons, England and Wales	585,288	572,101	-13,187	-2.3
	9	Treasury Solicitor's Department	Law charges, England and Wales	13,357	12,923	-434	-3.2
	10	Crown Agent	Law charges, Scotland	13,168	13,293	125	0.9
X	1	Department of Education and Science	Schools, further education and other education services	190,239	181,052	-9,187	-4.8



Table 5 (Contd)

Class	Accounting department	Description of expenditure	Cash Limit £ thousand	Outturn £ thousand	Overspend (+) or underspend (-) £ thousand	Overspend (+) or underspend (-) %
X	3	Department of Education and Science	1,464,070	1,461,486	-2,584	-0.2
	4	Department of Education and Science	49,569	48,127	-1,442	-2.9
	5	Department of Education and Science	46,680	46,680	0	0.0
	6	Department of Education and Science	117,152	117,152	0	0.0
	7	Department of Education and Science	65,853	65,303	-550	-0.8
	8	Department of Education and Science	278,827	278,827	0	0.0
	9	Department of Education and Science	21,979	21,979	0	0.0
	10	Trustees of British Museum (Natural History)	9,751	9,731	-20	-0.2
	11	Department of Education and Science	5,461	5,429	-32	-0.6
XI	1	Department of Health and Social Security	8,991,978	8,965,117	-26,861	-0.3
XII	5	Department of Health and Social Security	743,582	731,649	-11,933	-1.6
XIII	3	Privy Council Office	1,130	1,079	-51	-4.6
	4	Her Majesty's Treasury	43,370	41,253	-2,117	-4.9
	5	Customs and Excise	342,202	341,156	-1,046	-0.3
	6	Inland Revenue	793,987	793,303	-684	-0.1
	8	Exchequer and Audit Department	7,207	7,186	-21	-0.3
	9	National Investment and Loans Office	1	0	-1	-100.0
	10	Department for National Savings	148,972	146,090	-2,882	-1.9
	12	Management and Personnel Office	34,650	33,866	-784	-2.3



Table 5 (Contd)

Class		Accounting department	Description of expenditure	Cash Limit £ thousand	Outturn £ thousand	Overspend (+) or underspend (-) £ thousand	Overspend (+) or underspend (-) ← (%)
XIII	13	Her Majesty's Treasury	Computers and telecommunications	16,660	13,146	-3,514	-21.1
	14	Her Majesty's Treasury	Civil Service catering services	211	0	-211	-100.0
	15	Public Record Office	Pay and general administrative expenses	9,355	9,057	-298	-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	76,847	-2,446	-3.1
	18	Charity Commission	Pay and general administrative expenses	4,836	4,749	-87	-1.8
	19	Cabinet Office	Pay and general administrative expenses	14,871	13,552	-319	-8.9
	20	Office of Parliamentary and Health Service Commissioners	Pay and general administrative expenses	1,855	1,727	-128	-6.9
	21	Her Majesty's Station Office	Payments to the trading fund	6,509	6,509	0	0.0
	23	Ordnance Survey	Payments and general administrative expenses	16,519	14,945	-1,574	-9.5
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	11,207	-689	-5.8
XV	2	Department of Agriculture and Fisheries Scotland	Agricultural services and fisheries, Scotland	60,508	58,448	-2,060	-3.4
	3	Industry Department for Scotland	Regional and general industrial support, Scotland	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	142,349	-7,482	-5.0
	11	Scottish Courts Administration	Administration of justice, Scotland	7,612	7,578	-34	-0.4
	14	Scottish Home and Health Department	Prisons, hospitals and community health services etc., Scotland	1,451,462	1,432,924	-18,538	-1.3



Table 5 (Contd)

Class and code	Accounting department	Description of expenditure	Cash Limit £ thousand	Outturn £ thousand	Overspend (+) or underspend (-) £ thousand	Overspend (+) or underspend (-) %	
XV	15	Scottish Education Department	Education, arts, libraries and social work, Scotland	118,821	117,459	-1,362	-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	2,809	0	0.0
	19	Board of Trustees National Museum of Antiquities Scotland	National Museum of Antiquities, Scotland	922	920	-2	-0.2
	21	Scottish Record Office	Pay and general administrative expenses	1,655	1,551	-104	-6.3
	22	General Register Office for Scotland	Pay and general administrative expenses	2,925	2,450	-475	-16.2
	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	730,419	-8,071	-1.1
	4	Welsh Office	Manpower Service Commission, 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	45,383	-1,104	-2.4
	7	Welsh Office	Other services, Welsh Office	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 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	797,549	-5,802	-0.7
	3	Department of 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	-54,200	-3.2
	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



Table 5 (Contd)

Class Code	Accounting department	Description of expenditure	Cash Limit £ thousand	Outturn £ thousand	Overspend (+) or underspend (-) £ thousand	Overspend (+) or underspend (-) £ thousand
XVIII 19	Welsh Office	Transport supplementary grants, Wales	31,000	31,000	0	0.0
TOTAL CASH-LIMITED VOTES			54,083,337	53,581,568	-501,769	-0.9

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



**Table 6 Cash limits 1984-85: Revised outturn: Local authorities' capital expenditure blocks and certain other expenditure** £ million

Department	Cash block	Description of expenditure	Cash Limit £ million	Provisional outturn £ million	Overspend (+) or underspend (-) £ million	Overspend (+) or underspend (-) ← %
Bank of England	BOE1	Bank of England administration costs in respect of note issue, exchange equalisation account and debt management	80.9	80.1	0.8	1.0
Department of the Environment	DOE/LA1	Capital expenditure by local authorities on roads and housing, schools, further education and teacher training, personal social services and other Environmental services	2,452.6	3,524.7	1,072.1	43.7
Department of the Environment	DOE/NT1	Capital expenditure in England by new towns on housing, roads, sewerage, and commercial and industrial investment	31.7	-21.2	-52.9	-166.9
Department of the Environment	DOE/HC1	Capital expenditure in England on housing financed through the Housing Corporation	617.1	610.5	-6.6	-1.1
Department of the Environment	DOE/UA1	External financing requirements of Urban Development Corporations, capital expenditure on the Urban programme and derelict land reclamation	376.3	357.2	-19.1	-5.1
Home Office	HO/LA1	Capital expenditure by local authorities on police, courts and probation	121.0	69.4	-51.6	-42.6
<b>NORTHERN IRELAND</b>						
Northern Ireland Departments	NID 1	Services analagous to Great Britain, services covered by cash limits	2,062.5	2,055.7	-6.8	-0.3
<b>SCOTLAND</b>						
Scottish Office	SO/LA1	Capital expenditure by local authorities in Scotland on roads and transport, water and sewerage, general services urban programme, police and social work, schools, further education and teacher training	387.7	386.5	-1.2	-0.3
Scottish Office	SO/LA2	Capital expenditure in Scotland on housing by local authorities, new towns, the Scottish Special Housing Association and on schemes financed by the housing corporation, and insustrial and commercial investment by new towns	428.5	416.1	-12.4	-2.9
<b>WALES</b>						
Welsh Office	WO/LA1	Capital expenditure in Wales by local authorities, new towns and the Housing Corporation on roads and transport, housing, schools, further education and teacher training, personal social services and other environmental services and by the Land Authority for Wales	280.0	297.5	17.5	6.2
<b>TOTAL</b>			<b>6,838.3</b>	<b>7,776.5</b>	<b>938.2</b>	<b>13.7</b>



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*NORN.*

18 July 1986

*Lea David*

**CASH LIMITS FOR 1985-86**

We are now ready to publish the annual White Paper showing provisional outturn of expenditure against cash limits for 1985-86. The Chief Secretary's present intention is to publish it on 22 July at 4.30pm.

... 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 kept short, 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 Michael Stark (Cabinet Office)

*Yours,  
Jill*

**JILL RUTTER**  
Private Secretary



COMMISSIONER





CONFIDENTIAL

PRIME MINISTER

cc Mr. Ingham

## PUBLIC EXPENDITURE

The papers are

- A. Cabinet Office brief
- B. Speaking note for your use in opening the discussion
- C. Supplementary speaking notes for use if necessary
- D. Note by the Lord President about RSG.

In summing up the discussion you will want to urge colleagues not to comment in public about the discussion and you might want to mention the line which will be taken with the press, which is as follows:

"At its meeting today, the Cabinet discussed the 1986 Public Expenditure Survey. As usual, the Chief Secretary will now hold bilateral discussions with colleagues working within the existing and published planning totals for 1987/88 and 1988/89 of £144 billion and £149 billion. A new planning total of £153 billion has been set for 1989/90."

Stan Chamber

Julie Bowers

Duty Clerk

PP DAVID NORGROVE

16 July 1986

CONFIDENTIAL



OPENING SPEAKING NOTE

cc B/UP

② Firm control of public expenditure is an indispensable part of our economic policies. It played an important role in bringing down inflation and Government borrowing, and has enabled us, in recent Budgets, to make progress in reducing the burden of taxation. The strength of the public finances has prevented us from being blown off course by the major challenges and economic shocks we have faced. Over the past seven years we have acquired a reputation for soundness which we must not destroy. The question is not whether one can cope under present circumstances, but whether one has something in hand if the situation worsens. Caution has served us well as a Government. Recent developments in the economy and in financial markets fully vindicate this cautious approach.

③ I recognise that the control of public expenditure sets any Government its most searching test. Public expenditure surveys are always painful, and if we accept the additional provision which is proposed for local authorities we must expect this year's Survey to be very tough indeed. But as a Government we must be prepared to face up to difficult decisions required in setting priorities. What we decide today must demonstrate both our unity and our resolve.

④ I ask colleagues, therefore, to give the Chief Secretary their fullest co-operation in seeking economies. I doubt if any Minister can really say that there is no element of his existing programme which is not of lower priority than items for which he has made additional bids; or that there are no further efficiency savings that can be made. Indeed, as management improves in departments and in the health service, the scope for achieving greater value for money should be increasing. The Audit Commission has shown the scope for improvement in local authority performance. The scope in central government is surely no less.



5

We must not give any sign of weakening in our determination to keep public spending under firm control. To do so would make us more vulnerable to the difficult economic circumstances we face, and put at risk our undoubted achievements. The best way to signal our continuing resolve is to work within unchanged planning totals, as we have done in previous years. We must continue to face up to difficult choices, and must continue our search for better value for money.



cc B/UP  
✓Points for use, if and when needed1. No time for complacency

Though the growth of public expenditure has been arrested over the past two years, we cannot afford to be complacent. Public spending this year is likely to be around 12 per cent higher in real terms than it was when we came into office. As a share of GDP it will be more or less exactly the same (around 43 per cent).

Although we have reduced taxation in recent Budgets and have substantially cut income tax, the burden of taxation as a whole is higher than when we came into office (non-North Sea taxes as a proportion of non-North Sea GDP have risen from 34 per cent in 1978-79 to 37 per cent this year). The tax paid by those below average earnings is still too high. Must not rest on our laurels.

2. Priorities/value for money/offsetting savings

The control of public expenditure is one of the most difficult tasks facing any Government. It is essential that we approach public spending by setting ourselves a limit and then living within it. We must be strong enough as a Government to face up to difficult decisions required in setting priorities.

I share disappointment that in the bids presented there is insufficient evidence of a rigorous search for offsetting savings which would allow priorities to be reordered within existing plans. I cannot believe that there are not elements within existing programmes which have lower priority than some of the bids presented.

It is disappointing that despite making more money available for vital services we have not received the credit we are due. The message I draw from this is not that more money is the answer but that it is improvements in services that matter. In achieving this, better value for money and greater efficiency have just as much to contribute.



We must avoid thinking that because we have already achieved substantial efficiency savings there is not much left to be squeezed out. I take the opposite view. With improved management in departments and in the health service the scope for finding greater efficiency should be increasing.

I share the Chief Secretary's disappointment that so few bids have been backed by targets for what they would achieve. The setting of targets is essential first to establish the merits of the bid, and second to provide a benchmark against which the success of the programme can subsequently be evaluated. I welcome the Chief Secretary's intention to press colleagues on this in bilaterals.

### 3. Pay

It is clear that rapidly rising pay lies behind much of the pressure for higher public expenditure. The pay bill for the public services is £45 billion. Each 1 per cent therefore costs £450 million. Neither in the public nor the private sector have settlements reflected the fall in inflation. A 1 per cent increase in current sufficient to preserve real take-home pay.

I look to colleagues to do all they can to get lower pay settlements in the next round. We need to take a tough line with the Government's own employees in pay negotiations and maintain financial pressures on local authorities and nationalised industries. We must continue to exhort the private sector both publicly and in private contacts.

### 4. The need to be resolute

We must not give any sign of weakening in our determination to keep public spending under firm control. Far from strengthening our position as a Government, boosting public spending would weaken it, would make us more vulnerable to the difficult economic circumstances we face and would put at risk our undoubted achievements. The best way to signal our continuing resolve is to work within unchanged planning totals, as we have done in previous years. Must continue to face up to difficult choices and must continue our search for better value for money.







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*Prime Minister*  
*England is settled,*  
*Final agreement on Wales and*  
*Scotland should have been*  
*reached by tomorrow.*

*CEB 9*

*Cabinet folder*

*24/16/7*

*24/16/7*

*in*  
*cab*  
*folder*

PRIME MINISTER

1986 PUBLIC EXPENDITURE SURVEY

This is the progress report on E(LA) discussions mentioned by the Chief Secretary, Treasury, in his paper of 15 July (C(86)18).

2. As regards the Rate Support Grant (RSG) Settlement, E(LA) have decided that provision should be set at local authorities' budgets for 1986/87, increased by the GDP deflator and that Aggregate Exchequer Grant (AEG) should be set at this year's percentage of relevant expenditure, which is 46.4 per cent. The consequent figures of provision and AEG for England are £25.2 billion and £12.8 billion respectively.

3. E(LA) have also agreed that the settlement needs to be backed by the abolition of grant recycling (which will require legislation early next Session) and by a further device to penalise overspending by local authorities. Subject to final clarification of some legal points, that device will consist of setting Grant Related Expenditure (GRES) at a lower level than provision (the so-called "unallocated margin").

4. It is planned to announce these decisions on 22 July for England and on 23 July for Wales and Scotland.

5. E(LA) will now consider local authority capital controls. The immediate problem here is that honouring certain Government commitments about the level of capital allocations in 1987/88 cannot be accommodated in the baseline provision for that year. It is now clear that this very complex issue cannot be resolved in time for an announcement next week but that, of course, need not hold up the RSG announcement.

6. I am sending a copy of this minute to Cabinet colleagues, the Chief Whip, Commons, and Sir Robert Armstrong.

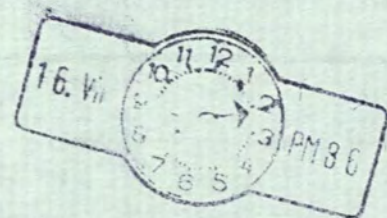
*Nicholas Gibbons*

(Approved by the Lord President and signed in his absence)

Privy Council Office  
16 July 1986

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Ref. A086/2098

PRIME MINISTER

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Economic Prospects and Public Expenditure  
(C(86) 17 and 18)

CONCLUSIONS

You will wish the Cabinet to record the following conclusions:

①

- i. that the Chief Secretary, Treasury should now hold bilateral discussions with colleagues about their individual expenditure programmes, and their targets for running costs and manpower, working within the existing published planning totals (£144 and 149 billion respectively for 1987-88 and 1988-89) and within a total of £153 billion for 1989-90;
- ii. that the aim should be to hold the provision for nationalised industries at least to baseline and where possible below that;
- iii. that Departmental Ministers should pay much greater attention to specifying the objectives to be achieved by their programmes, particularly where there is any question of additional bids above baseline;
- iv. that a small Group should be set up, if necessary, in the autumn under the Chairmanship of the Lord President of the Council to consider any outstanding issues and to report to the Cabinet.





## ECONOMIC PROSPECTS

2. As C(86) 17 indicates, economic growth is slower, but inflation is better, than was expected at the time of the Budget. The United Kingdom position is heavily influenced by the world economy; fiscal policy remains tight in a number of important industrial countries (notably Japan and Germany) and real interest rates are high despite recent reductions in nominal rates. World trade has yet to respond to the sharp fall in oil prices. On the other hand, real incomes are buoyant in the industrial countries, reflecting low oil and other commodity prices and a favourable evolution of prices, and the forecasters accordingly expect an acceleration in activity later in the year.

3. The Chancellor of the Exchequer's paper does not go beyond the end of this year, and says nothing about the prospects for United Kingdom public finances against which future public expenditure plans might be judged. The outlook seems to be for United Kingdom growth in 1987 a little higher than this year's 2.5 per cent; but with world activity and commodity prices recovering, and United Kingdom unit labour costs continuing to rise much faster than our competitors', inflation and interest rates are likely to be higher. A major uncertainty remains about oil prices, affecting the Public Sector Borrowing Requirement (PSBR) and the current balance of payments; a small current deficit would be projected next year if oil prices averaged the \$15 a barrel assumed for this year, while maintenance of the present actual level of \$10 or less would add £2 billion or more to the PSBR both this year and next. Unless oil prices recover, some significant depreciation of sterling is likely - indeed the effective rate has already fallen by 2-3 per cent in the last few days.

4. Given these uncertainties the fiscal outlook for 1987-88 is inevitably clouded. Continuing fast growth in money earnings





will mean rather higher payments of non-oil taxes, offering the prospect that some modest increase might be possible in the planning total without the PSBR exceeding the £7 billion projected in the 1986 Financial Statement and Budget Report. The Chancellor has indicated that it may be appropriate to permit some additional public borrowing to the extent that this results from oil prices falling below the assumed level of \$15 a barrel. But there is clearly no room for any substantial relaxation in United Kingdom fiscal policy; the United Kingdom's performance in terms of growth, unemployment, inflation and real interest rates is generally weaker than other major countries (this is clearly shown in the east column of the Annex attached to the Chancellor of the Exchequer's paper), and the financial markets are already displaying concern about the United Kingdom's monetary and balance of payments prospects.

## PUBLIC EXPENDITURE SURVEY

5. The main figures are as follows:

	£ Billion		
	1987-88	1988-89	1989-90
Planning totals	143.9	148.7	153.2
Reserve	6.3	8.0	[9.6]
Programme additional bids	3.9	4.7	6.3
Territorial consequentials of programme bids, say	0.4	0.4	0.4
Nationalised industries	0.8	0.7	0.6
Local authority current expenditure (including territorial consequentials)	3.5	[3.7]	[4.0]

(Figures in square brackets are Secretariat extrapolations.)



It should, of course, be possible to turn aside a substantial part of the additional bids, but it will be very difficult, if not impossible, to get major programmes below baseline. Taking account only of the increase in provision for local authority current expenditure arising from next year's Rate Support Grant settlement (on which the Lord President is reporting separately), the remaining 1987-88 Reserve (£2.8 million) looks inadequate to meet contingencies during the year (this year's Reserve of £4.5 billion seems likely to be fully absorbed); and this allows nothing for any increases in programmes.

6. The difficulties of the situation (including details of the RSG settlement) have been clearly set out in press reports, and colleagues may well have done the arithmetic on the lines set out above. There would be no advantage in seeking to resolve the dilemma on this occasion; the better course must be to wait until the position has been cleared in the Chief Secretary, Treasury's bilaterals, and some of the present uncertainties about the economy have been resolved. It may, however, be necessary to review the situation before the Star Chamber begins work (on previous form, in mid-October); unlike last year there is no prospect of increasing the planned receipts from asset sales, and no scope for transferring part of the Reserve to programmes. Because of this there is no margin of flexibility within which the Star Chamber could accommodate some part of the additional bids while keeping to the existing planning totals. This situation may point towards a further Cabinet discussion around the end of September. You will want to keep this possibility open, while avoiding any specific commitment now.

7. You have preferred not to repeat last year's Chequers seminar about public expenditure priorities, and some members of the Cabinet may wish to take the opportunities to give their views on this issue. But there would be no advantage in encouraging extended discussion of this, or of the underlying





aggregate position on public expenditure; this discussion is essentially a holding operation until the main problems can be tackled in the autumn.

#### Nationalised Industries and Local Authorities

8. Following last year's precedent, the Treasury are not seeking any separate discussion of the nationalised industries' Investment and Financing Review. The aggregate additional bids are smaller in scale than those on the main programmes, and it should be possible to eliminate the bulk of them in the course of the Chief Secretary, Treasury's bilaterals (possibly at the cost of some price increases). You will wish to emphasise in your summing up the need to reduce the provision for nationalised industries's external financing limits to baseline, and wherever possible below it. Similarly, you will not wish to invite any substantive discussion of the position reached on local authority expenditure. It will be sufficient to take note of the brief report in the Lord President's minute of earlier today on the agreement reached so far in E(LA).

#### Running Costs and Manpower

9. This is likely to be an area of friction between Departments and the Treasury. The aggregate baseline provides for an increase of 2.5 per cent in running costs between 1986-87 and 1987-88. Departments have sought an aggregate increase of 6.5 per cent. It appears that the Treasury would be content for running costs to increase in line with the GDP deflator (forecast at 3.75 per cent); real increases in the pay bill above that level would have to be offset by higher productivity/lower manpower. Given the pressures for more staff to deal with, and police effectively, a rising volume of social security benefit claims, it will be very difficult for Departments to achieve this; it seems unlikely that the growth in earnings in the private sector will slow down very sharply,





while the 1986 application of the Megaw principle of pay bargaining in the interquartile range means that it is likely to be very difficult to secure pay settlements in the Civil Service well below those elsewhere in the economy. As to manpower, the Treasury's objective is to retain the present targets in parallel with the controls on total running costs, and to resist the demands for extra manpower resulting from the burden of claims, etc and for Departments'. This is not entirely consistent with previous undertakings, but the issues cannot be settled now and it must be right - in the light of the overall position - for all Departmental Ministers to make every possible effort to meet the Chief Secretary, Treasury's objectives.

#### HANDLING

10. 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 no doubt wish to contribute to the subsequent discussion.

RA

ROBERT ARMSTRONG

16 July 1986



cc BTUP  
cc HMT

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

16 July 1986

David Norgrove Esq  
10 Downing Street  
LONDON  
SW1

*Dear David,*

**BRIEFING FOR PUBLIC EXPENDITURE CABINET**

... As agreed, I attach a speaking note for the Prime Minister's use at tomorrow's Cabinet, together with some supplementary notes for use as and when needed during the course of the discussion.

*Yours ever  
Rachel*

RACHEL LOMAX  
Principal Private Secretary



**SPEAKING NOTE FOR PRIME MINISTER**

Firm control of public expenditure is an indispensable part of our economic policies. It played an important role in bringing down inflation and Government borrowing and has enabled us, in recent Budgets, to make progress in reducing the burden of taxation. The strength of the public finances has prevented us from being blown off course by the major challenges and economic shocks we have faced. Over the past seven years we have acquired a reputation for soundness which we must not destroy. The question is not whether one can cope under present circumstances but whether one has something in hand if the situation worsens. Caution has served us well as a Government. Recent developments in the economy and in financial markets fully vindicate this cautious approach.

2. I recognise that the control of public expenditure sets any Government its most searching test. Public expenditure surveys are always painful and if we accept the additional provision which is proposed for local authorities we must expect this year's Survey to be very tough indeed. But as a Government we must be prepared to face up to difficult decisions required in setting priorities. What we decide today must demonstrate both our unity and our resolve.

3. I ask colleagues, therefore, to give the Chief Secretary their fullest co-operation in seeking economies. I doubt if any Minister can really say that there is no element of his existing programme which is not of lower priority than items for which he has made additional bids; or that there are no further efficiency savings that can be made. Indeed, as management improves in departments and in the health service, the scope for achieving greater value for money should be increasing.

4. We must not give any sign of weakening in our determination to keep public spending under firm control. To do so would make us more vulnerable to the difficult economic circumstances we face and put at risk our undoubted achievements. The best way to signal our continuing resolve is to work within unchanged planning totals, as



we have done in previous years. Must continue to face up to difficult choices and must continue our search for better value for money.





10 DOWNING STREET

From the Private Secretary

Prime Minister

I now understand privately that the increase in the planning total for 1987-88 could be as much as £5 billion.

I have put to the Treasury the idea of a session at Chequers in October on the emoney, with Treasury Ministers plus Peter Middleton and Tony Burns, followed by a discussion of the public expenditure bids with the Lord President. I hope this does not go beyond your inherent.  
DHL  
15/7





9

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

PRIME MINISTER

I am profoundly concerned about the cumulative effect of the increases in public expenditure we have announced in recent weeks, together with those in prospect next week. These are giving a signal which would be disturbing at any time. They cause particular anxiety when the markets are already nervous about weak oil prices. The Chief Secretary shares my concern.

You will have seen recent press comment, notably Adam Raphael in The Observer on Sunday - "Hardly a day goes by without a Ministerial statement announcing a dollop of money for some worthy cause or other". Raphael cited student grants, invalid care allowance, GCSE, TVEI, British Coal Enterprise and the Severn Barrage. He might also have mentioned nurses pay, board and lodging allowances, British Shipbuilders and others. Today we have the announcement about the frigates and tomorrow the legal aid settlement with the barristers and the Law Society.

We face next week announcements of the local authority provision and settlement, adding £3½ billion to provision and over £1 billion to Exchequer grant next year, both of them unprecedented amounts; an overspend in the current year of £700 million on local authority capital expenditure; and a 7½% increase in police pay, which will be the first settlement taking effect in the new





pay round. In The Guardian this morning, John Carvel says that local authority leaders regard the news of next year's Exchequer grant increase as "too good to be true". Yet the £1,250 billion we have promised for the teachers over four years, in return for a satisfactory settlement of the teachers' dispute, is not included in the local authority settlement and would be additional to it.

On top of all this, later next week, as Kenneth Baker told MISC 122, an "indicative" figure for teachers' pay is likely to emerge in the ACAS talks. If current reports are anything to go by, that "indicative" figure could be 10-15% on top of the settlements the teachers have already received this year and last. It is essential that we stick firmly to our previous line that we stand by our undertaking to make provision for an additional £1¼ billion in return for a satisfactory settlement and it is for the local authority employers to negotiate with the teachers against that background and within the very generous settlement we have made for them. That is not only the right position for the time being: it is one we must maintain. The local authorities must be forced to choose between their priorities. We know from the work of the Audit Commission that they have plenty of scope for economies without financing any addition for teachers through the rates. That is why we must have a tough grant regime which strongly penalises additional spending. To yield on teachers pay would be profoundly damaging both to public expenditure and to the prospects for next pay round, which are already very worrying. And if we once again give the local





authorities the impression that we will finance anything from the taxpayer rather than risk further rises in the rates, there will be no holding them.

The reason why I am expressing my anxiety so frankly to you is that I believe we are not far from creating the impression that in the run-up to the next Election we are throwing all restraint on public expenditure to the winds. Once that impression got around, it would release even more pressure for spending and it would be very hard to reverse. The harm it would do our reputation and to our standing in the financial markets, and the weakening of confidence in our economic management which would result, not to mention the implications for next year's Budget, would do far more damage to us in the approach to the next Election than anything we could hope to gain from the extra expenditure within that time scale.

A handwritten signature in blue ink, appearing to be 'N.L.' with a flourish.

N.L.

15 July 1986



SUBJECT  
CC MASTER

CONFIDENTIAL



file

ECU  
meeting record.

bc BG

10 DOWNING STREET

*From the Private Secretary*

11 July, 1986.

**ECONOMIC PROSPECTS: CHANCELLOR'S PAPER FOR JULY CABINET**

The Prime Minister and the Chancellor this morning discussed the draft economic prospects paper attached to your letter to me of 10 July.

The Prime Minister had two comments.

First, Mrs. Thatcher felt that the first sentence of paragraph 2 gave an over-optimistic impression. This impression seems to depend on the words "... every reason to expect a resumption ...." which might be replaced by some such words as "... a reasonable prospect of a resumption ....".

Second, the Prime Minister felt it would be helpful to include at some point in the paper a reference to the immense scale and growth of the Japanese current account surplus and also of the way in which Japanese exports were increasingly being switched from the United States to Europe.

David Norgrove

Mrs. Rachel Lomax,  
HM Treasury.

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ECU



SECRET



FROM: CHIEF SECRETARY

DATE: 10 July 1986

PRIME MINISTER

1986 PUBLIC EXPENDITURE SURVEY: ADDITIONAL BIDS

2  
 ... I now attach to this minute summaries of the bids for additional resources that colleagues have put to me.

*Simply to note that the Chief Secretary's minute has now been circulated.*

*DS 10/7*

2 The details of proposals for each department are set out in the attached annexes. As in earlier years, proposals for the level of local authority current expenditure and nationalised industries' external finance are being dealt with separately under the aegis of E(LA) and the Investment and Financing Review.

3 Your Private Secretary's letter of 25 February recorded your request that colleagues should give their closest personal attention to avoiding bids for additions to their programmes; and indicated that any such should be met by reordering priorities and by greater efficiency, not by seeking extra resources. I have, however, received large bids for extra resources from most colleagues. I regret to say that very few have put forward offsetting savings which would enable them to reorder priorities within baselines.

*FLAP PT 34*

4 It is also striking how few of the additional bids have been supported by specific targets for achievement and the measures on which subsequent evaluation would be based. I will be pursuing this aspect of the proposals further in my bilateral discussions.

5 I will be putting proposals on our objectives for the Survey to the July Public Expenditure Cabinet. But it is clear we cannot accommodate bids either for programmes or administrative costs on the scale colleagues have put forward.

SECRET



SECRET

6 I am copying this minute to other members of the Cabinet,  
Richard Luce and Sir Robert Armstrong.

*gm*

JOHN MacGREGOR

SECRET



## MINISTRY OF DEFENCE

	£ million		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Survey Baselines	18,817	18,990	19,268
<b>AGREED ADDITIONS</b>			
- Contribution to advanced order for AOR 02	-	12	24
<b>PROPOSED ADDITIONS</b>			
(i) 3% uplift for 1989-90	-	-	94
To increase the baseline by the difference between the 2½% cash uplift factor applied generally to programmes and the 3% GDP deflator assumed in the 1986 FSBR. Gross running costs element £27 million.			
(ii) Falklands costs	-	-	198
To increase the baseline by the equivalent of the £192 million for Falklands costs in 1988-89 absorbed by MOD without a separate addition to the baseline.			
(iii) Costs of 1986 AFPRB award	95	99	102
To meet the additional costs in later years of the 1986 AFPRB award. Gross running costs element £3.5 million, £3.6 million and £3.6 million respectively.			
(iv) Dockyards pensions	36	37	38
To meet the costs passed on to MOD of employers' pensions contributions following planned contractorisation of the Royal Dockyards.			
(v) PRS major civil works	3	6	6
To meet the costs of major capital works following the decision to transfer responsibility to Departments. No output or performance targets.			
<b>TOTAL</b>	134	142	438



PROPOSED REDUCTIONS

PROPOSED NET CHANGE TO BASELINE		+134	+154	+462
(of which running costs		+3.5	+3.6	+30.6)
MANPOWER	1.4.87	1.4.88	1.4.89	1.4.90
Proposed (thousands)	165.0	164.0	163.0	163.0
Change from baseline	-	-	-	-



CONFIDENTIAL

FOREIGN AND COMMONWEALTH OFFICE: OVERSEAS DEVELOPMENT ADMINISTRATION

		<u>1987-88</u>	<u>1988-89</u>	£ million <u>1989-90</u>
Survey Baseline		1350	1391	1426
<b>ADDITIONAL BIDS</b>				
(i) Net aid programme		30	65	110
	To increase aid programme in line with projected increase in GNP over Survey period.			
(ii) Other external relations		0.7	1.5	1.7
	To meet additional cost of pensions.			
	<b>TOTAL</b>	30.7	66.5	111.7
<b>PROPOSED REDUCTIONS</b>				
(i) Aid administration		-0.1	-0.1	-0.6
	Savings from taking in-house Crown Agents' pensions work			
	<b>TOTAL</b>	-0.1	-0.1	-0.6
<b>PROPOSED NET CHANGE TO BASELINE</b>		<b>+30.6</b>	<b>+66.4</b>	<b>+111.1</b>
(of which running costs		-	-	-)
MANPOWER	1.4.87	1.4.88	1.4.89	1.4.90
Proposed	1640	1615	1615	1615
Change from baseline	-	-	-	-



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FOREIGN AND COMMONWEALTH OFFICE: DIPLOMATIC INFORMATION, CULTURE

		<u>1987-88</u>	<u>1988-89</u>	£ million <u>1989-90</u>
Survey Baseline		660	693	711
<b>PROPOSED ADDITIONS:</b>				
(i) Security		9.2	9.4	10.2
(of which running costs		0.4	0.4	0.4)
For works to protect Diplomatic staff and property overseas from terrorist attacks and other forms of violence.				
(ii) Property services agency works		1.3	1.0	0.8
Bid resulting from devolution of major new works to departments for home security works and computer installation, and increase for minor maintenance and redecoration.				
		0.5	0.5	0.5
(iii) Information Technology Project		-	0.1	1.0
	<b>TOTAL</b>	10.5	10.5	12.0
<b>PROPOSED REDUCTION</b>				
(i) Overseas Price Movements		-1.5	-1.6	-1.6
(of which running costs		-1.5	-1.6	-1.6)
adjustment to take account of movements in sterling and overseas inflation.				
	<b>TOTAL</b>	9.0	8.9	10.4
<b>PROPOSED NET CHANGE TO BASELINE</b>				
(of which running costs		-0.6	-0.7	-0.7)
MANPOWER	1.4.87	1.4.88	1.4.89	1.4.90
Proposed	8229	8152	8152	8152
Change from baseline	+124	+130	+130	-



EUROPEAN COMMUNITIES

	<u>1987-88</u>	<u>1988-89</u>	£ million <u>1989-90</u>
Survey Baseline	1,149	951	975
<b>PROPOSED ADDITIONS</b>			
(i) Changed net payment projection	-	-	125
Assumptions changed since last Survey.			
<b>TOTAL</b>	-	-	125
<b>PROPOSED REDUCTION</b>			
(i) Changed net payment projection	-50	-350	-
VAT adjustment payment for August 1987 revised down. Correction to 1987 abatement now projected to be paid in autumn 1988.			
<b>TOTAL</b>	-50	-350	-
<b>PROPOSED NET CHANGE TO PROVISION</b>	-50	-350	+125
(of which running costs	-	-	-)



CONFIDENTIAL

INTERVENTION BOARD FOR AGRICULTURAL PRODUCE AND OTHER CAP\*

		<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
				£ million
Survey Baseline		1629	1661	1702
<b>PROPOSED ADDITIONS</b>				
(i) CAP		100.2	105.2	98.1
Mainly increase in beef support costs, estimates liable to be revised upwards.				
(ii) Administration - running costs		0.5	0.6	0.5
Additional staff to cover increased work load.				
	<b>TOTAL</b>	100.7	105.8	98.6
<b>PROPOSED REDUCTIONS</b>				
None				
<b>PROPOSED NET CHANGE TO BASELINE</b>		100.7	105.8	98.6
(of which running costs		0.5	0.6	0.5)
MANPOWER	1.4.87	1.4.88	1.4.89	1.4.90
Proposed	800	771	733	743
Change from baseline	+75	+78	40	-

\*EC receipts are credited to programme 2.7 (Net Contributions to the European Communities)



CONFIDENTIAL

DOMESTIC AGRICULTURE FISHERIES AND FOOD

	£ million		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Survey Baseline	720	734	752
<b>PROPOSED ADDITIONS</b>			
(i) Flood protection	6.0	6.0	3.5
Follow on to bid for 1986-87 to combat erosion of flood protection works possible consequences for Local Authority Relevant Current and Nationalised Industries External Financing Limits. Target: to reduce the risk of flooding for 2,000 homes and numerous commercial and industrial units.			
(ii) Agricultural Development Programme - Scotland	0.0	0.2	3.9
Assistance to Scottish islands (excluding Western Isles). Target - to improve agricultural structures in order to combat rural depopulation.			
(iii) Northern Ireland Agricultural Development Programme	0.0	0.9	2.6
Proposed extension of scheme for Agriculturally Less Favoured Areas. Target - as for (iii)			
(iv) Other agricultural support	1.0	1.2	0.8
Coypu eradication in East Anglia, poultry welfare, grants to complement Community grants for fish marketing, administration (by Milk Marketing Board) of the milk outgoers scheme. Target - various.			
(v) Demand determined expenditure	6.2	2.3	0.0
Mainly payments under closed capital grant schemes. Forecasts of expenditure (including new schemes) subject to review. Target - to meet commitments under current policies.			
(vi) Administration	5.7	7.7	10.5
(of which running costs	4.1	6.1	9.0)
Mainly information technology, pay and accommodation. Targets - various			
(vii) Redundancy - MAFF and DAFS	1.0	0.6	0.7
(of which running costs	0.7	0.4	0.5)
Consequences of 1984 Survey decisions on advisory services and research and development. Target - achievement of agreed expenditure reductions.			



(viii)	Research/advisory services DAFS	1.0	1.0	1.0
	Phasing of cut in 1984 Survey target - reduce redundancy costs			
(ix)	Research Institutes/College DAFS	1.0	0.4	0.8
	Pay and pensions - non running costs			

<b>TOTAL</b>		21.9	20.3	23.8
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**PROPOSED REDUCTIONS**

(i)	Flood protection	-1.5	-1.5	-1.5
	Deferral of coast protection works			
(ii)	Northern Ireland Agricultural Development Programme.	-1.9	-	-
	Delay in start of scheme.			
(iii)	Demand determined	-	-	-1.4
	Estimating change			

<b>TOTAL</b>		-3.4	-1.5	-2.9
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<b>PROPOSED NET CHANGE IN PROVISION</b>		18.5	18.8	20.9
(of which running costs		4.8	6.4	9.5)

MANPOWER	1.4.87	1.4.88	1.4.89	1.4.90
Proposed	11,169	11,079	11,079	11,079
Change from baseline	-	-	-	-

Note: Further additions may be proposed for alternative land use, fisheries, the European Community research and development programme, and for the cost of transferring to departments the responsibility for capital works.



## FORESTRY

	<u>1987-88</u>	<u>1988-89</u>	£ million <u>1989-90</u>
Survey Baseline	54	56	57
<b>PROPOSED ADDITIONS</b>			
Pay and pensions - non running costs	0.7	0.8	1.0
Grants to private woodland owners	0.4	0.7	1.2
Payments to contractors and operating expenses	3.0	3.4	4.5
<b>TOTAL</b>	<b>4.1</b>	<b>4.9</b>	<b>6.7</b>
<b>PROPOSED REDUCTIONS</b>			
Travelling and administration expenses	-0.1	-0.1	0
Timber receipts	-4.1	-5.9	-8.2
<b>TOTAL</b>	<b>-4.2</b>	<b>-6.0</b>	<b>-8.2</b>
<b>PROPOSED NET CHANGE IN PROVISION</b>	<b>-0.1</b>	<b>-1.1</b>	<b>-1.5</b>
(of which running costs	-	-	-)



DEPARTMENT OF TRADE AND INDUSTRY

	£ million		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Survey Baseline	953	940	964
<b>AGREED REDUCTION</b>			
Contribution to MOD for Advanced order for AOR 02	-	-6	-12
<b>PROPOSED ADDITIONS</b>			
(i) Eureka	+15.0	+30.0	+40.0
Additional funding for support for UK firms participating in Eureka collaborative R&D projects. Target: additional 20 projects a year.			
(ii) Pull Through	+6.3	+12.5	+18.8
Transfer of R&D support by as yet unspecified departments to match resources to be found within DTI programmes. Target: commence 18 programmes.			
(iii) Regional Development Grants	+10.5	-	-
Defer the moratorium planned for 1.4.87 on payment of Regional Development Grants.			
(iv) European Regional Development Funds			
Non-Quota	+10.5	+9.0	-
Increase fully offset by receipts on programme 2.7			
(v) Other	+6.1	+5.5	+2.4
Includes accommodation expenses (major and minor works), residual costs of BT flotation and Companies Registration Office.			
<b>TOTAL</b>	<b>+48.4</b>	<b>+57.0</b>	<b>+61.2</b>
<b>PROPOSED REDUCTIONS</b>			
Mineral Stockpile	-5.2	-	-
Increased disposals.			
Home Shipbuilding Credit Guarantee Scheme	-3.1	-	-
Revised interest rate assumptions.			
Launch Aid	-1.5	-	-
Higher than expected levy receipts from sales of RB211.			



Iron and Steel Employees Readaptation

Benefit Scheme

-0.7

-

-

Fewer redundancies than expected.

TOTAL

-10.5

-6

-12

PROPOSED NET CHANGE TO BASELINE

+37.9

+51.0

+49.2

(of which running costs

2.1

1.5

1.4)

MANPOWER

1.4.87

1.4.88

1.4.89

1.4.90

Proposed

12,841

12,502

12,485

12,487

Change from baseline

+91

+41

+24

-

#### OTHER ADDITIONS

EURO-PES

+36.0

+42.0

+54.0

To adjust PES programme 2.7 for industrial share of 6 becu EC framework for R&D.

Figures reflect that part of 4.8 becu which is additional to DTI Euro-pes baseline.

The remaining 1.2 becu for Esprit is assumed not to be a DTI responsibility.



CONFIDENTIAL

EXPORT CREDITS GUARANTEE DEPARTMENT

		£ million		
		<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Survey Baseline		220	128	131
<b>PROPOSED ADDITIONS</b>				
(i)	Cost Escalation	0.6	-	-
<p>Technical changes relating to the value and timing of existing commitments. (Scheme discontinued from 1 April 1984.)</p>				
(ii)	Tender to Contract	2.0	2.0	2.0
<p>Transfer of scheme to public expenditure programme. Scheme provides exporters tendering in foreign currencies for major export contracts with protection against exchange rate movements. It has been operated since 1977 as one of ECGD's trading activities.</p>				
<b>TOTAL</b>		2.6	2.0	2.0
<b>PROPOSED REDUCTIONS</b>				
(i)	Cost Escalation	-	-1.9	-1.6
<p>Lower Treasury inflation forecasts; the bringing forward of some payments to 1987-88.</p>				
(ii)	Interest Support	-15.6	-8.4	-66.4
<p>Mainly revised Treasury assumptions of commercial interest rates and revised forecasts of outstanding Fixed Rate Export Finance business.</p>				
(iii)	Mixed Credit Matching Facility	-1.0	-1.0	-1.0
<p>Expectation of reduced calls on this facility.</p>				
<b>TOTAL</b>		-16.6	-11.3	-69.0
<b>PROPOSED NET CHANGE TO BASELINE</b>		<b>-14.0</b>	<b>-9.3</b>	<b>-67.0</b>
MANPOWER*	1.4.87	1.4.88	1.4.89	1.4.90
Proposed	1834	1736	1672	1600
Changes from baseline	+37	+124	+333	-

\*ECGD's running costs, including manpower costs, are outside the public expenditure planning total.



CONFIDENTIAL  
DEPARTMENT OF ENERGY

		1987-88	1988-89	£ million 1989-90
Survey Baseline		313	323	331
<b>PROPOSED ADDITIONS</b>				
(i)	Atomic Energy Authority: External Financing Limit.	13	5	6
Prospective phasing and new capital expenditure for commercial business.				
(ii)	Payments to AEA Increased expenditure on safety post-Chernobyl.	2.0	4.0	-
(iii)	Other Increases on energy efficiency, non-nuclear R&D and central and misc services.	3.5	3.6	1.9
	<b>TOTAL</b>	19.5	15.6	8.9
<b>PROPOSED REDUCTIONS</b>				
(i)	Various, mainly estimating (Coal Firing scheme and Interest Relief Grant Scheme)	-5.5	-7.6	-11.9
	<b>TOTAL</b>	-5.5	-7.6	-11.9
<b>PROPOSED NET CHANGE TO BASELINE</b>				
	(of which running costs	+14	+8	-3
		-	-	-)
MANPOWER	1.4.87	1.4.88	1.4.89	1.4.90
Proposed	1055	1031	1023	1023
Change from baseline	-	-	-	-

**NOTE**

The Secretary of State for Energy's proposals included no provision for any increases in the AEA EFL, which is still under discussion in the context of the AEA's corporate plan. The increases indicated for the AEA are therefore provisional.



CONFIDENTIAL

DEPARTMENT OF EMPLOYMENT

NOTE:

The proposals set out below are as originally submitted by the Secretary of State for Employment. But since his original submission the Secretary of State and the Chief Secretary have reached agreement on the Employment programme. The basis of this agreement is that the costs of the national extension of TVEI and of some smaller claims will be met from within the existing baseline, and that there will be further work by officials on the running costs and manpower bids to see if reductions can be made.

	£ million		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Survey baseline	3,947	4,132	4,235

PROPOSED ADDITIONS

(i) Restart	37.3	39.9	40.5
-------------	------	------	------

Extend programme to cover 6-months as well as 12-months unemployed.

Target: extra 1.3 million interviews by MSC, 260,000 more people attending Restart courses and extra 10,000 taking up Jobstart allowance, resulting in 22,660 off count in 1987-88, 28,700 in 1988-89 and 28,700 in 1989-90, which in DE's view would lead to benefit savings equivalent to the gross costs.

(of which running costs	17.2	17.5	17.9)
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(ii) Inner cities initiative	8.2	8.5	8.6
------------------------------	-----	-----	-----

Extend initiative throughout Survey period.

(of which running costs	1.0	1.1	1.1)
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(iii) Social security review (all running costs)	4.5	7.5	6.5
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Implement DHSS Common Rules Package and Social Security Review.

(iv) UBS: revised economic assumptions (all running costs)	3.7	6.0	6.1
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Higher unemployment assumptions.

(v) DE Group salaries (all running costs)	9.8	10.1	9.7
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Meet costs to DE Group of salary restructuring for clerical and Advance Data Processor grades.

(vi) Property Repayment System	9.0	6.6	5.8
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Transfer from PSA to DE of PES bidding responsibility for Part I and Part II works.



(vii) Minor running costs 2.2 0.5 7.2  
National Unemployment Benefit System (NUBS); Terminal Replacement Enquiry System (TRES).

(viii) Redundancy Payments 20.2 23.0 24.8

Increased payments and higher unit costs compared with White Paper assumptions. Target: would provide for extra 50-55,000 payments in each year.

(ix) Tourism 5.2 6.3 6.4

Provide 10 per cent extra resources in each year.

(x) Technical and Vocational Education 12.0 41.0 84.0  
Initiative (£900m level)

Extend initiative on national basis from September 1987. Target: to give all 14-18 year olds in GB opportunity to participate in initiative on basis of funding of £30,000 per participating school.

(of which running costs 1.0 1.5 2.4)

(xi) Other 10.6 11.8 12.0

National Council of Vocational Qualifications; EC Training Initiative (COMMETT), International Labour Organisation, City Action Teams. Youth enterprise; sheltered employment.

TOTAL 122.7 161.2 211.6

(of which running costs 39.4 44.2 50.9)

#### PROPOSED REDUCTIONS

(i) Community Programme -20.0 -20.0 -20.0

Operate 255,000 filled places as ceiling rather than target for programme, so that actual total of filled places would run slightly below ceiling to ensure not exceeded.

(ii) Youth Training Scheme -15.1 -36.2 -60.0

£15 million saving in each year from freezing YTS basic grant and managing agents' fee at present level. Remaining savings committed but as yet unidentified.

(iii) Technical & Vocational Education -2.0 -8.0 -26.0  
Initiative

Excess provision as 4-year pilots started in 1983 begin to run out.



(iv) Job Release Scheme -10.7 -16.2 -18.1  
 Lower forecast take-up of scheme compared with White Paper assumptions.

(v) Other -0.2 -1.7 -3.6

TOTAL -48.0 -82.1 -127.7

(of which running costs 38.1 42.9 49.6

PROPOSED NET CHANGE TO PROVISION +74.7 +79.1 +83.9

(of which running costs 39.4 44.2 50.9)

MANPOWER 1.4.87 1.4.88 1.4.89 1.4.90

Proposed 60,736 59,039 58,481 58,989

Change from baseline +1775 +2850 +2248 -



CONFIDENTIAL  
DEPARTMENT OF TRANSPORT

	£ million		
	1987-88	1988-89	1989-90
Supplementary baseline	2,957	2,087	2,154

**PROPOSED ADDITIONS**

(i) Local roads: new construction 12                      35                      50  
Increase in major road schemes subject to approval of adequate Transport Supplementary Grant Local Authority capital expenditure. Target: 10 new starts in 1987-88.

(ii) National roads: new construction 10                      20                      30  
Capital. Increase in major road schemes. Target: 16 new starts in 1987-88.

(iii) National roads: bridge maintenance 10                      15                      20  
Capital. Increase in maintenance and strengthening of bridges on national roads to tackle known and emerging deterioration. Target: complete assessment and deal with worst cases.

(iv) Local roads: bridge maintenance 5                      10                      15  
Local authority capital. Increase in maintenance and strengthening of bridges on local roads to tackle known and emerging deterioration. Target: complete assessment and deal with worst cases.

(v) Shipping 30                      30                      30  
Unspecified assistance to UK shipping industry, to be considered by E(A).

(vi) Administration 17.5                      20.5                      20  
(of which running costs 8                      12                      13.5)  
Running cost increases arising from additional DVL staff required for prosecution of Vehicle Excise Duty evasion, deferment of rundown of non-fee earning staff, restructuring of clerical grades and pay settlements. Remainder comprises £6 million a year to make good shortfall in receipts from driver testing, and administrative capital.

<b>TOTAL</b>	84.5	130.5	165
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**PROPOSED REDUCTIONS**

(i) Local ports -5                      -5                      -5  
Local authority capital. Withdrawal from investment in loss making ports.

(ii) Local car parks -7                      -7                      -7  
Local authority capital. Greater reliance on private sector provision.

<b>TOTAL</b>	-12	-12	-12
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PROPOSED NET CHANGE TO BASELINE		72.5	118.5	153
(of which running costs		8.0	12.0	13.5)
MANPOWER	1.4.87	1.4.88	1.4.89	1.4.90
Proposed	14,725	14,288	14,218	14,183
Change from baseline	-	-112	-173	-



CONFIDENTIAL

DEPARTMENT OF THE ENVIRONMENT - HOUSING

	£ million		
	1987-88	1988-89	1989-90
Survey baseline	2368	2412	2473

PROPOSED ADDITIONS

Public Sector Renovation

(i) Repair of Council Housing	315	325	335
To provide local authorities with increased resources to carry out some renovation work to a further 157,000 dwellings.			
(ii) Urban Housing Renewal Unit	150	150	150
To secure improvements in the management and utilisation of the housing stock on 250 estates (15,000 dwellings) where vacancy rates, rent arrears, crime, vandalism etc are significantly higher than average, to bring them closer to local norms.			
(iii) Community Refurbishment Scheme	20	20	20
27 Community refurbishment schemes to improve the environment on housing estates, creating 4000 job opportunities for local people.			
(iv) Privatisation	30	30	30
Grants for privatisation initiatives including 3000 dwellings.			

Provision for rent

(v) Local authority new provision for rent	10	10	5
To enable local authorities to meet their statutory obligations to repurchase formerly publicly owned defective houses and flats. An estimated 500 extra houses (making a total of 2000) will be repurchased in 1987-88.			
(iv) Housing association new provision for rent	50	60	50
For housing associations to provide an additional 5000 units over 3 years for priority groups allowing up to 2500 extra starts in 1987-88.			
(vii) Housing association privately financed pilot schemes	30	30	30
To meet 30% of the cost of pilot schemes by housing associations to provide rented accommodation for homeless people, the elderly and young job movers with the balance of the cost met by private finance.			



Private Sector Renovation

(viii) Housing Defects Act 20 20 20

To enable local authorities to meet their statutory obligations to repair formerly publicly owned defective houses and flats. An estimated 1400 additional grants in 1987-88.

(ix) Home improvement grants 40 40 40

To meet mandatory and committed expenditure on home improvement grants. An additional 12,000 mandatory grants a year.

(x) Home improvement grants 40 40 40

For an additional 11,500 improvement grants a year to enable disabled people to carry out essential adaptation work.

(xi) Home improvement grants 25 25 25

For 6,500 additional grants a year to poorer owner occupiers for work to counter disrepair.

Home Ownership

(xii) Home ownership for tenants of charitable housing associations (HOTCHA) scheme. 10 0 0

To provide for an additional 700 transferable discounts for tenants of charitable housing associations, making a corresponding number of new tenancies available.

(xiii) Housing association 5 5 5

To enable housing associations to provide up to 250 extra units a year on shared ownership terms.

(xiv) Housing subsidy 21 39 -

Revised forecast reflecting higher than expected loan debt and number of dwellings in stock.

TOTAL 766 794 750



PROPOSED REDUCTIONS

(i) Homes insulation scheme	-5	-5	-5
Acceptance of some queueing for grants for roof insulation. Number of grants would be reduced from 225,000 a year to 170,000 a year.			
(ii) Housing subsidy	-10	-42	-
Economic assumptions changes.			
<b>TOTAL</b>	<b>-15</b>	<b>-47</b>	<b>-5</b>
<b>PROPOSED NET CHANGE TO PROVISION</b>	<b>751</b>	<b>747</b>	<b>745</b>



CONFIDENTIAL

DEPARTMENT OF THE ENVIRONMENT - OTHER ENVIRONMENTAL SERVICES

	£ million		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Survey Baseline	880	907	930

PROPOSED ADDITIONS\*

(i) Local Environmental Services Capital	125	127	122
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Local Authority Expenditure. To fulfil Government undertaking that allocations to each authority would be at least 80% of 1985-86 allocations, and provide for investment. Detailed use of LES capital is at local authorities discretion so no targets set.

(ii) Urban Regeneration Grant	10	15	20
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Capital. Provision for new statutory grant to support and encourage private sector led area improvement without the local authority acting as intermediary. Targets: for 1987-88, initiation of support in at least 7 areas, reclamation of 100 acres of land, 2,000 homes or factory spaces, £40 million plus linked private sector investment.

(ii) Derelict Land	15	15	15
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Mainly Local Authority Expenditure. Capital. To contain the net total of derelict land: reinstatement of private housing and industry in inner cities: preservation of green belts from unnecessary encroachment. Targets: extra 450 acres a year of land for direct redevelopment and 250 acres a year of blight removal.

(iv) Urban Development Corporations	45	70	70
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Mainly capital. Designation of additional UDC's and maintenance of progress in London and Merseyside. Targets (i) new UDCs - 1500 acres of land reclaimed and serviced; £200-£250 a private investment; 12,000-15,000 job/home spaces. (2) Existing UDCs: new road for Canary Wharf; servicing of 850 acres of Royal Docks land; completion of Merseyside reclamation programme by 1991.

(v) Development Commission	2.5	6	9
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Increased expenditure on economic programmes to diversify rural economy, and offset loss of farm jobs. Targets: 3000m<sup>2</sup> factory space, 500 jobs in 1987-88, pro-rata in later years.

\* In sub-programme order



(vi) Nature Conservancy Council 7 7 7  
 Mainly for costs of site safeguard under 1981 Wildlife and Countryside Act. Targets: complete statutory renotification of sites of special scientific interest on time.

(vii) Departmental Administration 8 7.3 7.5  
 (Running Costs) Demands of implementing collectively agreed local government and other policy initiatives, and the gap between recent pay settlement costs and baseline provision. Targets: maintain delivery of government policy; continue to produce efficiency savings.

(viii) Civil defence 2.8 4.3 5.8  
 Implementation of OH(HD) committee's decision to give high priority to remedial action programme in the water industry.

(ix) other bids 7.8 8.6 9.8  
 Mainly current.

	<b>TOTAL</b>	223.1	260.2	266.1
of which running costs		8	7.3	7.5

**PROPOSED REDUCTIONS**

(i) New Towns - -15 -28  
 Capital. Increased share of investment costs borne by private sector.

(ii) Other -2.1 -2.1 -2.1  
 Capital

	<b>TOTAL</b>	-2.1	-17.1	-30.1
of which running costs		-	-	-

<b>PROPOSED NET CHANGE TO PROVISION</b>	<b>+221</b>	<b>+243</b>	<b>+236</b>
(of which running costs	+6	+7.3	+7.5)

**MANPOWER**

	1.4.87	1.4.88	1.4.89	1.4.90
Proposed targets	6550	6550	6550	6521
Changes from baseline	+130	+195	+195	-



CONFIDENTIAL

HOME OFFICE

	£ million		
	1987-88	1988-89	1989-90
Survey Baseline			
Prisons	728.0	768.0	787.0
Non-Prisons	420.0	417.0	428.0

PROPOSED ADDITIONS

(i) Prisons - building	6.0	0.4	27.1
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To maintain the current building programme and design 2 further new prisons. Target: to keep the gap between prison population and number of places from increasing in 1990s.

(ii) Prisons - other	32.6	29.5	34.2
(of which - running costs	8.1	8.8	12.4)

To remedy shortfall in receipts from sales of living quarters; to increase provision for prisoners' education; and increases in GAE.

(iii) Victims support	37.3	43.7	51.3
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To keep pace with applications under Criminal Injuries Compensation Scheme and reduce arrears. Target: arrears of 20,000 by 1991-92; and to fund an extra 200 to 400 local victim support scheme coordinators.

(iv) Law and Order Services	10.3	9.9	14.9
(of which running costs	2.3	2.8	2.9)

Miscellaneous increases in centrally funded services for police; in probation service; and crime prevention publicity.

(v) Fee earning services	7.0	8.0	7.1
(of which running costs	3.2	3.2	3.3)

Increases for Passport Department, Data Protection Registrar, Cable Authority and Gaming Board. Passport Department to handle 4.4 million applications in 1987-88.

(vi) Other miscellaneous bids	6.3	6.3	5.7
(of which running costs	3.1	3.1	2.5)

Increases for research; grants to combat racial disadvantage; PSA accommodation and new works; and publicity on electoral representation.



(vii)	Information technology	4.5	5.8	7.7
	(of which running costs	0.7	1.3	1.6)

To fund various computerisation projects including prison services' inmates information system.

(viii)	Non-prisons - manpower			
	(of which running costs	10.5	11.3	10.5

Extra 152 staff for Immigration and Nationality Department; 5 per cent pay award for 1987; additional overtime and casual staff in Passport Department and Directorate of Telecommunications.

(ix)	LA non relevant current expenditure	2.7	2.8	2.8
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To provide for the Imperial and National Service Grant.

(x)	Fire Capital	24.8	23.7	23.2
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To make realistic provision for capital expenditure by the fire service.

	<b>TOTAL</b>	142.0	141.4	184.5
	(of which running costs	25.9	28.0	30.6)

#### PROPOSED REDUCITONS

(i)	Prisons - building	-5.4	-1.7	-
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Slippage in prison building programme

(ii)	Prisons - other	-6.7	-9.5	-8.2
	(of which running costs	-3.0	-4.3	-4.0)

Reduction in Prison Service Industries and Farms expenditure; rationalisation of stores; lower transfer costs; reduced PSA charges for HQ accommodation

(iii)	Law and Order Services	-6.6	-6.7	-11.6
	(of which running costs	-0.2	-0.1	-0.1)

Reductions from adjustments within police central services programme

(iv)	Fee earning services	-0.6	-0.2	-5.1
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Additional receipts from passport fees; irregular pattern of receipts under Data Protection Act. Administrative savings at Gaming Board.

	<b>TOTAL</b>	-19.3	-18.1	-24.9
	(of which running costs	-3.2	-4.4	-4.1)



PROPOSED NET INCREASE IN PROVISION		+122.7	+123.3	+159.6
(of which running costs		27.2	27.1	30.2
MANPOWER	1.4.87	1.4.88	1.4.89	1.4.90
Proposed	39,119	39,789	41,139	41,320
Change from baseline	+68	+181	+181	-

Notes: increases and reductions NOT ranked by the Home Secretary in any order or priority.



CONFIDENTIAL  
LORD CHANCELLOR'S DEPARTMENT

	£ million		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Survey Baseline	603.3	645.8	662.0
<b>PROPOSED ADDITIONS</b>			
Judicial Manpower paid from the Consolidated Fund	5.8	6.6	8.5
Growing volume of criminal cases coming to trial in the Crown Court. Target: To reduce average Crown Court waiting time to 8 weeks.			
(ii) Judicial Officers and fee-paid part-time Judges.	3.9	6.4	7.2
Growing volume of work in the courts. Target: to reduce average Crown Court waiting time to 8 weeks and to maintain level of service in County Courts.			
(iii) Jurors and Shorthand Writers	5.0	6.4	7.9
Growing volume of criminal cases coming to trial in the Crown Court. Target: To reduce average Crown Court waiting time to 8 weeks.			
(iv) Running costs	17.5	24.2	35.8
Pay settlements and increased volume of work in the courts. Targets: To reduce average Crown Court time to 8 weeks and to maintain a level of service in County Courts (the latter is covered by fee income).			
(v) Legal Aid	4.2	8.1	7.5
Target: To fulfil statutory obligations			
(vi) Increased Computerisation in County Courts	0	5.6	6.7
Establishing a Central Claim Registry. Target: To release staff to meet growing volume of criminal work.			
(vii) Other	1.1	3.8	3.8
<b>TOTAL</b>	<b>37.5</b>	<b>61.1</b>	<b>77.4</b>
<b>LESS PROPOSED REDUCTIONS</b>			
(i) Court fees	-6.5	-7.3	-7.7



Increased business in the County Courts.

(ii) Other		-1.0	-	-
	TOTAL	-7.5	-7.3	-7.7
PROPOSED NET CHANGE TO BASELINE		+30.0	+53.8	+69.7
(of which running costs		17.5	24.2	35.8)
MANPOWER	1.4.87	1.4.88	1.4.89	1.4.90
Proposed	10,792	10,947	11,236	11,354
Change from baseline	+586	+911	+1200	-

NOTE: The Lord Chancellor will be making further additional bids for legal aid to reflect increases in volume as well as unit costs, after the outcome of the Efficiency Unit's scrutiny and the discussions with the legal professions about remuneration are known and to cover the transfer of responsibility from PSA for the resource and works costs of major projects for office and general accommodation.



CONFIDENTIAL

DEPARTMENT OF EDUCATION AND SCIENCE

	£ million		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Survey Baseline	3,588	3,658	3,750
PROPOSED ADDITIONS			
(i) Universities	114.0	164.0	216.0
To provide for level funding against university cost inflation; for pay restructuring; and for new equipment.			
(ii) Science	50.0	65.0	75.0
To build up programmes in response to 'national needs'; for new equipment; and to compensate for increases in pay and international subscriptions.			
(iii) Maintained sector capital	150.0	150.0	150.0
Extra resources (mainly for local authority spending): for 'basic need' and towards removal of 504,000 surplus school places over the Survey period; for a programme of capital repairs and renovation to school buildings; and for capital spending on buildings and equipment in polytechnics and FE colleges.			
(iv) Continuing education	10.4	12.9	18.4
To fund expansion of DES central PICKUP programme and provision of earmarked grants to institutions related to targets for increases in continuing education students (mainly local authority spending). Target: 5-fold increase in volume of updating training by 1991-92.			
(v) EC Higher Education programmes	5.0	6.5	11.0
To meet cost of paying EC students higher education fees. To offset provisional EUROPEX excess of costs of 2 EC programmes: -COMETT - forging closer links between industry and higher education; and ERASMUS - increasing student mobility. Mixed central and local government expenditure.			
(vi) Student awards	8.0	15.0	18.0
To permit student maintenance awards and tuition fees to be increased in line with inflation, as measured by the GDP deflator.			
(vii) Cranfield	3.5	-	-
Transitional endowment to facilitate privatisation of Cranfield School of Management.			
(viii) DES running costs	5.0	6.0	7.0
Increase for GAE; to meet costs of 90 additional staff above the 1 April 1987 manpower ceiling; and to fund continuing costs of 1986-87 and future years' pay settlements.			



	TOTAL	345.9	419.4	495.4
(of which running costs		5.0	6.0	7.0)

TOTAL PROPOSED REDUCTIONS

None

PROPOSED NET CHANGE TO PROVISION		345.9	419.4	495.4
(of which running costs		5.0	6.0	7.0)

MANPOWER	1.4.87	1.4.88	1.4.89	1.4.90
Proposed	2,507	2,507	2,507	2,507
Change from baseline	+90	+125	+125	-



CONFIDENTIAL

OFFICE OF ARTS AND LIBRARIES

	£ million		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Survey Baseline	331.6	343.1	351.7
<b>PROPOSED ADDITIONS</b>			
(i) grants-in-aid	10.2	15.6	16.9
Increase grants-in-aid to Arts Council, British Library and running costs grants-in-aid to national museums and galleries.			
(ii) purchase grants for National Museums and Galleries (NMGs)	1.0	1.0	1.0
Increase in purchase grants to National Museums and Galleries.			
(iii) gallery costs	1.0	1.0	1.0
Contribution towards running costs for capital projects funded by private sector. Funding for IT investment to allow improved inventories/cataloguing.			
(iv) museum building/maintenance	2.5	2.5	2.0
To reduce maintenance backlog in NMGs and cover transitional costs of implementing recommendations of inter-departmental report on PSA and NMGs.			
(v) marketing/management initiative	0.5	0.5	0.5
Pump-priming of demonstration projects to encourage arts bodies to improve their marketing and efficiency.			
(of which running costs	0.025	0.025	0.025)
(vi) British Library stage IAA/IAB	1.8	4.9	7.6
Increase in PSA forecasts of costs and restoration of cuts from 1985 Survey. Target: allow construction timetable to be maintained.			
(vii) British Library stage IB	1.0	1.0	0.5
Preliminary design work.			
<b>TOTAL</b>	<b>18.0</b>	<b>26.5</b>	<b>29.5</b>
<b>PROPOSED REDUCTIONS</b>			
None			
<b>PROPOSED NET CHANGE TO BASELINE</b>	<b>18.0</b>	<b>26.5</b>	<b>29.5</b>
(of which running costs	0.025	0.025	0.025)
MANPOWER	1.4.87	1.4.88	1.4.89
proposed	54	54	54
Change from baseline	+3	+3	-



CONFIDENTIAL

DHSS: HEALTH AND PERSONAL SOCIAL SERVICES

	£ million		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Survey Baseline	15937	16617	17032
<b>PROPOSED ADDITIONS</b>			
<u>Hospital and Community Health Services current</u>			
(i) Demography	61	86	225
Restoring lead over inflation of 0.9, 0.8 and 0.7 per cent to meet pressure from growing number of elderly, particularly over 75's in line with OPCS demography projections.			
(ii) 1986 Review Body Pay Consequentials	102	106	111
Meet additional cost of 1986 pay award to doctors, nurses, etc, which exceeded baseline assumptions.			
(iii) Waiting Lists	30	30	-
Reduction in waiting lists through eg new quicker forms of treatment, removing bottlenecks. Target: reduce waiting lists by 60-100,000.			
(iv) London/Resource Allocation Working Party	25	25	-
Bridging finance to assist improvements in location and efficiency of acute services in Thames Regions.			
(v) AIDS	10	20	30
Treatment of increased number of AIDS sufferers. Target: meet treatment costs of 450, 950 and 1500 new cases.			
(vi) Breast cancer screening	10	20	30
Introduction of systematic screening programme. Target: Reduce deaths from breast cancer by 2-3000 a year by late 1990s.			
(vii) Cervical cancer screening	15	16	16
Increased screening programme. Target: Reduction in screening interval from 5 to 3 years and call arrangements extended to all women over 20.			
(viii) Supra-regional services	4	7	11
Development of specific services: heart and liver transplants, spinal injury services, etc. Target: 80-100 new heart transplants and 3-400 follow-ups; 50-60 new liver transplants and 100-150 follow-ups; 50 rising to 150 new bone tumour operations; 60 child heart operations; 20 child dialysis cases and 6 child kidney transplants and 40 follow-ups. (All annual rates).			
(ix) Community care	20	20	20
Bridging finance to permit community services for mentally ill and handicapped people			



to be built up ahead of hospital closures. Target: Discharge (or avoid admission of) 100 patients a year without detriment to their care.

Hospital and Community Health Services capital

(x) Estate rationalisation 50 - -  
Investment in more efficient facilities.

Centrally Administered Health and Personal Social Services

(xi) Welfare food 5.5 8 10  
More people eligible.

(xii) EC medical costs 2 8 12  
More treatments: increased cost of treatment overseas, effects of enlargement.

Family Practitioner Services (FPS)

(xiii) FPS reassessment 66 127 128  
Secretary of State's unmet commitment from earlier Surveys.

(xiv) Demand/Inflation, 1989-90 - - 165  
Inflation higher than baseline assumption and greater forecast demand on services in 1989-90.

(xv) 1986 Doctors and Dentists Review Body 50 51 53  
award etc consequences  
Meet additional cost of 1986 pay award to doctors and dentists which exceeds baseline assumption.

(xvi) Blood test strips 8 8 9  
Better test of blood sugar level for diabetics. Target: Net cost of strips for 250,000 patients.

(xvii) Pharmaceutical Price Regulation Scheme 15 20 14  
Renegotiated profit levels.

(xviii) Hepatitis B vaccine 4 - -  
Extension of high-risk groups for routine vaccination. Target: protect 70,000 people at risk of contracting Hepatitis B.

TOTAL 477.5 552 834



PROPOSED REDUCTIONS

(i) General Practice Finance Corporation Reduce role of GPFC	-15	-15	-15
(ii) Prescription charges Increase charges in April 1987.	-10	-10	-10
(iii) Other	-6	-4	-4
<b>TOTAL</b>	<b>-31</b>	<b>-29</b>	<b>-29</b>

<b>PROPOSED NET CHANGE TO PROVISION</b>	<b>446.5</b>	<b>523</b>	<b>805</b>
(of which running costs	-	-	-)

MANPOWER: see DHSS Social Security summary for details of DHSS manpower. No manpower changes result from proposed DHSS: HPSS proposed additions.



## CONFIDENTIAL

## DHSS: SOCIAL SECURITY BENEFITS AND ADMINISTRATION

	£ million		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Survey Baseline	44197	45617	46758
<b>PROPOSED ADDITIONS</b>			
(i) <u>Benefit bids:</u>			
(a) Extension of Invalid Care Allowance now agreed by Ministers.	55	55	51
(b) Review implementaion: minor benefit improvements and contingency bid.	11	50	50
(c) Start-up costs of new Housing Benefit scheme	30	-	-
(d) Start-up costs of social fund	-	25	-
(e) Other minor benefit improvements	5	2	9
(iii) <u>Administration Bids</u>			
(a) to cater for routine workload: carry forward of agreed bid for 86-87.	147	161	181
(b) implementing Review measures	93	-7	-22
(c) implementing Operational Strategy	42	64	32
<b>TOTAL</b>	<b>383</b>	<b>350</b>	<b>301</b>
(of which running costs	215	152	156)
<b>PROPOSED REDUCTIONS</b>			
(i)			
(a) April 1988 uprating one week later than planned.	-	-25	-
(b) Other minor savings to offset minor benefit improvements.	-5	-2	-9
<b>TOTAL</b>	<b>-5</b>	<b>-2</b>	<b>-9</b>
(of which running costs	-	-	-)



PROPOSED NET CHANGE TO BASELINE		378	348	292
of which running costs		215	152	156)
MANPOWER	1.4.87	1.4.88	1.4.89	1.4.90
Proposed	96,750	99,750	94,180	94,320
Change from baseline	-	+12,250	+7,180	-

(Note: staff in post on 1 April 1988 includes 3,000 on limited period appointments for implementing Review).

<u>Memorandum Item</u>	<u>1987-88</u>	<u>1988-89</u>	<u>£ million</u> <u>1989-90</u>
(i) Effect of revised economic assumptions (subject to changes in the light of later economic forecasts).	+333	+392	+734
(ii) Effect of estimating changes.	+457	+500	+1035



CONFIDENTIAL  
SCOTTISH OFFICE

		<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Survey Baseline		4,435	4,580	4,694
<b>PROPOSED ADDITIONS</b>				
(i) <u>Industry</u>		7.0	-	20.5
Capital expenditure on land improvement.				
(ii) <u>Regional assistance</u>		20.7	8.3	20.0
Regional Assistance increases.				
(iii) <u>European Regional Development Fund</u>		0.6	-	-
ERDF non quota receipts passed to private sector.				
	<b>TOTAL</b>	28.3	8.3	40.5
<b>PROPOSED REDUCTIONS</b>				
Housing subsidies		-8.2	-12.8	-
Revised economic assumptions - could vary during the course of the Survey.				
	<b>TOTAL</b>	-8.2	-12.8	-
<b>PROPOSED NET CHANGE TO PROVISION</b>		20.1	-4.5	40.5
(of which running costs		-	-	-)
<b>MANPOWER</b>				
	1.4.87	1.4.88	1.4.89	1.4.90
Proposed	12,185	12,369	12,394	12,431
Change from baseline	+8	+334	+343	380

Notes: The Scottish Office agriculture bids are included on the MAFF summary. Provision for the Scottish block (ie expenditure except on industry and agriculture) will also be increased to reflect the territorial consequences of increases on comparable English programmes.



## CONFIDENTIAL

## WELSH OFFICE

		£ million		
		1987-88	1988-89	1989-90
Survey Baseline		1,759	1,819	1,864
<b>PROPOSED ADDITIONS</b>				
Regional Assistance		7.0	-	-
	<b>TOTAL</b>	7.0	-	-
<b>PROPOSED REDUCTIONS</b>				
Housing Subsidies		-1.1	-2.1	-
Revised economic assumptions - could vary the during the course of the Survey.				
	<b>TOTAL</b>	-1.1	-2.1	
<b>PROPOSED NET CHANGE TO PROVISION</b>				
(of which running costs		-	-	-)
MANPOWER	1.4.87	1.4.88	1.4.89	1.4.90
Proposed	2298	2276	2264	2264
Change from baseline	+33	+32	+20	-

Note: Provision for the Welsh block (ie expenditure except on industry and agriculture) will also be increased to reflect the territorial consequences of increases on comparable English programmes.



CONFIDENTIAL  
NORTHERN IRELAND

	£ million		
	1987-88	1988-89	1989-90
Survey baseline	4,691	4,819	4,939

**PROPOSED ADDITIONS**

(i) Anglo-Irish Agreement	8.8	7.6	7.7
(of which running costs	0.4	0.4	0.4)
Costs arising out of the Agreement: current and capital costs of running the secretariat, plus additional policing costs (all CG-ie SAP1)			
<b>TOTAL</b>	<b>8.8</b>	<b>7.6</b>	<b>7.7</b>

**PROPOSED REDUCTIONS**

(i) Social Security	-61.2	-36.1	-21.1
(ii) Housing subsidies	-1.2	-2.8	-

These reductions are the result of the application of revised economic assumptions: they are liable to variation during the course of the Survey.

(iii) Belfast Urban Renewal	-	-4.2	-4.3
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Additional EC money was allocated to the baseline over a period up to 1987-88 for expenditure on housing in Belfast. The reduction is to correct for provision wrongly included in the PEWP baseline in the later years.

<b>TOTAL</b>		<b>-62.4</b>	<b>-43.1</b>	<b>-25.4</b>
<b>PROPOSED NET CHANGE TO PROVISION</b>		<b>-53.64</b>	<b>-35.5</b>	<b>-17.7</b>
(of which running costs		0.4	0.4	0.4)
<b>MANPOWER</b>	<b>1.4.87</b>	<b>1.4.88</b>	<b>1.4.89</b>	<b>1.4.90</b>
Proposed	4622	4604	4604	4604
Change from baseline	-	-	-	-

Provision for Northern Ireland will also be increased to reflect the territorial consequences of increases on comparable GB programmes.



CHANCELLOR'S DEPARTMENTS

Bids shown for the Chancellor of the Exchequer's departments are as submitted by the permanent heads of those departments; they have not been endorsed by Treasury Ministers.

	£ million		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Survey baseline	2,046	2,073	2,125
<b>PROPOSED ADDITIONS</b>			
<b>CUSTOMS &amp; EXCISE</b>			
(i) Additional staff	6.6	12.5	18.4
(of which running costs	6.6	12.5	18.4)
Increase in passengers/freight traffic, drug control enhancement, VAT register and VAT control (large traders). Target: enhanced VAT collection; more effective drugs control; maintenance of present level of Customs control.			
(ii) Pay assumptions	13.9	14.3	15.8
(of which running costs	13.9	14.3	15.8)
Includes assumed increases in 1987 pay trend over 1986, and knock-on effect of 1986 settlement.			
(iii) Part 1 work	5.0	9.0	7.0
New VAT offices, upgrading of N Ireland customs facilities, refurbished Customs houses. Computer cost escalation.			
(of which running costs	-	-	-)
(iv) Other	16.5	19.4	19.3
(of which running costs	14.1	17.4	16.0)
Overtime, travel, training, legal, IT minor works, miscellaneous			
	-----	-----	-----
	42.0	55.2	60.5
(of which running costs	34.6	44.2	50.3
MANPOWER	1.4.87	1.4.88	1.4.89
Proposed	25,918	26,627	27,347
Change from baseline	-	+583	-
<b>HMSO</b>			
Increased supplies to Parliament, less savings.	0.2	0.8	1.8
(of which running costs	-	-	-
MANPOWER	1.4.87	1.4.88	1.4.89
Proposed	3350	3270	3160
Change from baseline	-10	-10	-



CONFIDENTIAL

INLAND REVENUE

	£ million		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Survey baseline	1,094	1,097	1,124
(i) Pay	49.8	84.9	116.2
(of which running costs	49.8	84.9	116.2)
Knock-on effect of 1986 settlement; forecast of 1987 to 1989 settlements: and fringe settlements, particularly grade mergers.			
(ii) Retention measures	4.0	4.1	4.2
(of which running costs	4.0	4.1	4.2)
Travel, removal, training and extra cost of part-time staff.			
(iii) Increased Manpower	8.6	18.1	27.3
(of which running costs	8.6	18.1	27.3)
Net additional manpower of around 1,500 a year mainly to implement transferable allowances and non-domestic rate revaluation offset by efficiency savings in local network offices. Target: to implement in time with Ministerial timetables.			
(iv) Transferable allowances	9.0	11.5	8.5
(of which running costs	8.5	8.4	6.6)
Software development and additional computer hardware for transferable allowances. Target: implementations in 1991.			
(vii) Business Review of Collection Service	9.3	16.7	8.7
(of which running costs	4.1	6.4	5.4)
To modernise collection service computer system to reduce staff requirements and provide a more flexible and efficient service.			
(viii) Other projects	9.8	8.6	2.9
(of which running costs	7.3	7.0	2.9)
Mainly computer systems for Schedule D assessments and for taxation of Lloyds.			
(ix) Computerisation of Valuation Office	5.1	6.0	6.4
(of which running costs	2.4	2.8	3.3)
Computerisation of Valuation Office operations in support of non-domestic revaluation. Target: system in place by 1990 revaluation.			



(x)	Accommodation	7.1	8.7	10.1
	Adjustment	-4.8	-5.0	-5.1
	(of which running costs	-4.8	-5.0	-5.1)

Office networks rationalised, leases expiring, new projects, routine maintenance and decoration. Target: tax office reorganisation completed by 1989-90; valuation office reorganisation by 1990.

(xi)	Life Assurance Premium Relief	14.0	15.0	10.0
	Mortgage Interest Relief	70.0	55.0	101.0

Change in estimating assumptions affecting payments, in particular, higher tax thresholds.

	<b>TOTAL</b>	181.9	223.7	290.2
	(of which running costs	79.8	126.7	160.8)

MANPOWER	1.4.87	1.4.88	1.4.89	1.4.90
Proposed	68,250	67,868	66,997	68,301
Change from baseline	-	1,494	1,447	-

RATING OF GOVERNMENT PROPERTY DEPARTMENT	8.9	9.6	10.8
(of which running costs	-	-	-)

Revised estimate of rates payable on Government estate. No manpower bid.

REGISTRY OF FRIENDLY SOCIETIES	-	-	-	
(of which running costs	0.2	0.2	0.2	
MANPOWER	1.4.87	1.4.88	1.4.89	1.4.90
Proposed	142½	138½	134½	134½
Change from baseline	1	1	1	-

#### H M TREASURY

(i)	European Assembly Election	-	-	24.5
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To meet the costs of the election due in June 1989.

(ii)	Coinage	-12.2	-7.5	-7.7
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(iii)	Houses of Parliament IT	1.1	6.5	0.8
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(iv)	Other	7.1	5.5	5.8
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Targets include the provision of a new mainframe for the Treasury by 1987-88

	<b>TOTAL</b>	-4.0	4.5	23.4
(of which running costs		1.0	1.9	3.7)
<b>MANPOWER</b>	1.4.87	1.4.88	1.4.89	1.4.90
Proposed	3389	3341	3324	3307
Change from baseline	-	-	-	-
<b>PROPOSED NET CHANGE TO PROVISION</b>		234.7	298.8	394.7
(of which running costs		115.4	172.8	214.8)



CONFIDENTIAL

PROPERTY SERVICES AGENCY

OFFICE AND GENERAL ACCOMMODATION PROGRAMMES

£ million

	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Survey Baseline	-109	-112	-115
<b>PROPOSED ADDITIONS</b>			
(i) Capital projects (new works)	39.1	29.3	23.5
Capital expenditure. Amount required for projects which will remain on PSA's Programme including work in progress on projects currently PSA's financial responsibility.			
(ii) Rent payments to landlords	26.2	40.3	49.4
Required to meet increases in rents payable to private landlords arising from effects of rent reviews.			
(iii) Purchase of Freehold	5.0	10.0	10.0
(iv) Maintenance expenditure	15.0	15.0	15.0
(of which running costs	15.0	15.0	15.0)
Required to deal with maintenance work and to get to grips with the backlog (estimated by PSA to be £100 million).			
(v) Vacant space	9.0	9.0	9.0
(of which running costs	9.0	9.0	9.0)
To meet cost of vacant accommodation released by PSA by departments for disposal.			
(vi) Administration costs	8.5	6.5	5.5
(of which running costs	4.9	3.9	3.5)
To cover PSA's administration costs.			
(vii) QEII Conference Centre	3.0	3.0	3.0
(of which running costs	3.0	3.0	3.0)
To cover the net cost of operating the QEII Conference Centre.			
<b>TOTAL</b>	<b>105.8</b>	<b>113.1</b>	<b>115.4</b>
(of which gross running costs	45.0	46.0	48.0)



PROPOSED REDUCTIONS

(i) Disposals		-	-2.0	-2.0
(ii) PRS Rent Receipts		-10.0	-10.0	-10.0
	TOTAL	-10.0	-12.0	-12.0

PROPOSED NET CHANGE TO BASELINE		95.8	101.1	103.4
(of which gross running costs		45.0	46.0	48.0

MANPOWER	1.4.87	1.4.88	1.4.89	1.4.90
Proposed	25,078	24,640	24,283	24,258
Changes from baseline	-	+173	+110	-



## OTHER DEPARTMENTS

		<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
				£ million
Survey baselines		492	505	518
<b>PROPOSED ADDITIONS</b>				
CABINET OFFICE		-	-	1.3
(of which running costs		-	-	0.8)
Implementation of first of CALDBECK infrastructure				
MANPOWER	1.4.87	1.4.88	1.4.89	1.4.90
Proposed	703	703	703	703
Change from baseline	-	-	-	-
CABINET OFFICE(MPO)		1.0	1.0	1.7
(of which running costs		0.6	0.6	0.6)
Accommodation; telephone exchange for, and schools liaison by, Civil Service Commission; office automation by Parliamentary Counsel Office. Targets: (Accommodation) 84 new bedrooms at Sunningdale by 1989-90.				
MANPOWER	1.4.87	1.4.88	1.4.89	1.4.90
Proposed	984	974	964	964
Change from baseline	+9	+9	+9	-
COMMONWEALTH WAR GRAVES COMMISSION		0.6	0.6	0.6
(of which running costs		-	-	-)
Adverse exchange rate movement and higher than forecast overseas inflation offset by deferred structure and maintenance. Not in manpower count.				
CROWN OFFICE AND PROCURATOR FISCAL'S OFFICE		4.3	2.7	3.5
(of which running costs		1.1	1.6	2.3)
Extra manpower and associated costs to deal with rising crimes. Extra accommodation.				
MANPOWER	1.4.87	1.4.88	1.4.89	1.4.90
Proposed	1088	1068	1108	1128
Change from baseline	-14	+6	+26	-
CROWN PROSECUTION SERVICE				
(i) Align baseline with 1986-87 Estimate		38.9	46.4	55.0
(of which running costs		36.6	44.2	52.6)



HOUSE OF COMMONS COMMISSION		0.7	0.8	0.6
(of which running costs		-	-	-)

Maintaining services at 1986-87 levels with agreed changes in pay, staff and allowances.  
Not in manpower count.

LAND REGISTRY		-	-	-
(of which gross running costs		3.7	8.1	15.9)

1986 pay award, additional manpower, increased GAE.

MANPOWER	1.4.87	1.4.88	1.4.89	1.4.90
Proposed	7335	7755	8255	8900
Change from baseline	-	255	630	-

NATIONAL AUDIT OFFICE		0.7	0.7	0.7
(of which running costs		-	-	-)

Revised estimate of building maintenance and training. Not in manpower count.

NORTHERN IRELAND COURT SERVICE		6.4	8.3	6.8
(of which running costs		1.9	2.0	2.1)

Capital and maintenance expenditure on new works; legal aid: pay, GAE, and judicial salaries.

OFFICE OF FAIR TRADING		0.9	0.2	0.2
(of which running costs		0.9	0.2	0.2)

Consumer credit computer slippage; manpower and running costs for licensing; and additional consultancy.

MANPOWER	1.4.87	1.4.88	1.4.89	1.4.90
Proposed	345	319	319	319
Change from baseline	24	-	-	-

OFFICE OF POPULATION CENSUS & SURVEYS		-	-	-
(of which gross running costs		0.5	0.9	1.7

1991 Census.



Allow for full year cost of figures in 1986-87 Estimates. (1985 PES figures underestimated costs). Assumes casework increase of 5 per cent a year.

(ii) Advance disclosure	5.5	6.0	6.6
(of which running costs	5.5	6.0	6.6)

Administrative costs of ruling that prosecution must reveal basis of case in advance in magistrates' courts.

(iii) Tape recording evidence		4.4	4.8
(of which running costs	4.1	4.4	4.8)

A Home Office initiative.

(iv) Counsel fees	1.9	4.9	8.2
(of which running costs	-	-	-)

Assumes 20 per cent increase in counsel fees.

(v) Introduction of time limits	2.2	2.3	2.5
(of which running costs	2.2	2.3	2.5)

A Home Office initiative.

(vi) Other	1.7	1.9	2.0
(of which running costs	1.7	1.9	2.0)

	<b>TOTAL</b>	54.3	65.9	79.1
(of which running costs		50.3	58.9	68.7

MANPOWER	1.4.87	1.4.88	1.4.89	1.4.90
Proposed	4980	5229	5490	5765
Change from baseline	+1230	+1479	+1740	-

HOUSE OF COMMONS	0.7	3.2	3.2
(of which running costs	-	-	-)

MP's pay rise in line with 1986 civil service pay increase. Not in manpower count.

HOUSE OF LORDS	-	-	0.8
(of which running costs	-	-	-)

Above average increase in House of Lords activity. Not in manpower count.



MANPOWER	1.4.87	1.4.88	1.4.89	1.4.90
Proposed	220	2247	2343	2591
Change from baseline	50	74	82	-

PARLIAMENTARY COMMISSIONER FOR ADMINISTRATION

Six extra staff		0.2	0.2	0.2
To reduce time taken in investigations and cope with increase workload. (of which running costs		-	-	-)

PARLIAMENTARY WORKS PROGRAMME		3.8	7.5	10.4
(of which running costs		0.9	1.8	1.0)

Construction of new Parliamentary accommodation in Bridge Street. Not in manpower count.

PAYMASTER GENERAL'S OFFICE		1.1	1.2	1.8
(of which running costs		0.1	0.1	0.6)

Rewiring of Crawley building; purchase terminals and central processors; allowances and running costs.

MANPOWER	1.4.87	1.4.88	1.4.89	1.4.90
Proposed	886	897	914	927
Change from baseline	-9	-21	-29	-

TREASURY SOLICITOR'S DEPARTMENT		1.0	1.0	1.1
(of which gross running costs		1.2	1.2	1.3)

Wyth Farm monitoring expenses accommodation, Rayner scrutiny plan, and pay.

MANPOWER	1.4.87	1.4.88	1.4.89	1.4.90
Proposed	482	477	477	477
Change from baseline	13	13	13	-

TOTAL 77.0 94.8 113.8

PROPOSED NET CHANGE TO PROVISION		75.7	93.3	112
(of which running costs		61.2	75.4	94.8)



ECON POL

PUBLIC

EXPENDITURE

PT 35



7

PRIME MINISTER

PUBLIC EXPENDITURE CABINET

The Chancellor of the Exchequer and the Chief Secretary have split between them the task of lobbying most Members of Cabinet about the public expenditure discussions at next Thursday's Cabinet. They do not, however, want to take on the task of approaching the Lord Privy Seal, Mr. Fowler and Mr. Baker.

You could have a few minutes with the Lord Privy Seal after a meeting in which he will be involved on Monday morning. Agree to do so?

There are risks in seeing Mr. Fowler and Mr. Baker. They would press their claims with you and it could be difficult for you to avoid making some form of commitment, however weak, that their claims will be looked at sympathetically during the Survey. Thus armed, they might push their claims harder than they would otherwise. For you to see them would also increase their sense of importance in this Survey. On the other hand, they are likely to get something extra from the Survey in any event, and they are among the higher risks to a successful outcome from the Cabinet. I recommend against seeing them.

Agree? *Yes*

I doubt that it would be right for the Lord President to see them in view of his Star Chamber role. Would you wish the Chief Whip to do so?

You might discuss this with the Lord President before Cabinet tomorrow if there is time.

*no*

*pp.* DAVID NORGROVE  
SL3ASB

9 July, 1986.



SUBJECT CC MASTER



6

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

3 July 1986

Dear Jim,

PUBLIC EXPENDITURE SURVEY

The Prime Minister today discussed your letter of 1 July to me and its attachments with the Lord President, the Chancellor of the Exchequer, the Chief Secretary and the Chief Whip. Professor Brian Griffiths and Mr. Brian Unwin were also present.

The following points were agreed:

- (i) the minute from the Chief Secretary to the Prime Minister setting out summaries of the bids should be circulated on the afternoon of Thursday 10 July not on Monday 7 July;
- (ii) the Chief Secretary's draft paper for Cabinet on 17 July was broadly satisfactory, though every effort should be made to make it as clear and direct as possible, without making it abrasive. An example mentioned was the first sentence of paragraph 4 which refers to avoiding upward pressures within programmes. This presumably means meeting new needs from within existing provision and cutting out waste ;
- (iii) Cabinet on 17 July should, as proposed, agree the target for nationalised industries and take the Lord President's report of E(LA)'s conclusions about local authority spending;
- (iv) the Chief Secretary should circulate his paper on Monday 14 July as proposed;
- (v) the Chief Secretary should make a very firm opening statement introducing his paper; if asked, he should be prepared later in the discussion to give the global totals for the bids;
- (vi) the second form of words for use with the press after Cabinet, following strictly the words in the Cabinet paper, was marginally preferable to the first form of words set out in your letter to me of 1 July;



- (vii) the Chancellor and the Chief Secretary would consider the tactics for lobbying colleagues before Cabinet and advise the Prime Minister on the people with whom she might discuss the Cabinet;
- (viii) it would be desirable to announce on the same day the decisions on local authority expenditure and police pay; 22 July would be a good day to do this.

I am sending copies of this letter to Joan MacNaughton (Lord President's Office), Rachel Lomax (H.M. Treasury) and Brian Unwin (Cabinet Office).

*y  
Joan,*

*David*

David Norgrove

Miss Jill Rutter,  
Chief Secretary's Office,  
H.M. Treasury.





5

SECRET

P 02148

PRIME MINISTER

**PUBLIC EXPENDITURE SURVEY**

You are meeting again with the Chancellor, Chief Secretary and Lord President tomorrow morning to discuss public expenditure. The letter of 1 July from the Chief Secretary's Office provides for your consideration a draft Cabinet Paper, together with a form of words for dealing with the Press after the Cabinet meeting. The Chancellor's draft paper on economic prospects will be sent to you later.

2. The Chief Secretary's paper sticks to the tactic agreed with you earlier - viz, that the bilaterals should proceed on the basis of the existing planning totals, together with a 3 per cent uplift for 1989-90 (giving totals of £144, £149 and £153 billion for the 3 years 1987-88 to 1989-90 respectively).

COMMENT

3. You may like to have the following further comments in considering the viability of the Chief Secretary's proposals.

Credibility

4. There are two problems here. Credibility within the Cabinet; and credibility in public perception.

5. So far as the Cabinet are concerned, it must already be apparent to most colleagues that the planning totals cannot realistically be held. Total additional bids for 1987-88 amount to some £4 billion on departmental programmes plus £3 billion on local authority current (excluding extra for teachers' pay and on capital) plus nearly £1 billion on nationalised industries -



totalling at least some £8 billion against a Reserve of only £6.3 billion. Taking into account that, on this year's experience, we need a Reserve of £3 to £4 billion to cope with genuine in-year contingencies, the position is patently untenable. A similar picture, if not worse, is likely also to apply to the later years.

6. The question is, therefore, how far spending Ministers would be prepared to go along with this through the summer bilaterals. There must be a risk that some of them will argue, and indicate publicly, that the planning totals must be increased. Further, if they suspect that some upward adjustment would be made in the autumn, they would have no incentive to negotiate meaningfully with the Chief Secretary or to refrain from campaigning for their particular additional bids.

7. I suspect the unreality of the position will also quickly become apparent in public (whether or not assisted by leaks). It is inconceivable that the financial pundits will not quickly do the arithmetic for themselves and produce equations of the sort in paragraph 5 above. The question here, therefore, is whether the form of words suggested for use with the Press after Cabinet could sustain credibility. They are bound to ask directly whether the Government intend to hold the planning totals. Any "fudge" will raise suspicions; but any explicit affirmation will make the task of explaining increases in the autumn more difficult. You may, therefore, at least want to ask the Chief Secretary how this direct question should be tackled.

#### Alternative approach

8. The alternative approach of signalling in July some planned increase in the totals would also, of course, carry risks and need to be presented with the utmost care. But the Treasury have not provided you with any material to enable you to judge whether such a presentation could be sustained. A possible line would be that prospects for the economy looked different from when the White Paper was published; in particular, revenue was likely to be more buoyant so that some increases in the planning totals would be



yes, there has been  
Treasury briefing.

consistent with the Government's plans for public sector borrowing within the Medium Term Financial Strategy. Indeed, there is already a hint of this (presumably from Treasury briefing) in the last paragraph of today's article by Peter Riddell in the Financial Times (copy attached). Any such presentation could also be accompanied by taking positive credit for selected increases in certain areas (eg education and health) and castigating the local authorities for excesses in their spending.

9. If you felt it was still worth looking at this approach, you might wish to ask Treasury Ministers to provide a possible presentation. I think that you in any case wanted to see, in addition to the Cabinet paper, the brief that the Chancellor and Chief Secretary would use in Cabinet. They have not so far provided this.

#### Local Authority Current Expenditure

10. The Chief Secretary suggests that Cabinet should take a report from the Lord President on the state of play on this. Subject to the Lord President's views, I think this would be reasonable. Since, however, the final relevant E(LA) meeting is not scheduled to be held until 16 July, there would have to be a very last minute report.

#### Nationalised Industries

11. The Chief Secretary also suggests that Cabinet should subsume the usual E(A) discussion of the nationalised industries. I see no problem in this, provided the material is circulated in reasonable time. In fact, I do not think there was separate E(A) discussion on the nationalised industries' numbers last year.

#### Star Chamber

12. As discussed previously, the outcome on 17 July will have major implications for the Star Chamber. If the Chief Secretary's bilaterals proceed on the basis of existing planning totals, the Lord President will need to have Treasury agreement for substantial

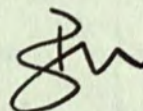


discretion if his task is to be manageable. You may wish to establish clearly now that Treasury Ministers fully accept this. If, however, an increase in the planning totals were signalled now, then it might be possible for the Star Chamber to hold, or come near, to delivering the revised totals.

NEXT STEPS

13. Depending on the outcome of the discussion, you may wish to invite the Chief Secretary and Chancellor to let you have quickly for final consideration:

- (i) a final draft of the Chief Secretary's paper;
- (ii) a draft brief or speaking note of what the Chief Secretary and Chancellor will say in Cabinet;
- (ii) a draft in due course of the paper on economic prospects;
- (iv) a final version of the line to take with the Press after Cabinet, including an answer to the direct question of whether the planning totals will be held.



J B UNWIN

2 July 1986  
Cabinet Office



ECON POL. PTSS June 1986.



COLLECTION



# Treasury ready for rise in social spending

BY PETER RIDDELL, POLITICAL EDITOR

THE TREASURY is prepared to agree to some increase in public spending on education and health but only in limited amounts. The expenditure would be within the existing overall government spending total and would be specifically focused on areas which would produce the maximum political impact ahead of the next general election.

A willingness to increase spending on certain social programmes has been signalled ahead of the usual summer discussion by the Cabinet of the economic outlook and expenditure prospects. This will be held on Thursday, July 17.

The Treasury is still pressing for confirmation by the Cabinet of the existing planning totals (notably £144bn for 1987-88) as occurred last July. But ministers are aware of the strong support in the Cabinet and among Tory backbenchers for some increase in expenditure

on social programmes and are prepared to be flexible.

In particular, Treasury ministers were impressed by the favourable public reaction to the announcement last month by Mr Kenneth Baker, Education Secretary, of £20m extra for the General Certificate of Secondary Education, the 16-plus examination. Mr Nigel Lawson, Chancellor of the Exchequer, apparently remarked: "That's what Kenneth was sent there to do, to make a lot out of a little." The Treasury feels especially pleased since the net extra cost to it was only just above £10m.

Consequently Treasury ministers may approve specific proposals which have a big political bonus for a relatively small amount of money.

These could include spending to reduce hospital waiting lists and ease the pressure on London teaching hospitals, and on school equipment and universities. Any money would come

out of the contingency reserve of £6.3bn for 1987-88.

There is also a clear shift in presentation by ministers towards taking credit for increases in spending on social programmes where they have occurred.

Some members of the Cabinet not normally identified with the Treasury believe this new emphasis will allow a balanced approach permitting both some increase in spending programmes as well as tax cuts next spring. They therefore feel more relaxed about the Cabinet discussion than they did a few weeks ago.

Spending ministers involved are sceptical about the Treasury approach, however. They argue that any concessions will be insufficient unless the overall total is increased. They will be seeking to qualify any confirmation by the Cabinet of the existing figures.

A key pointer to the room for

manoeuvre will be set over the next few days when the Cabinet sub-committee dealing with local authorities decides on the provisional rate support grant settlement for next year. This determines most of the education budget.

There have been strong Conservative Party pressures to avoid a repetition of the tight squeeze of the past two years which has produced big rate rises.

Following the Cabinet discussion, the main negotiations between the Treasury and spending departments will not take place until September ahead of the usual "Star Chamber" arbitration in October under Lord Whitelaw, Leader of the Lords.

In general the Treasury feels confident that the area of political debate is focused on the balance of priorities within a broadly agreed view of the level of public sector borrowing.







PRIME MINISTER

PUBLIC EXPENDITURE

The main questions for decision are as follows:

- (i) does the decision to hold to the existing planning totals in July still stand (on this see Brian Unwin's brief below);
- (ii) should the Chief Secretary circulate the minute at flag B on Monday 7 July as he proposes (this sets out all the additional bids except those relating to nationalised industries, and local authority current expenditure); *Prime 10<sup>m</sup>*
- (iii) is the draft paper for Cabinet on 17 July (flag A) satisfactory;
- (iv) in this context should Cabinet on 17 July, rather than E(A) which would be the usual forum, set the target for the nationalised industries;
- (v) should Cabinet on 17 July take the Lord President's report of E(LA)'s conclusions about local authority spending;
- (vi) should the Chief Secretary circulate his paper on Monday 14 July as he proposes;
- (vii) are the words for use with the press after Cabinet satisfactory;
- (viii) what lobbying should be carried out before Cabinet, by whom and when should it start?

*DN*

DAVID NORGROVE

2 July 1986

SW2AAW





copy No 1 of 9<sup>3</sup>

cc BG / } personal  
B. Arwin } and to be  
          } signed by  
          } *men personally*  
cc *Chief*  
cc *Blup*

Treasury Chambers, Parliament Street, SW1P 3AG

David Norgrove Esq  
Private Secretary  
10 Downing Street  
LONDON  
SW1

1 July 1986

*Dear David,*

**PUBLIC EXPENDITURE SURVEY**

The Chancellor and the Chief Secretary have discussed with the Prime Minister the prospects for this year's Survey and the approach to be adopted at the July Cabinet. It was agreed that the objective in July should be to secure agreement that the Chief Secretary should proceed to the bilaterals against the background of unchanged planning totals. In achieving this a number of conflicting aims have to be reconciled:

- to give no hint externally that the planning totals might be raised;
- to provide the Chief Secretary with as good a negotiating position as possible but without setting targets which are so explicit and tight that colleagues feel cornered and attempt to break out by questioning the whole basis of the planning totals;
- to leave options open for later in the Survey.

To achieve this will require careful drafting both of the Cabinet paper and any statement made by the No 10 Press Office after the meeting. (Both Treasury Ministers and the Prime Minister also face Questions later in the afternoon of 17 July.)

I attach a draft of the Chief Secretary's paper which he and the Chancellor will want to discuss with the Prime Minister and the Lord President at the meeting this Thursday. We propose that this should be circulated on Monday 14 July. The paper is drafted on the assumption that Cabinet takes a report from E(LA) on the state of play on local authority current expenditure. It also assumes that Cabinet this year subsumes what in previous years has been a



separate E(A) discussion to set a target for the nationalised industries. Treasury Ministers feel the broad objective of getting the industries to below baseline can be endorsed at the main Cabinet meeting.

In his minute to the Prime Minister of 21 March, the Chief Secretary agreed to circulate to colleagues "as soon as possible in June" a summary of the bids put forward. The Cabinet reshuffle has caused the timetable to slip a bit and the Chief Secretary now proposes to circulate a paper on 7 July. A copy of the draft is attached. You will see that no attempt has been made to aggregate the bids and no figure has been put in the Cabinet paper. However, the Chancellor and the Chief Secretary thought that the Prime Minister and Lord President might like themselves to see the attached table which shows that even excluding local authority current expenditure and nationalised industries' EFLs, departmental bids total around £4 billion in 1987-88 rising to around £6½ billion in 1989-90.

In addition to the drafting of the Cabinet paper itself, we have considered the form of the statement released to the Press after the meeting. Treasury Ministers believe that the main point which the Press will want to pursue is whether the planning totals have been raised and the guidance should deal firmly with that. They recommend something like:

"At its meeting today, the Cabinet discussed the 1986 Public Expenditure Survey. As usual, the Chief Secretary will now hold bilateral discussions with colleagues. The planning totals for 1987-88 and 1988-89 are unchanged at £144 billion and £149 billion. A new planning total of £153 billion has been set for 1989-90."

If colleagues want to stick strictly to the words in the Cabinet paper you could fall back to

"At its meeting today, the Cabinet discussed the 1986 Public Expenditure Survey. As usual the Chief Secretary will now hold bilateral discussions with colleagues working within the existing published planning totals for 1987-88 and 1988-89, of ..."

In addition to the Chief Secretary's paper, the Chancellor will be circulating a paper on the economic prospects. A draft of this will be sent to you in a few days' time.

I am copying this letter to Joan MacNaughton in the Lord President's Office and to Brian Unwin in the Cabinet Office.

Yours,

Jim

JILL RUTTER  
Private Secretary

Agg. Exch. Grant  
Police Pay  
7 1/2%



## SUMMARY OF NET ADDITIONAL PROPOSALS(1)

Defence	134.0	154.0	462.0
FCO - Aid	30.6	66.4	111.1
FCO - Diplomatic Wing	9.0	8.9	10.4
European Communities	-50.0	-350.0	125.0
IBAP and other CAP	100.7	105.8	98.6
Domestic Agriculture	18.5	21.5	20.9
Forestry	-0.1	-1.1	-1.5
DTI	73.9	93.0	103.2
ECGD	-14.0	-9.3	67.0
Energy	15.0	9.0	-2.0
Employment(2)	-	-	-
Transport	72.5	118.5	153.0
Housing	751.0	747.0	745.0
DOE - Other	221.0	243.1	236.0
Home Office	122.7	123.3	159.6
Lord Chancellor's Dept	30.0	53.8	9.7
DES	346.0	419.0	495.4
OAL	18.0	26.5	29.5
Health	446.5	523.0	805.0
Social Security	1168.0	1213.0	2062.0
Scotland	20.1	-4.5	40.5
Wales	5.9	-2.1	-
Northern Ireland	-53.6	-35.5	-17.7
Chancellor's Depts	234.7	298.8	394.7
PSA	95.8	101.1	103.4
Other Depts	<u>77.0</u>	<u>94.8</u>	<u>113.8</u>
	<u>3873.2</u>	<u>4718.0</u>	<u>6384.6</u>

(1) Excludes bids for local authority relevant current spending, nationalised industries and the territorial consequences of bids for comparable English programmes.

(2) Agreement reached.



SECRET

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C(86)

July 1986

Copy No

## 1986 PUBLIC EXPENDITURE SURVEY

Memorandum by the Chief Secretary, Treasury

The report on the baseline for the 1986 Survey, covering both expenditure to be incurred and the outputs and performance to be achieved, was circulated on 30 May. Colleagues have also completed an examination of their programmes and where they are seeking additional provision, have put their proposals to me. I have circulated a summary of departmental bids - my minute to the Prime Minister of [7 July]. This paper examines the prospects for public expenditure and makes proposals for the next stage of the Survey.

2. In recent years it has been the practice to consider the prospects for local authority current expenditure separately in E(LA) and for the aggregate objectives for nationalised industry external financing limits to be considered at a separate meeting of E(A). This year I believe it would be helpful, in considering the overall objective for public spending to discuss the position reached on local authority expenditure; and to set the objectives for the nationalised industries as part of the wider picture. The Lord President's minute to the Prime Minister of [ ] provides a progress report on the discussions in E(LA). On nationalised industries, departments have already received copies of the Investment and Financing Review (IFR). The position is further discussed in paragraph 12 below.

Expenditure Baseline

3. For 1987-88 and 1988-89 the baselines for individual programmes have been the figures in the 1986 public expenditure



White Paper (Cmnd 9702) plus the changes announced in the Budget for employment measures, together with a few minor technical adjustments. For 1989-90 we agreed to construct the baseline for individual programmes by adding 2½ per cent to the provision for 1988-89, but consideration of the aggregate planning total figure for that year was left until now.

Proposals for expenditure

4. Although colleagues were asked to scrutinise personally priorities within their programmes and to make an effort to avoid upward pressures within their programmes, substantial bids have been put forward, full details of which were set out in my minute of 7 July. It is very disappointing that so few offsetting savings were identified and that bids were not in general supported by statements of objectives. In my bilaterals I will want to take a good deal further the setting of targets and the measures on which subsequent evaluation would be based. It is clear that the bids made are far in excess of what can be accommodated and that the problem of establishing priorities in the Survey will therefore be severe.

5. Firm control of public spending is central to our economic policy. It is an essential part of our efforts to improve the performance of the economy, and the prospects for both output and jobs, by limiting the role of the state and enabling us to reduce the burden of public borrowing and taxation. It has played an indispensable part in bringing inflation to the lowest level for 18 years. Moreover these achievements, coupled with the reputation we have established for prudent financial management, are the reason why we succeeded in weathering both the miners' strike and the collapse in oil prices without any financial crisis. Over the past year both long and short term interest rates have fallen by 2½ per cent, and are now in single figures for the first time since 1973. But further progress is critically dependent on our retaining the confidence of financial markets.



6. If we are not to put all this at risk, it is essential that in the Survey we once again work within the existing and published planning totals for 1987-88 and 1988-89. For 1989-90 we agreed to set the uplift for individual programmes a little below the rate of inflation of 3 per cent assumed for that year in the MTFS. I propose that we now confirm that the planning total should rise by 3 per cent. This will allow a margin for the adjustment of priorities between programmes. This gives broad planning totals for the three years of £144 billion, £149 billion and £153 billion.

#### Reserves

7. In the White Paper, Reserves of £4½/6¼/8 billion were set for the three years of the plans, figures which were large compared with those set in previous White Papers. In the current year it is already clear that the Reserve of £4½ billion will be under extreme pressure. I must, therefore, treat all applications for access to the Reserve in the current year most strictly and seek colleagues' co-operation in ensuring that cost increases are absorbed and underspendings surrendered.

8. The precise level of the Reserves required for future years depends in part on the decisions taken on programmes during the course of the Survey. If, for example, provision made in programmes is as realistic as possible, lower Reserves can be set than if, as was the case with local authorities in the last Survey, provision is made on a notional basis. I propose, therefore, to consider the precise level of the Reserves later in the Survey, but we must leave, within the public expenditure totals, enough scope for Reserves which are fully adequate, rising through the period and credible to the financial markets.

#### Privatisation proceeds

9. During the course of the last Survey the projections for privatisation proceeds were raised from £2¼ billion to £4¼ billion. I indicated in my minute of 6 February that the privatisation programme was now in top gear and that additions to the level of proceeds could not be expected. Although



SECRET

preparations for the BGC sale are proceeding well, and other issues are being worked upon, there is no scope for receipts to be significantly further increased. The programme is now heavily dependent on a small number of large issues and a delay to any one of them could have a major impact on the total. Moreover, the sums raised by these issues will depend very much on market conditions, which in turn will be strongly influenced by the outcome of the Survey.

works? }

Local authority current expenditure

10. The Lord President's minute of [ ] July shows that E(LA) have recommended that provision for LA current expenditure in England in 1987-88 should be set at [£ ] billion, an increase of some [£ ] billion on our existing plans, which are the same in cash as those for 1986-87. This represents [ ] on local authorities' budgets for 1986-87. It is realistic, in that it goes a long way towards meeting the local authorities' own estimates of the cost in real terms (measured by the GDP deflator) of continuing their existing policies; and yet it indicates to them (and others) that they must contain their expenditure. We must signal to them also the vital need to limit the growth of their pay bills.

11. If the Cabinet endorse this recommendation, the Environment Secretary proposes, I understand, to make a statement about total provision and grant before the House rises in July. There is some risk that an announced increase in provision of this magnitude, before we are ready to set out the rest of our plans, will have an adverse effect on the markets. On the other hand, I accept that there are operational reasons for making a statement in July and failure to do so might itself provoke damaging speculation. We will need, however, to consider the terms of the Environment Secretary's announcement very carefully.

Nationalised Industries

12. I am circulating separately officials' report on the 1986 Investment and Financing Review of the nationalised industries. This shows that the industries' own initial and unamended bids, made in April, are over the baseline by approximately £850 million, £750 million and £575 million in



SECRET

each of the three years respectively. These bids are clearly unrealistic and cannot be accommodated. They now need to be scrutinised rigorously and a number of industries are revising their proposals so that we will have a sounder basis for judging them. In the meantime we cannot take a firm view on the likely overall outcome, but our aim must be to reduce the provision at least to baseline and, where we can, below it. Failure to achieve this will mean greater pressure on departmental programmes.

Running costs and manpower

13. Additional bids for increases in provision for running costs amount to over £550 million in 1987-88 and higher sums for later years. If they were conceded the increase in total running costs expenditure would be more than 6½ per cent on a year earlier, very substantially in excess of the present and expected rate of inflation. Increases of this order would scarcely demonstrate our intention to control expenditure on departmental administration.

14. A significant part of this increase is accounted for by additional bids for pay. But real increases must be matched by growing productivity if the overall rise in departmental costs is to be kept close to the rise in prices in the economy generally. Departments should be planning the measures necessary to achieve this.

15. Another large part of the increase claimed for running costs is accounted for by bids for additional manpower. Colleagues will know from the minute I sent to the Prime Minister of 17 February that we must keep a very tight rein on manpower numbers if we are to hold to our published manpower targets. The position now is that if the additional numbers sought by departments were agreed, the target of 590,400 staff at 1.4.88 would be exceeded by 14,000, reversing the downward trend achieved since we took office.

16. I must therefore ask colleagues to re-examine their departmental programmes with a view to reducing the increase in running costs to much more modest levels and to keeping at or below their manpower targets.



Conclusion

17. I invite colleagues to agree:

- (a) that I should now conduct bilateral discussions with colleagues on their individual public expenditure programmes, and on their targets for running costs and manpower and should report back to Cabinet in early autumn on the position reached;
- (b) that we work within the existing and published public expenditure planning totals of £144 billion, £149 billion and £153 billion respectively for the three years 1987-88 to 1989-90;
- (c) [that provision and grant for local authority current expenditure be set as recommended in the Lord President's minute and that the Secretary of State for the Environment should announce this before the Recess,]
- (d) that we should aim to hold the provision for nationalised industries at least to baseline and where possible below that;
- (e) that we should seek to restrain the growth of running costs and that existing manpower targets should be held.

[JM]

Treasury Chambers

July 1986



SECRET

DRAFT MINUTE FOR THE CHIEF SECRETARY TO SEND TO  
Prime Minister

**1986 PUBLIC EXPENDITURE SURVEY: ADDITIONAL BIDS**

I have already circulated to colleagues the 1986 Public Expenditure Survey Committee Report, which brings together the detailed factual and analytical material on the baseline position for this year's Survey. I now attach to this minute summaries of the bids for additional resources that colleagues have put to me.

2. The details of proposals for each department are set out in the attached annexes. As in earlier years, proposals for the level of local authority current expenditure and nationalised industries' external finance are being dealt with separately under the aegis of E(LA) and the Investment and Financing Review.

3. Your Private Secretary's letter of 25 February recorded your request that colleagues should give their closest personal attention to avoiding requests for additions to their programmes; and indicated that pressures should be met by reordering priorities and by greater efficiency, not by seeking extra resources. I have, however, received large bids for extra resources from most colleagues. Very few have put forward offsetting savings which would enable them to reorder priorities within baselines.



SECRET

4. It also striking how few of the additional bids have been supported by specific targets for achievement and the measures on which subsequent evaluation would be based. I will be pursuing this aspect of the proposals further in my bilateral discussions.

5. I will be putting proposals on our objectives for the Survey to the July Public Expenditure Cabinet. But it is clear we cannot accommodate bids either for programmes or administrative costs on the scale colleagues have put forward.

6. I am sending copies of this minute to members of the Cabinet, the Minister of State (Privy Council Office) and Sir Robert Armstrong.



## CONFIDENTIAL

## MINISTRY OF DEFENCE

	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Survey Baselines	18,817	18,990	19,268
<b>AGREED ADDITIONS</b>			
- Contribution to advanced order for AOR 02	-	12	24
<b>PROPOSED ADDITIONS</b>			
(i) 3% uplift for 1989-90	-	-	94
To increase the baseline by the difference between the 2½% cash uplift factor applied generally to programmes and the 3% GDP deflator assumed in the 1986 FSBR. Gross running costs element £27 million.			
(ii) Falklands costs	-	-	198
To increase the baseline by the equivalent of the £192 million for Falklands costs in 1988-89 absorbed by MOD without a separate addition to the baseline.			
(iii) Costs of 1986 AFPRB award	95	99	102
To meet the additional costs in later years of the 1986 AFPRB award. Gross running costs element £3.5 million, £3.6 million and £3.6 million respectively.			
(iv) Dockyards pensions	36	37	38
To meet the costs passed on to MOD of employers' pensions contributions following planned contractorisation of the Royal Dockyards.			
(v) PRS major civil works	3	6	6
To meet the costs of major capital works following the decision to transfer responsibility to Departments.			
<b>TOTAL</b>	134	142	438



**PROPOSED REDUCTIONS**

No reductions are offered by MOD.

<b>PROPOSED NET CHANGE TO BASELINE</b>		<b>+134</b>	<b>+154</b>	<b>+462</b>
(of which running costs		<b>+35</b>	<b>+36</b>	<b>+306</b> )
MANPOWER)	1.4.87	1.4.88	1.4.89	1.4.90
Proposed (thousands)	165.0	164.0	163.0	163.0
Change from baseline	-	-	-	-



## FOREIGN AND COMMONWEALTH OFFICE: OVERSEAS DEVELOPMENT ADMINISTRATION

	£ million		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Survey Baseline	1350	1391	1426
<b>ADDITIONAL BIDS</b>			
(i) Net aid programme	30	65	110
To increase aid programme in line with projected increase in GNP over Survey period. of which running costs	-	-	-
(ii) Other external relations	0.5	1.7	1.5
To meet additional cost of pensions. of which running costs	-	-	-
<b>TOTAL</b>	<b>30.5</b>	<b>66.7</b>	<b>111.5</b>
<b>PROPOSED REDUCTIONS</b>			
(i) Aid administration	-0.1	-0.1	-0.6
Savings from taking in-house Crown Agents' pensions work			
<b>PROPOSED NET CHANGE TO BASELINE</b>	<b>+30.4</b>	<b>+66.6</b>	<b>+110.9</b>
(of which running costs	-	-	-)
MANPOWER	1.4.87	1.4.88	1.4.89
Proposed	1640	1615	1615
Change from baseline	-	-	-



## CONFIDENTIAL

## FOREIGN AND COMMONWEALTH OFFICE: DIPLOMATIC INFORMATION, CULTURE

	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Survey Baseline	660	693	711
<b>PROPOSED ADDITIONS:</b>			
(i) Security	9.2	9.4	10.2
for works to protect Diplomatic staff and property overseas from terrorism attacks and other forms of violence.			
of which running costs	0.4	0.4	0.4
(ii) Property services agency works	1.3	1.0	0.8
bid resulting from devolution of major new works to departments for home security works and computer installation, and increase for minor maintenance and redecoration.			
of which running costs	0.5	0.5	0.5
(iii) Information Technology Project	-	0.1	1.0
of which running costs	-	-	-
<b>TOTAL</b>	10.5	10.5	12.0
<b>PROPOSED REDUCTIONS</b>			
(i) Overseas Price Movements	-1.5	-1.6	-1.6
adjustment to take account of movements in sterling and overseas inflation.			
of which running costs	-1.5	-1.6	-1.6
Total	9.0	8.9	10.4
<b>PROPOSED NET CHANGE TO BASELINE</b>	<b>9.0</b>	<b>8.9</b>	<b>10.4</b>
(of which running costs	-0.6	-0.7	-0.7
MANPOWER	1.4.87	1.4.89	1.4.90
Proposed	8229	8152	8152
Change from baseline	+124	+130	-



EUROPEAN COMMUNITIES

	<u>1987-88</u>	<u>1988-89</u>	£ million <u>1989-90</u>
Survey Baseline	1,149	951	975
<b>PROPOSED ADDITIONS</b>			
(i) Changed net payment projection	-	-	125
Assumptions changed since last Survey.			
<b>TOTAL</b>	-	-	125
<b>PROPOSED REDUCTION</b>			
(i) Changed net payment projection	-50	-350	-
VAT adjustment payment for August 1987 revised down. Correction to 1987 abatement now projected to be paid in autumn 1988.			
<b>TOTAL</b>	-50	-350	-
<b>PROPOSED NET CHANGE TO PROVISION</b>	-50	-350	+125
(of which running costs	-	-	-)



CONFIDENTIAL

INTERVENTION BOARD FOR AGRICULTURAL PRODUCE AND OTHER CAP\*

		<u>1987-88</u>	<u>1988-89</u>	£ million <u>1989-90</u>
Survey Baseline		1629	1661	1702
<b>PROPOSED ADDITIONS</b>				
(i) CAP		100.2	105.2	98.1
Mainly increase in beef support costs, estimates subject to revision.				
(ii) Administration - running costs		0.5	0.6	0.5
Additional staff to cover increased work load.				
	<b>TOTAL</b>	100.7	105.8	98.6
<b>PROPOSED REDUCTIONS</b>				
	none			
<b>PROPOSED NET CHANGE TO BASELINE</b>				
		100.7	105.8	98.6
(of which running costs		0.5	0.6	0.5)
MANPOWER	1.4.87	1.4.88	1.4.89	1.4.90
Proposed	725	693	693	718
Change from baseline	78	40	25	-

\*EC receipts are credited to programme 2.7 (Net Contributions to the European Communities)



CONFIDENTIAL

DOMESTIC AGRICULTURE FISHERIES AND FOOD

	£ million		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Survey Baseline	720	734	752
<b>PROPOSED ADDITIONS</b>			
(i) Flood protection	6.0	6.0	3.5
Follow on to bid for 1986-87 to combat erosion of flood protection works possible consequences for Local Authority Relevant Current and Nationalised Industries External Financing Limits. Target: to reduce the risk of flooding for 2,000 homes and numerous commercial and industrial units.			
(ii) Agricultural Development Programme - Scotland	0.0	0.2	3.9
Assistance to Scottish islands (excluding Western Isles). Target - to improve agricultural structures in order to combat rural depopulation.			
(iii) Northern Ireland Agricultural Development Programme	0.0	0.9	2.6
Proposed extension of scheme for Agriculturally Less Favoured Areas. Target - as for (iii)			
(iv) Other agricultural support	1.0	1.2	0.8
Coypu eradication in East Anglia, poultry welfare, grants to complement Community grants for fish marketing, administration (by Milk Marketing Board) of the milk outgoers scheme. Target - various.			
(v) Demand determined expenditure	6.2	2.3	0.0
Mainly payments under closed capital grant schemes. Forecasts of expenditure (including new schemes) subject to review. Target - to meet commitments under current policies.			
(vi) Administration	5.7	7.7	10.5
(of which running costs	4.1	6.1	9.0)
Mainly information technology, pay and accommodation. Targets - various			
(vii) Redundancy - MAFF and DAFFS	1.0	0.6	0.7
(of which running costs	0.7	0.4	0.5)
Consequences of 1984 Survey decisions on advisory services and research and development. Target - achievement of agreed expenditure reductions.			



(viii)	Research/advisory services DAFS	1.0	1.0	1.0
	Rephasing of cut in 1984 Survey target - reduce redundancy costs			

(ix)	Research Institutes/College DAFS	1.0	0.4	0.8
	Pay and pensions - non running costs			

	<b>TOTAL</b>	21.9	24.0	27.6
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**PROPOSED REDUCTIONS**

(i)	Flood protection	-1.5	-1.5	-1.5
	Deferral of coast protection works			

(ii)	Northern Ireland Agricultural Development Programme. Delay in start of scheme.	-1.9	0.0	0.0
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(iii)	Demand determined	0.0	0.0	-1.4
	Estimating change			

	<b>TOTAL</b>	-3.4	-5.2	-6.7
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	<b>PROPOSED NET CHANGE IN PROVISION</b>	18.5	18.8	20.9
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	(of which running costs	4.8	6.1	9.5)
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MANPOWER	1.4.87	1.4.88	1.4.89	1.4.90
Proposed	11,169	11,079	11,079	11,079
Change from present targets	-	-	-	-

Note: Further additions may be proposed for alternative land use, fisheries, the European Community research and development programme, and for the cost of transferring to departments the responsibility for capital works.



FORESTRY

		<u>1987-88</u>	<u>1988-89</u>	<u>£ million</u> <u>1989-90</u>
Survey Baseline		54	56	57
<b>PROPOSED ADDITIONS</b>				
Pay realism and pensions - non running costs		0.7	0.8	1.0
Grants to private woodland owners		0.4	0.7	1.2
Payments to contractors and operating expenses		3.0	3.4	4.5
	<b>TOTAL</b>	4.1	4.9	6.7
<b>PROPOSED REDUCTIONS</b>				
Travelling and administration expenses		-0.1	-0.1	0
Timber receipts		-4.1	-5.9	-8.2
	<b>TOTAL</b>	-4.2	-6.0	-8.2
<b>PROPOSED NET CHANGE IN PROVISION</b>				
(of which running costs		-	-	-)
MANPOWER	1.4.87	1.4.88	1.4.89	1.4.90
Proposed	5,796	5,640	5,580	5,520
Change from baseline	-70	-118	-128	-



DEPARTMENT OF TRADE AND INDUSTRY

	£ million		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Survey Baseline	953	940	964
<b>AGREED REDUCTION</b>			
Advanced order for AOR 02	-	-6	-12
<b>PROPOSED ADDITIONS</b>			
(i) EUREKA	+15.0	+30.0	+40.0
Additional funding for support for UK firms participating in Eureka collaborative R&D projects. Target: additional 20 projects a year.			
(ii) PULL THROUGH	+6.3	+12.5	+18.8
Transfer of R&D support by as yet unspecified departments to match resources to be found withing DTI programmes. Target: commence 18 programmes.			
(iii) REGIONAL DEVELOPMENT GRANTS	+10.5	-	-
Defer the moratorium planned for 1.4.87 on payment of Regional Development Grants.			
(iv) European Regional Development Funds			
Non-Quota	+10.5	+9.0	-
Increase fully offset by receipts on programme 2.7			
(v) OTHER	+6.1	+5.5	+2.4
Includes accommodation expenses (major and minor works), residual costs of BT flotation and Companies Registration Office.			
<b>TOTAL ADDITIONS</b>	<b>+48.4</b>	<b>+57.0</b>	<b>+61.2</b>
<b>PROPOSED REDUCTIONS</b>			
MINERAL STOCKPILE	-5.2	-	-
Increased disposals.			
Home Shipbuilding Credit Guarantee Scheme	-3.1	-	-
Revised interest rate assumptions.			
LAUNCH AID	-1.5	-	-
Higher than expected levy receipts from sales of RB211.			



IRON AND STEEL EMPLOYEES READAPTATION

BENEFITS SCHEME

-0.7                    -                    -

Fewer redundancies than expected.

TOTAL REDUCTIONS

-10.5                    -6                    -12

PROPOSED NET CHANGE TO BASELINE

+37.9                    +51.0                    +49.2

(of which running costs

2.1                    1.5                    1.4)

MANPOWER

1.4.87

1.4.88

1.4.89

1.4.90

Proposed

12,750

12,461

12,461

12,461

Change from baseline

-

-

-

-

OTHER ADDITIONS

EURO-PES

+36.0

+42.0

+54.0

To adjust PES programme 2.7 for industrial share of 6 becu EC framework for R&D.

Figures reflect that part of 4.8 becu which is additional to DTI Euro-pes baseline.

The remaining 1.2 becu for Esprit is assumed not to be a DTI responsibility. No output or performance targets.



## CONFIDENTIAL

## EXPORT CREDITS GUARANTEE DEPARTMENT

		£ million		
		<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Survey Baseline		220	128	131
PROPOSED ADDITIONS				
(i)	Cost Escalation	0.6	-	-
<p>Technical changes relating to the value and timing of existing commitments. (Scheme discontinued from 1 April 1984.</p>				
(ii)	Tender to Contract	2.0	2.0	2.0
<p>Transfer of scheme to public expenditure programme. Scheme provides exporters tendering in foreign currencies for major export contracts with protection against exchange rate movements. It has been operated since 1977 as one of ECGD's trading activities.</p>				
	<b>TOTAL</b>	2.6	2.0	2.0
PROPOSED REDUCTIONS				
(i)	<u>Cost Escalation</u>	-	-1.9	-1.6
<p>Lower Treasury inflation forecasts; the bringing forward of some payments to 1987-88.</p>				
(ii)	<u>Interest Support</u>	-15.6	-8.4	-66.4
<p>Mainly revised Treasury assumptions of commercial interest rates and revised forecasts of outstanding Fixed Rate Export Finance business.</p>				
(iii)	<u>Mixed Credit Matching Facility</u>	-1.0	-1.0	-1.0
<p>Expectation or reduced calls on this facility.</p>				
	<b>TOTAL</b>	-16.6	-11.3	-69.0
PROPOSED NET CHANGE TO BASELINE				
		-14.0	-9.3	-67.0
MANPOWER*	1.4.87	1.4.88	1.4.89	1.4.90
Proposed	1834	1736	1672	1600
Changes from baseline	+37	+124	+333	+261

\*ECGD's running costs, including manpower costs, are outside the public expenditure planning total.



CONFIDENTIAL  
DEPARTMENT OF ENERGY

		£ million		
		1987-88	1988-89	1989-90
Survey Baseline		313	323	331
<b>PROPOSED ADDITIONS</b>				
(i)	Atomic Energy Authority: External Financing Limit.	13	5	6
Prospective phasing and new capital expenditure for commercial business.				
(ii)	Payments to AEA Increased expenditure on safety post-Chernobyl.	2.0	4.0	-
(iii)	Other Increases on energy efficiency, non-nuclear R&D and central and misc services.	3.5	3.6	1.9
	<b>TOTAL</b>	19.5	15.6	8.9
<b>PROPOSED REDUCTIONS</b>				
(i)	Various, mainly estimating (Coal Firing scheme and Interest Relief Grant Scheme)	-5.5	-7.6	-11.9
<b>PROPOSED NET CHANGE TO BASELINE</b>				
	(of which running costs	+14	+8	-3
		-	-	-)
MANPOWER	1.4.87	1.4.88	1.4.89	1.4.90
Proposed	1055	1031	1023	1023
Change from baseline	-	-	-	-

**NOTE**

The Secretary of State for Energy's proposals included no provision for any increases in the AEA EFL, which is still under discussion in the context of the AEA's corporate plan. The increases indicated for the AEA are therefore provisional.



## CONFIDENTIAL

## DEPARTMENT OF EMPLOYMENT

	£ million		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Survey baseline	3,947	4,132	4,235
<b>PROPOSED ADDITIONS</b>			
(i) <u>Restart</u>	37.3	39.9	40.5
Extend programme to cover 6-months as well as 12-months unemployed. Target: extra 1.3 million interviews by MSC, 260,000 more people attending Restart courses and extra 10,000 taking up Jobstart allowance, resulting in 22,660 off count in 1987-88, 28,700 in 1988-89 and 28,700 in 1989-90, which in DE's view would lead to benefit savings equivalent to the gross costs.			
(of which running costs	17.2	17.5	17.9)
(ii) <u>Inner cities initiative</u>	8.2	8.5	8.6
Extend initiative throughout Survey period.			
(of which running costs	1.0	1.1	1.1)
(iii) <u>Social security review</u> (all running costs)	4.5	7.5	6.5
Implement DHSS Common Rules Package and Social Security Review.			
(iv) <u>UBS: revised economic assumptions</u>	3.7	6.0	6.1
(all running costs) Higher unemployment assumptions.			
(v) <u>DE Group salaries</u> (all running costs)	9.8	10.1	9.7
Meet costs to DE Group of salary restructuring for clerical and ADP grades.			
(vi) <u>Property Repayment System</u>	9.0	6.6	5.8
Transfer from PSA to DE of PES bidding responsibility for Part I and Part II works.			
(vii) <u>Minor running costs</u>	2.2	0.5	7.2
National Unemployment Benefit System (NUBS); Terminal Replacement Enquiry System (TRES).			
(viii) <u>Redundancy Payments</u>	20.2	23.0	24.8
Increased payments and higher unit costs compared with White Paper assumptions. Target: would pay for extra 50-55,000 payments in each year.			
(ix) <u>Tourism</u>	5.2	6.3	6.4
Provide 10 per cent extra resources in each year.			



(x)	<u>Technical and Vocational Education Initiative (£900m level)</u>	12.0	41.0	84.0
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Extended initiative on national basis from September 1987. Target: to give all 14-18 year olds in GB opportunity to participate in initiative on basis of funding of £30,000 per participating school.

(of which running costs		1.0	1.5	2.4
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(xi)	<u>Other</u>	10.6	11.8	12.0
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National Council of Vocational Qualifications; EC Training Initiative (COMMETT), International Labour Organisation, City Action Teams. Youth enterprise; sheltered employment.

	<b>TOTAL</b>	122.7	161.2	211.6
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Of which running costs		39.4	44.2	50.9
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#### PROPOSED REDUCTIONS

(i)	<u>Community Programme</u>	-20.0	-20.0	-20.0
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Operate 255,000 filled places as ceiling rather than target for programme, so that actual total of filled places would run slightly below ceiling to ensure not exceeded.

(ii)	<u>Youth Training Scheme</u>	-15.1	-36.2	-60.0
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£15 million saving in each year from freezing YTS basic grant and managing agents' fee at present level. Remaining savings committed but as yet unidentified.

(iii)	<u>Technical &amp; Vocational Education Initiative</u>	-2.0	-8.0	-26.0
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Excess provision as 4-year pilots started in 1983 begin to run out.

(iv)	<u>Job Release Scheme</u>	-10.7	-16.2	-18.1
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Lower forecast take-up of scheme compared with White Paper assumptions.

(v)	<u>Other</u>	-0.2	-1.7	-3.6
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	<b>TOTAL</b>	-48.0	-82.1	-127.7
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(of which running costs		-	-	-
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	<b>PROPOSED NET CHANGE TO PROVISION</b>	<b>+74.7</b>	<b>+79.1</b>	<b>+83.9</b>
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(of which running costs		39.4	44.2	50.9)
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MANPOWER	1.4.87	1.4.88	1.4.89	1.4.90
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Proposed	60,736	59,039	58,481	58,989
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Change from baseline	1775	2850	2248	-
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## CONFIDENTIAL

## DEPARTMENT OF THE ENVIRONMENT - HOUSING

	£ million		
	1987-88	1988-89	1989-90
Survey baseline	2368	2412	2473

**PROPOSED ADDITIONS**Public Sector Renovation

(i) Repair of Council Housing	315	325	335
To provide local authorities with increased resources to carry out some renovation work to a further 157,000 dwellings.			
(ii) Urban Housing Renewal Unit	150	150	150
To secure improvements in the management and utilisation of the housing stock on 250 estates (15,000 dwellings) where vacancy rates, rent arrears, crime, vandalism etc are significantly higher than average, to bring them closer to local norms.			
(iii) Community Refurbishment Scheme	20	20	20
27 Community refurbishment schemes to improve the environment on housing estates, creating 4000 job opportunities for local people.			
(iv) Privatisation	30	30	30
Grants for privatisation initiatives involving 3000 dwellings.			

Provision for rent

(v) Local authority new provision for rent	10	10	5
To enable local authorities to meet their statutory obligations to repurchase formerly publicly owned defective houses and flats. An estimated 500 extra houses (making a total of 2000) will be repurchased in 1987-88.			
(iv) Housing association new provision for rent	50	60	50
For housing associations to provide an additional 5000 units over 3 years for priority groups allowing up to 2500 extra starts in 1987-88.			
(vii) Housing association privately financed pilot schemes	30	30	30
To meet 30% of the cost of pilot schemes by housing associations to provide rented accommodation for homeless people, the elderly and young job movers with the balance of the cost met by private finance.			



Private Sector Renovation

(vii) Housing Defects Act	20	20	20
To enable local authorities to meet their statutory obligations to repair formerly publicly owned defective houses and flats. An estimated 1400 additional grants in 1987-88			
(ix) Home improvement grants	40	40	40
To meet mandatory and committed expenditure on home improvement grants. An additional 12,000 mandatory grants a year.			
(x) Home improvement grants	40	40	40
For an additional 11,500 improvement grants a year to enable disabled people to carry out essential adaptation work.			
(xi) Home improvement grants.	25	25	25
For 6,500 additional grants a year to poorer owner occupiers for work to counter disrepair.			

Home Ownership

(xii) Home ownership for tenants of charitable housing associations (HOTCHA) scheme.	10	0	0
To provide for an additional 700 transferable discounts for tenants of charitable housing associations, making a corresponding number of new tenancies available.			
(xiii) Housing association	5	5	5
To enable housing associations to provide up to 250 extra units a year on shared ownership terms.			
(xiv) Housing subsidy	21	39	-
Revised forecast reflecting higher than expected loan debt and number of dwellings in stock.			

<b>TOTAL</b>	766	794	750
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**PROPOSED REDUCTIONS**

(i) Homes insulation scheme	-5	-5	-5
Acceptance of same queueing for grants for roof insulation. Number of grants would be reduced from 225,000 a year to 170,000 a year.			
(ii) Housing subsidy	-10	-42	-
Economic assumptions changes.			

<b>TOTAL</b>	-15	-47	-5
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<b>PROPOSED NET CHANGE TO PROVISION</b>	751	747	745
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CONFIDENTIAL

DEPARTMENT OF THE ENVIRONMENT - OTHER ENVIRONMENTAL SERVICES

	£ million		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Survey Baseline	880	907	930
<b>PROPOSED ADDITIONS*</b>			
(i) Local Environmental Services Capital	125	127	122
Local Authority Expenditure. To fulfil Government undertaking that allocations to each authority would be at least 80% of 1985-86 allocations, and provide for investment. Detailed use of LES capital is at local authorities discretion so no targets set.			
(ii) Urban Regeneration Grant	10	15	20
Capital. Provision for new statutory grant to support and encourage private sector led area improvement without the local authority acting as intermediary. Targets: for 1987-88, initiation of support in at least 7 areas, reclamation of 100 acres of land, 2,000 homes or factory spaces, £40m plus linked private sector investment.			
(ii) Derelict Land	15	15	15
Mainly Local Authority Expenditure. Capital. To contain the net total of derelict land: reinstatement of private housing and industry in inner cities: preservation of green belts from unnecessary encroachment. Targets: extra 450 acres a year of land for direct redevelopment +250 acres a year of blight removal.			
(iv) Urban Development Corporations	45	70	70
Mainly capital. Designation of additional UDC's and maintenance of progress in London and Merseyside. Targets (i) new UDCs - 1500 acres of land reclaimed and serviced; £200-£250 a private investment; 12,000-15,000 job/home spaces. (2) Existing UDCs: new road, essential for Canary Wharf; servicing of 850 acres of Royal Docks land; completion of Merseyside reclamation programme by 1991.			
(v) Development Commission	2.5	6	9
Increased expenditure on economic programmes to diversify rural economy, offset of farm jobs. Targets 3000m <sup>2</sup> factory space, 500 jobs in 1987-88, pro-rata in later years.			

\* In sub-programme order



(vi) Nature Conservancy Council 7 7 7  
 Mainly for costs of site safeguard under 1981 Wildlife and Countryside Act. Targets: complete statutory renotification of sites of special scientific interest on time.

(vii) Departmental Administration 8 7.3 7.5  
 (Running Costs) Demands of implementing collectively agreed local government and other policy initiatives, and the gap between recent pay settlement costs and baseline provision. Targets: maintain delivery of government policy; continue to produce efficiency savings.

(viii) Civil defence 2.8 4.3 5.8  
 Implementation of OH(HD) committee's decision to give high priority to remedial action programme in the water industry.

(ix) other bids 7.8 8.6 9.8  
 Mainly current.

	<b>TOTAL</b>	223.1	260.2	266.1
of which running costs		6	7.3	7.5

PROPOSED REDUCTIONS

(i) New Towns - -15 -28  
 Capital. Increased share of investment costs borne by private sector.

(ii) Other 02.1 -2.1 -2.1  
 Capital

	<b>TOTAL</b>	-2.1	-17.1	-30.1
of which running costs		-	-	-

	<b>PROPOSED NET CHANGE TO PROVISION</b>	+221	+243.1	+236
of which running costs		+6	+7.3	+7.5

MANPOWER

	1.4.87	1.4.88	1.4.89	1.4.90
Proposed	6550	6550	6550	-
Changes from baseline	+130	+195	+195	6521



CONFIDENTIAL

HOME OFFICE

	£ million		
	1987-88	1988-89	1989-90
Survey Baseline			
Prisons	728.0	768.0	787.0
Non-Prisons	420.0	417.0	428.0
<b>PROPOSED ADDITIONS</b>			
(i) Prisons - building	6.0	0.4	27.1
To maintain the current building programme and design 2 further new prisons. Target: to keep the gap between prison population and number of places from increasing in 1990s.			
(ii) Prisons - other	24.5	20.7	21.8
- running costs	8.1	8.8	12.4
To remedy shortfall in receipts from sales of quarters; to increase provision for prisoners' education; and increases in GAE.			
(iii) Victims support	37.3	43.7	51.3
To keep pace with applications under Criminal Injuries Compensation Scheme and reduce arrears. Target: arrears of 20,000 by 1991-92; and to fund an extra 200 to 400 local victim support scheme coordinators.			
(iv) Law and Order Services	10.0	9.6	14.6
- running costs	0.3	0.3	0.3
Miscellaneous increases in centrally funded services for police; in probation service; and crime prevention publicity.			
(v) Fee earning services	3.8	4.8	3.8
- running costs	3.2	3.2	3.3
Increases for Passport Department, Data Protection Registrar, Cable Authority and Gaming Board. Passport Department to handle 4.4 million applications in 1987-88.			
(vi) Other miscellaneous bids	3.2	3.2	3.2
- running costs	3.1	3.1	2.5
Increases for research; grants to combat racial disadvantage; PSA accommodation and new works; and publicity on electoral representation.			
(vii) Information technology	3.8	4.5	6.1
- running costs	0.7	1.3	1.6
To fund various computerisation projects including prison services' inmates information system.			



(viii) Non-prisons - manpower

- running costs 10.5 11.3 10.5

Extra 152 staff for Immigration and Nationality Department; 5 per cent pay award for 1987; additional overtime and casual staff in Passport Department and Directorate of Telecommunications.

(ix) LA non relevant current expenditure 2.7 2.8 2.8

To provide for the Imperial and National Service Grant.

(x) Fire Capital 24.8 23.7 23.2

To make realistic provision for capital expenditure by the fire service.

**TOTAL ADDITIONS** 142.0 141.4 184.5

(of which running costs 25.9 28.0 30.6)

#### PROPOSED REDUCITONS

(i) Prisons - building -5.4 -1.7 -

Slippage in prison building programme

(ii) Prisons - other -3.7 -5.2 -4.2

- running costs -3.0 -4.3 -4.0

Reduction in Prison Service Industries and Farms expenditure; rationalisation of stores; lower transfer costs; reduced PSA charges for HQ accommodation

(iii) Law and Order Services -6.4 -6.6 -11.5

- running costs -0.2 -0.1 -0.1

Reductions from adjustments within police central services programme

(iv) Fee earning services -0.6 -0.2 -5.1

Additional receipts from passport fees; irregular pattern of receipts under Data Protection Act. Administrative savings at Gaming Board.

**TOTAL REDUCTIONS** -19.3 -18.1 -24.9

(of which running costs -3.2 -4.4 -4.1)

**PROPOSED NET INCREASE IN PROVISION** +122.7 +123.3 +159.6

(of which running costs 22.7 23.6 26.5)



MANPOWER	1.4.87	1.4.88	1.4.89	1.4.90
Proposed	39,119	39,789	41,139	41,320
Change from baseline	-	+20	-	-

Notes: increases and reductions NOT ranked by the Home Secretary in any order or priority.



CONFIDENTIAL  
LORD CHANCELLOR'S DEPARTMENT

	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
			£ million
Survey Baseline	603.3	645.8	662.0
<b>PROPOSED ADDITIONS</b>			
Judicial Manpower paid from the Consolidated Fund	5.8	6.6	8.5
Growing volume of criminal cases coming to trial in the Crown Court. Target: To reduce average Crown Court waiting time to 8 weeks.			
(ii) Judicial Officers and fee-paid part-time Judges.	3.9	6.4	7.2
Growing volume of work in the courts. Target: to reduce average Crown Court waiting time to 8 weeks and to maintain level of service in County Courts.			
(iii) Jurors and Shorthand Writers	5.0	6.4	7.9
Growing volume of criminal cases coming to trial in the Crown Court. Target: To reduce average Crown Court waiting time to 8 weeks.			
(iv) Running costs	17.5	24.2	35.8
High pay settlements and increased volume of work in the courts. Targets: To reduce average Crown Court waiting time to 8 weeks and to maintain a level of service in County Courts (the latter is covered by fee income).			
(v) Legal Aid	4.2	8.1	7.5
Target: To fulfill statutory obligations			
(vi) Increased Computerisation in County Courts	0	5.6	6.7
Establishing a Central Claim Registry. Target: To release staff to meet growing volume of criminal work.			
(vii) Other	1.1	3.8	3.8
<b>TOTAL</b>	<b>37.5</b>	<b>61.1</b>	<b>77.4</b>
<b>LESS PROPOSED REDUCTIONS</b>			
(i) Court fees	-6.5	-7.3	-7.7
Increased business in the County Courts.			



(ii)	Other		-1.0	-	-
		<b>TOTAL</b>	-7.5	-7.3	-7.7
	<b>PROPOSED NET CHANGE TO BASELINE</b>		<b>+30.0</b>	<b>+53.8</b>	<b>+69.7</b>
	(of which running costs		17.5	24.2	35.8)
MANPOWER	1.4.87		1.4.88	1.4.89	1.4.90
Proposed	10,792		10,947	11,236	11,354
Change from baseline	58.6		911	1200	1318

NOTE: The Lord Chancellor will be making further additional bids for legal aid to reflect increases in volume as well as unit costs, after the outcome of the Efficiency Unit's scrutiny and the discussions with the legal professions about remuneration are known, and to cover the transfer of responsibility from PSA for the resource costs of specialised major works.



## CONFIDENTIAL

## DEPARTMENT OF EDUCATION AND SCIENCE

	£ million		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Survey Baseline	3,588	3,658	3,750
PROPOSED ADDITIONS			
(i) Universities	114.0	164.0	216.0
To provide for level funding against university cost inflation; for pay restructuring; and for new equipment.			
(ii) Science	50.0	65.0	75.0
To build up programmes in response to "national needs"; for new equipment; and to compensate for increases in pay and international subscriptions.			
(iii) Maintained sector capital	150.0	150.0	150.0
Extra resources (mainly for local authority spending): for 'basic need' and towards removal of 504,000 surplus school places over the Survey period; for a programme of capital repairs and renovation to school buildings; and for capital spending on buildings and equipment in polytechnics and FE colleges.			
(iv) Continuing education	10.4	12.9	18.4
To fund expansion of DES central PICKUP programme and provision of earmarked grants to institutions related to targets for increases in continuing education students (mainly local authority spending). Target: 5-fold increase in volume of updating training by 1991-92.			
(v) EC Higher Education programmes	5.0	6.5	11.0
To meet cost of paying EC students higher education fees. To offset provisional EUROPEX excess of costs of 2 EC programmes: COMETT - forging closer links between industry and higher education; and ERASMUS - increasing student mobility. Mixed central and local government expenditure.			
(vi) Student awards	8.0	15.0	18.0
To permit student maintenance awards and tuition fees to be increased in line with projected GDP inflation.			
(vii) Cranfield	3.5	-	-
Transitional endowment to facilitate privatisation of Cranfield School of Management.			
(viii) DES running costs	5.0	6.0	7.0
Increase for GAE; to meet costs of 90 additional staff above the 1 April 1987 manpower ceiling; and to fund continuing costs of 1986-87 and future years' pay settlements.			



	<b>TOTAL</b>	345.9	419.4	495.4
(● which running costs		5.0	6.0	7.0

**TOTAL PROPOSED REDUCTIONS**

none

<b>PROPOSED NET CHANGE TO PROVISION</b>		345.9	419.4	495.4
(of which running costs)		5.0	6.0	7.0

MANPOWER	1.4.87	1.4.88	1.4.89	1.4.90
Proposed	2,507	2,507	2,507	2,507
Change from baseline	+90	+125	-	-



## CONFIDENTIAL

## OFFICE OF ARTS AND LIBRARIES

	£ million		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Survey Baseline	331.6	343.1	351.7
<b>PROPOSED ADDITIONS</b>			
(i) grants-in-aid	10.2	15.6	16.9
Increase grants-in-aid to Arts Council, British Library and running costs grants-in-aid to national museums and galleries.			
(ii) purchase grants for National Museums and Galleries (NMGs) 1.0	1.0	1.0	
Increase in purchase grants to National Museums and Galleries.			
(iii) gallery costs	1.0	1.0	1.0
Contribution towards running costs for capital projects funded by private sector. Funding for IT investment to allow improved inventories/cataloguing.			
(iv) museum building/maintenance	2.5	2.5	2.0
To reduce maintenance backlog in NMGs and cover transitional costs of implementing recommendations of inter-departmental report on PSA and NMGs.			
(v) marketing/management initiative	0.5	0.5	0.5
Pump-priming of demonstration projects to encourage arts bodies to improve their marketing and efficiency.			
(of which running costs	0.025	0.025	0.025)
(vi) British Library stage IAA/IAB	1.8	4.9	7.6
Increase in PSA forecasts of costs and restoration of cuts from 1985 Survey. Target: allow construction timetable to be maintained.			
(vii) British Library stage IB	1.0	1.0	0.5
Preliminary design work.			
<b>TOTAL</b>	<b>18.0</b>	<b>26.5</b>	<b>29.5</b>
<b>PROPOSED REDUCTIONS</b>			
none			
<b>PROPOSED NET CHANGE TO BASELINE</b>	<b>18.0</b>	<b>26.5</b>	<b>29.5</b>
(of which running costs	0.025	0.025	0.25)
MANPOWER	1.4.87	1.4.88	1.4.90
proposed	54	54	54
Change from baseline	3	3	-



## DHSS: HEALTH AND PERSONAL SOCIAL SERVICES

	£ million		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Survey Baseline	15937	16617	17032
<b>PROPOSED ADDITIONS</b>			
Hospital and Community Health Services current			
(i) <u>Demography</u>	61	86	225
Restoring lead over inflation of 0.9, 0.8 and 0.7 per cent to meet pressure from growing number of elderly, particularly over 75's in line with OPCS demography projections.			
(ii) <u>1986 Review Body Pay Consequentials</u>	102	106	111
1986 pay award to doctors, nurses, etc, exceeded baseline assumptions.			
(iii) <u>Waiting Lists</u>	30	30	-
Reduction in waiting lists through eg new quicker forms of treatment, removing bottlenecks. Target: reduce waiting lists by 60-100,000.			
(iv) <u>London/Resource Allocation Working Party</u>	25	25	-
Bridging finance to assist improvements in location and efficiency of acute services in Thames Regions.			
(v) <u>AIDS</u>	10	20	30
Treatment of increased number of AIDS sufferers. Target: meet treatment costs of 450, 950 and 1500 new cases.			
(vi) <u>Breast cancer screening</u>	10	20	30
Introduction of systematic screening programme. Target: Reduce deaths from breast cancer by 2-3000 a year by late 1990s.			
(vii) <u>Cervical cancer screening</u>	15	16	16
Increased screening programme. Target: Reduction in screening interval from 5 to 3 years and call arrangements extended to all women over 20.			
(viii) <u>Supra-regional services</u>	4	7	11
Development of specific services: heart and liver transplants, spinal injury services, etc. Target: 80-100 new heart transplants and 3-400 follow-ups; 50-60 new liver transplants and 100-150 follow-ups; 50 rising to 150 new bone tumour operations; 60 child heart operations; 20 child dialysis cases and 6 child kidney transplants and 40 follow-ups. (All annual rates).			
(ix) <u>Community care</u>	20	20	20
Bridging finance to permit community services for mentally ill and handicapped people to be built up ahead of hospital closures. Target: Discharge (or avoid admission of) 1500 patients a year without detriment to their care.			



Hospital and Community Health Services capital

(x) Estate rationalisation 50 - -

Investment in more efficient facilities.

Centrally Administered Health and Personal Social Services

(xi) Welfare food 5.5 8 10

More people eligible.

(xii) EC medical costs 2 8 12

More treatments: increased cost of treatment overseas, effects of enlargement.

Family Practitioner Services (FPS)

(xiii) FPS reassessment 66 127 128

Secretary of State's unmet commitment from earlier Surveys.

(xiv) Demand/Inflation, 1989-90 - - 165

Inflation higher than baseline assumption and greater forecast demand on services in 1989-90.

(xv) 1986 Doctors and Dentists Review Body award etc consequences 50 51 53

1986 pay award to doctors and dentists exceeds baseline assumption.

(xvi) Blood test strips 8 8 9

Better test of blood sugar level for diabetics. Target: Net cost of strips for 250,000 patients.

(xvii) Pharmaceutical Price Regulation Scheme 15 20 14

Renegotiated profit levels.

(xviii) Hepatitis B vaccine 4 - -

Extension of high-risk groups for routine vaccination. Target: protect 70,000 people at risk of contracting Hepatitis B.

**TOTAL** 477.5 552 834

**PROPOSED REDUCTIONS**

(i) General Practice Finance Corporation -15 -15 -15

Reduce role of GPFC

(ii) Prescription charges -10 -10 -10

Increase charges in April 1987.

(iii) Other -6 -4 -4



	TOTAL	-31	-29	-29
PROPOSED NET CHANGE TO PROVISION		446.5	523	805
(of which running costs		-	-	-)

MANPOWER: see DHSS Social Security summary for details of DHSS manpower. No manpower changes result from proposed DHSS: HPSS proposed additions.



## CONFIDENTIAL

## DHSS: SOCIAL SECURITY BENEFITS AND ADMINISTRATION

	£ million		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Survey Baseline	44197	45617	46758

## PROPOSED ADDITIONS

(i) Benefit bids:

(a) Extension of Invalid Care Allowance  
now agreed by Ministers. 55 55 51

(b) Review implementaion: minor  
benefit improvements and  
contingency bid. 11 50 50

(c) Start-up costs of new Housing  
Benefit scheme 30 - -

(d) Start-up costs of social fund - 25 -

(e) Other minor benefit improvements 5 2 9

(ii) Administration Bids

(a) to cater for routine workload:  
carry forward of agreed bid for 86-87. 147 161 181

(b) implementing Review measures 93 -7 -22

(c) implementing Operational Strategy 42 64 32

**TOTAL PROPOSED ADDITIONS** 383 350 301

(of which running costs)

## PROPOSED REDUCTIONS

## (i)

(a) April 1988 uprating one week  
later than planned. - -25 -

(b) Other minor savings to  
offset minor benefit improvements. -5 -2 -9

**TOTAL PROPOSED REDUCTIONS** -5 -2 -9



PROPOSED NET CHANGE TO BASELINE		378	348	292
of which running costs		215	151	156)
MANPOWER	1.4.87	1.4.88	1.4.89	1.4.90
Proposed	96,750	99,750	94,180	94,320
Change from baseline	-	+12,250	+7,180	-

(Note: staff in post on 1 April 1988 includes 3,000 on limited period appointments for implementing Review).

<u>Memorandum Item</u>	<u>1987-88</u>	<u>1988-89</u>	<u>£ million</u> <u>1989-90</u>
(i) Effect of revised economic assumptions (subject to changes in the light of later economic forecasts).	+333	+392	+734
(ii) Effect of estimating changes.	+457	+500	+1035



CONFIDENTIAL  
SCOTTISH OFFICE

		<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Survey Baseline		4,435	4,580	4,694
<b>PROPOSED ADDITIONS</b>				
(i) <u>Industry</u>	Capital expenditure on land improvement.	7.0	-	20.5
(ii) <u>Regional assistance</u>	Regional Assistance increases.	20.7	8.3	20.0
(iii) <u>European Regional Development Fund</u>	ERDF non quota receipts passed to private sector.	0.6	-	-
	<b>TOTAL</b>	28.3	8.3	40.5
<b>PROPOSED REDUCTIONS</b>				
Housing subsidies	Demand-led economic assumptions - could vary during the course of the Survey.	-8.2	-12.8	-
<b>PROPOSED NET CHANGE TO PROVISION</b>	(of which running costs	<b>20.1</b>	<b>-4.5</b>	<b>40.5</b>
	)			
MANPOWER				
Proposed		1.4.87	1.4.88	1.4.89
Change from baseline		12,185	12,369	12,431
		+ 8	+ 334	+ 343
				-

Notes: The Scottish Office agriculture bids are included on the MAFF summary. Provision for the Scottish block (ie expenditure except on industry and agriculture) will also be increased to reflect the territorial consequences of increases on comparable English programmes.



## CONFIDENTIAL

## WELSH OFFICE

		£ million		
		1987-88	1988-89	1989-90
Survey Baseline		1,759	1,819	1,864
<b>PROPOSED ADDITIONS</b>				
Regional Assistance		7.0	-	-
	<b>TOTAL</b>	7.0	-	-
<b>PROPOSED REDUCTIONS</b>				
Housing Subsidies		-1.1	-2.1	-
Demand-led economic assumptions - could vary the during the course of the Survey.				
<b>PROPOSED NET CHANGE TO PROVISION</b>		<b>-5.9</b>	<b>-2.1</b>	<b>-</b>
(of which running costs		-	-	-)
<b>MANPOWER</b>				
	1.4.87	1.4.88	1.4.89	1.4.90
Proposed	2298	2276	2264	2264
Change from baseline	+33	+32	+20	-

Note: Provision for the Welsh block (ie expenditure except on industry and agriculture) will also be increased to reflect the territorial consequences of increases on comparable English programmes.

(2) No details on manpower yet received from the Welsh Office.



CONFIDENTIAL  
NORTHERN IRELAND

	£ million		
	1987-88	1988-89	1989-90
Survey baseline	4,691	4,819	4,939

PROPOSED ADDITIONS

(i) ANGLO-IRISH AGREEMENT

Costs arising out of the Agreement: current and capital costs of running the secretariat, plus additional policing costs (all CG-ie SAP1)

of which running costs	0.4	0.4	0.4
<b>TOTAL</b>	<b>8.8</b>	<b>7.6</b>	<b>7.7</b>

PROPOSED REDUCTIONS

(i) Social Security	-61.2	-36.1	-21.1
(ii) Housing subsidies	-1.24	-2.84	-

These reductions are the result of the application of revised economic assumptions: they are liable to variation during the course of the Survey.

(iii) Belfast Urban Renewal	-	-4.2	-4.3
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Additional EC money was allocated to the baseline over a period up to 1987-88 for expenditure on housing in Belfast. The reduction is to claw back provision wrongly included in the PEWP baseline.

<b>TOTAL</b>	<b>-62.44</b>	<b>-43.14</b>	<b>-25.4</b>
<b>PROPOSED NET CHANGE TO PROVISION</b>	<b>-53.64</b>	<b>-35.54</b>	<b>-17.7</b>
(of which running costs	0.4	0.4	0.4)

MANPOWER	1.4.87	1.4.88	1.4.89	1.4.90
Proposed	4622	4604	4604	4604
Change from baseline	-	-	-	-

Provision for Northern Ireland will also be increased to reflect the territorial consequences of increases on comparable GB programmes.



## CONFIDENTIAL

## PROPERTY SERVICES AGENCY

## OFFICE AND GENERAL ACCOMMODATION PROGRAMMES

	£ million		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Survey Baseline	-109	-112	-115
<b>PROPOSED ADDITIONS</b>			
(i) Capital projects (new works)	39.1	29.3	23.5
of which running costs	(-)	(-)	(-)
Capital expenditure. Amount required for projects which will remain on PSA's Programme including work in progress on projects currently PSA's financial responsibility.			
(ii) Rent payments to landlords	26.2	40.3	49.4
of which running costs	(-)	(-)	(-)
Required to meet increases in rents payable to private landlords arising from effects of rent reviews.			
(iii) Purchase of Freehold	5.0	10.0	10.0
(iv) Maintenance expenditure	15.0	15.0	15.0
of which running costs	(15.0)	(15.0)	(15.0)
Required to deal with maintenance work and to get to grips with the backlog (estimated by PSA to be £100 million).			
(v) Vacant space	9.0	9.0	9.0
of which running costs	(9.0)	(9.0)	(9.0)
To meet cost of vacant accommodation released by PSA by departments for disposal.			
(vi) Administration costs	8.5	6.5	5.5
of which running costs	(8.5)	(6.5)	(5.5)
To cover PSA's administration costs.			
(vii) QEII Conference Centre	3.0	3.0	3.0
of which running costs	(3.0)	(3.0)	(3.0)
To cover the net cost of operating the QEII Conference Centre.			
<b>TOTAL</b>	105.8	113.1	115.4
of which running costs	(35.5)	(33.5)	(32.5)



**PROPOSED REDUCTIONS**

Disposals		-	-2.0	-2.0
(ii) PRS Rent Receipts		-10.0	-10.0	-10.0
<b>PROPOSED NET CHANGE TO BASELINE</b>		<b>95.8</b>	<b>101.1</b>	<b>103.4</b>
of which running costs		35.5	33.5	32.5
MANPOWER	1.4.87	1.4.88	1.4.89	1.4.90
Proposed	25,078	24,640	24,283	24,258
Changes from baseline	-	+173	+110	-



CHANCELLOR'S DEPARTMENTS

Bids shown for the Chancellor of the Exchequer's departments are as submitted to me the permanent heads of those departments; they have not been endorsed by Treasury Ministers.

		£ million		
		<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Survey baseline		2,046	2,073	2,125
<b>PROPOSED ADDITIONS</b>				
<b>CUSTOMS &amp; EXCISE</b>				
(i) Additional staff		6.6	12.5	18.4
Increase in passengers/freight traffic, drug control enhancement, VAT register, and VAT control (large traders). Target: enhanced VAT collection; more effective drugs control; maintenance of present level of Customs control.				
(ii) Pay assumptions		13.9	14.3	15.8
Includes assumed increases in 1987 pay trend over 1986, and knock-on effect of 1986 settlement.				
(iii) Part 1 work		5.0	9.0	7.0
New VAT offices, upgrading of N Ireland customs facilities, refurbished Customs houses. Computer cost escalation.				
(iv) Other		16.5	19.4	19.3
Overtime, travel, training, legal, IT minor works, miscellaneous				
		-----	-----	-----
	<b>TOTAL</b>	42.0	55.2	60.5
(of which running costs		34.6	44.2	50.3
MANPOWER	1.4.87	1.4.88	1.4.89	1.4.90
Proposed	25,918	26,627	26,945	27,347
Change from baseline	-	583	829	-
HMSO		0.2	0.8	1.8
Increased supplies to Parliament, less savings.				
MANPOWER	1.4.87	1.4.88	1.4.89	1.4.90
Proposed	3350	3270	3220	3160
Change from baseline	-10	-10	-10	-



## INLAND REVENUE

	£ million		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Survey baseline	1,094	1,097	1,124
(i) Pay	49.8	84.9	116.2

Knock-on effect of 1986 settlement; forecast of 1987 to 1989 settlements: and fringe settlements, particularly grade mergers.

(ii) Retention measures	4.0	4.1	4.2
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Travel, removal, training and extra cost of part-time staff.

(iii) Increased Manpower	8.6	18.1	27.3
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Net additional manpower of around 1,500 a year mainly to implement transferable allowances and non-domestic rate revaluation offset by efficiency savings in local network offices.

Target: to implement in time with Ministerial timetables.

(iv) Transferable allowances (running costs)	8.5	8.4	6.6
(capital)	0.5	3.1	1.9

Software development and additional computer hardware for transferable allowances.

Target: implementation in 1991.

(vii) Business Review of Collection Service			
(running costs)	4.1	6.4	5.4
(capital)	5.2	10.3	3.3

To modernise collection service computer system to reduce staff requirements and provide a more flexible and efficient service.

(viii) Other projects (running costs)	7.3	7.0	2.9
(capital)	2.5	1.6	-

Mainly computer systems for Schedule D assessments and for taxation of Lloyds.

(ix) Computerisation of Valuation Office			
(running costs)	2.4	2.8	3.3
(capital)	2.7	3.2	3.1

Computerisation of Valuation Office operations in support of non-domestic revaluation.

Target: system in place by 1990 revaluation.

(x) Accommodation	7.1	8.7	10.1
Adjustment	-4.8	-5.0	-5.1

Office networks rationalised, leases expiring, new projects, routine maintenance and decoration. Target: tax office reorganisation completed by 1989-90; valuation office reorganisation by 1990.



(xi)	Life Assurance Premium Relief	14.0	15.0	10.0
	Mortgage Interest Relief	70.0	55.0	101.0

Change in estimating assumptions affecting payments, in particular, higher tax thresholds.

	<b>TOTAL</b>	181.9	223.7	290.2
(of which running costs		79.8	126.7	160.8)
MANPOWER	1.4.87	1.4.88	1.4.89	1.4.90
Proposed	68,250	67,868	66,997	68,301
Change from baseline	-	1,494	1,447	2,751

RATING OF GOVERNMENT PROPERTY DEPARTMENT	14.6	14.6	18.8
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Revised estimate of rates payable on Government estate. No manpower bid.

H M TREASURY

(i)	European Assembly Election	-	-	24.5
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To meet the costs of the election due in June 1989.

(ii)	Coinage	-12.2	-7.5	-7.7
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(iii)	Houses of Parliament IT	1.1	6.5	0.8
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(iv)	Other	7.1	5.5	5.8
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Targets include the provision of a new mainframe for the Treasury by 1987-88

	<b>TOTAL</b>	-4.0	4.5	23.4
(of which running costs		1.0	1.9	3.7)

MANPOWER	1.4.87	1.4.88	1.4.89	1.4.90
Proposed	3389	3341	3324	3307
Change from baseline	-	-	-	-

<b>PROPOSED NET CHANGE TO PROVISION</b>	234.7	298.8	394.7
(of which running costs	115.4	172.8	214.8)



## OTHER DEPARTMENTS: SUMMARY OF BIDS

		<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>	£ million
Survey baselines		492	505	518	
<b>PROPOSED ADDITIONS</b>					
CABINET OFFICE		-	-	1.3	
Implementation of first year of CALDBECK infrastructure.					
MANPOWER	1.4.87	1.4.88	1.4.89	1.4.90	
Proposed	703	703	703	703	
Change from baseline	-	-	-	-	
CABINET OFFICE (MPO)		1.0	1.0	1.7	
Accommodation; telephone exchange for, and schools liaison by, Civil Service Commission; office automation by Parliamentary Counsel Office. Targets: 84 new bedrooms at Sunningdale by 1989-90.					
MANPOWER	1.4.87	1.4.88	1.4.89	1.4.90	
Proposed	984	974	964	964	
Change from baseline	9	9	9	-	
COMMONWEALTH WAR GRAVES COMMISSION		0.6	0.6	0.6	
Adverse exchange rate movement and higher than forecast overseas inflation offset by deferred structure and maintenance. Not in manpower count.					
CROWN OFFICE		4.3	2.7	3.5	
Extra manpower and associated costs to deal with rising crimes. Extra accommodation.					
MANPOWER	1.4.87	1.4.88	1.4.89	1.4.90	
Proposed	1088	1068	1108	1128	
Change from baseline	46	6	26	-	
<b>CROWN PROSECUTION SERVICE</b>					
(i)	Align baseline with 1986-87 Estimate	38.9	46.4	55.0	
Allows for full year cost of figures in 1986-87 Estimates. (1985 PES figures underestimated costs). Assumes casework increase of 5 per cent a year.					
(ii)	Advance disclosure	5.5	6.0	6.6	
Administrative costs of ruling that prosecution must reveal basis of case in advance in magistrates' courts.					
(iii)	Tape recording evidence	4.1	4.4	4.8	
A Home Office initiative.					
(iv)	Counsel fees	1.9	4.9	8.2	
Assumes 20 per cent increase in counsel fees.					
(v)	Introduction of time limits	2.2	2.3	2.5	
A Home Office initiative.					



(vi)	Other	1.7	1.9	2.0
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	<b>TOTAL</b>	54.3	65.9	79.1
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MANPOWER	1.4.87	1.4.88	1.4.89	1.4.90
Proposed	4980	5229	5490	5765
Change from baseline	1230	1479	1740	-

HOUSE OF COMMONS		0.7	3.2	.32
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MP's pay rise in line with 1986 civil service pay increase. No in manpower count.

HOUSE OF LORDS		-	-	0.8
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Above average increase in House of Lords activity. Not in manpower count.

HOUSE OF COMMONS COMMISSION		0.7	0.8	0.6
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Maintaining services at 1986-87 levels with agreed changes in pay, staff and allowances. Not in manpower count.

NATIONAL AUDIT OFFICE		0.7	0.7	0.7
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Revised estimate of building maintenance and training. Not in manpower count.

NORTHERN IRELAND COURT SERVICE		6.4	8.3	6.8
(of which running costs		1.9	2.0	2.1)

Capital and maintenance expenditure on new works; legal aid: pay, GAE, and judicial salaries.

MANPOWER	1.4.87	1.4.88	1.4.89	1.4.90
Proposed	632	652	662	662
Changes from baseline	30	50	60	-

OFFICE OF FAIR TRADING		0.9	0.2	0.2
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Consumer credit computer slippage; manpower and running costs for licensing; and additional consultancy.

MANPOWER	1.4.87	1.4.88	1.4.89	1.4.90
Proposed	345	319	319	319
Change from baseline	24	-	-	-

OFFICE OF POPULATION CENSUS & SURVEYS		1.3	1.5	1.8
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1991 Census.

MANPOWER	1.4.87	1.4.88	1.4.89	1.4.90
Proposed	78	158	274	327
Change from baseline	6	6	6	-



PARLIAMENTARY WORKS PROGRAMME	3.8	7.5	10.4
(of which running costs	0.9	1.8	1.0)

Construction of new Parliamentary accommodation in Bridge Street. Not in manpower count.

PAYMASTER GENERAL'S OFFICE	1.0	1.1	1.4
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Rewiring of Crawley building; purchase terminals and central processors: allowances and running costs.

MANPOWER	1.4.87	1.4.88	1.4.89	1.4.90
Proposed	886	897	914	927
Change from baseline	-	-21	-29	-

TREASURY SOLICITOR'S DEPARTMENT	1.0	1.0	1.1
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Wytch Farm monitoring expenses accommodation, Rayner scrutiny plan, and pay.

MANPOWER	1.4.87	1.4.88	1.4.89	1.4.90
Proposed	482	477	477	477
Change from baseline	13	13	13	-

<b>TOTAL</b>		76.7	94.7	118.8
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<b>PROPOSED NET CHANGE TO PROVISION</b>		76.7	94.7	118.8
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(of which running costs		61.3	75.2	95.0)
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PRIME MINISTER

**PUBLIC EXPENDITURE**

You asked me to consider further the possibility of a discussion about public expenditure at Chequers.

If this takes place before the Recess, it is probably only worth while to have it before the Cabinet on 17 July. You are in Vancouver on 12 and 13 July, and attending the Men's Finals at Wimbledon on Sunday, 6 July. So this leaves Saturday, 5 July.

A possible cast list would be the Lord President, Chancellor of the Exchequer, Chief Secretary, and possibly some or all of the Chief Whip, Chancellor of the Duchy of Lancaster, Brian Unwin and Brian Griffiths.

Would you want to offer lunch?

I am not, however, sure that at this stage there is enough to talk about. Would it not be better to wait until the Chief Secretary has winnowed the bids so that you can discuss on a realistic basis which increases and reductions would be politically acceptable? That would point to a meeting in September or October.

*I think that would be better.  
We seem already to have reached  
a preliminary conclusion.  
mt*

*DN*  
DN

25 June, 1986.

JD50



## PRIME MINISTER

PUBLIC EXPENDITURE TACTICS

The main questions are:

- (i) would higher planning totals in July or the autumn be less of a defeat?;
- (ii) would an attempt to stick to the planning totals in July risk a challenge to the strategy?;
- (iii) which option would lead to less difficulty for the Star Chamber, which is anyway bound to have a very difficult time?

You are familiar with the arguments on the first two questions: the context provided by the Autumn Statement arguing for the autumn, the possibility of linking the decision in a controlled fashion to higher spending on priority areas arguing for July; the colleagues' ability to guess roughly the total size of the bids arguing for July, their belief in the capacity of the Treasury's sleeve and the exceptional size of the Reserve suggesting that the Treasury can bluff its way through to November.

You were concerned about the words to be used after the July Cabinet if a decision to increase the planning total is not announced then. Last year (and the year before, mutatis mutandis) the announcement said:

"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 1988-89 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 objective is to find words which indicate no change from past practice and yet will not, with hindsight in November, be seen as uncompromising in their endorsement of the planning totals.

One possibility might be to say:

"The Cabinet today had its usual July discussion of the next public expenditure review, for 1987-88 to 1989-90. It confirmed that the planning totals remain unchanged, and ~~agreed that~~ the total for the new year, 1989-90, should be broadly at the 1988-89 level in real terms. The Chief Secretary will now embark on discussions with individual departments in the light of this decision."

The risk with a change of this kind is that journalists would look up their records and spot the difference from last year. But no doubt there are other possible ways of doing it.

The words to be used to Cabinet colleagues will also need careful attention. They must be firm, but not so stark as to make people with large bids feel boxed in and therefore try to challenge them. Cabinet could be asked to "work within" the existing planning totals or to "aim as before to hold to" the published planning totals or to "agree to set the objective of holding to" the published planning totals.

You will wish to discuss forms of words with the Chancellor at a later stage.

The Star Chamber's task will be difficult whichever option is chosen. Brian Unwin argues for July (paragraph 7 of his minute), though I do not entirely follow his argument. The Chief Secretary argues for the Autumn because he believes this would leave greater latitude for the Star Chamber. It is certainly true that new planning totals fixed in July would be a rigid constraint: the worst of all worlds would be to fix new totals in July and then have to increase them again in



November.

You earlier mentioned the possibility of holding a longer session, perhaps with Mr. Tebbit (and the Chief Whip?) at Chequers to discuss public expenditure. I wonder whether discussions are yet far enough advanced for that to be worthwhile. (It could be more useful when you can discuss what you would see as acceptable outcomes on particular programmes.) But would you like me to pursue it?

*Yes please*

*DN*

(DAVID NORGROVE)  
20 June 1986





JU602  
Secretary of State for Trade and Industry

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**CONFIDENTIAL**

23 June 1986

The Rt Hon John MacGregor  
Chief Secretary  
HM Treasury  
Parliament Street  
London SW1

*Dear John,*

*NBP*

*R24/2*

**PES; COMPANIES REGISTRATION OFFICE**

In my letter of 2 June I said I would write about the Manpower and running costs of the Companies Registration Offices (CROs).

As discussed with your officials at the end of last year, the CROs have now prepared a Corporate Plan for the next five years. I enclose a copy of the Summary and Conclusions.

Both Michael Howard and I have looked at this Plan critically, and we are content that it is sound and contains demanding targets. The target for increases in productivity is more than 9% per annum over the next three years on top of the major increases in productivity already achieved over the last couple of years. But despite this rapid and very welcome improvement in productivity, the growth in demand for the CRO services will make it impossible to give up all of the 100 additional staff authorised in the last PES round to September 1986 without undermining the CROs' standard of service to the public, which is also very relevant to the Department's continuing efforts to combat fraud. In this connection the CROs need to maintain the improvements in compliance with the law on company returns, on which the PAC has expressed strong views.

I am therefore writing to you to seek your agreement to retain 91 of the 100 until April 1987, 41 at April 1988 and 24 at April 1989. Thereafter staff numbers may well rise again slightly if, as currently expected, demand grows rapidly.

The bid for more manpower requires an increase in the PES provision for the CROs. Rising fees as the business of the CROs continues to grow are already assumed in the baseline. The





amounts needed are as follows:-

<u>1987/89</u>	<u>1988/89</u>	<u>1989/90</u>	£'000
1092	546	441	

I also need an equivalent increase in the Department's overall running costs provision.

The CROs are a business which looks eminently suitable to move to a net running cost basis. I will want to put such a proposal to you later in the year as soon as further work has been done on the performance yardsticks and other criteria to be adopted but in the meantime we need to deal with the manpower and running cost implications of the continuing high demand placed on the CROs.

I am copying this letter to the Prime Minister.

PAUL CHANNON



8.1 Summary

8.1.1 The CROs' operations are primarily derived from and governed by the requirements of British company law. Their main functions are to incorporate and register new companies, to collect and retain information about companies, to make such information available to the public and to dissolve companies (Sections 1.1 and 1.2). Ministers have recently re-affirmed that the CROs should remain part of the DTI and they attach importance to improving the CROs' performance of their functions (Section 1.3). The overriding objective of the CROs over the next 5 years will be to provide their services with increasing efficiency and effectiveness (Section 1.4).

8.1.2 For many years there has been a continuing increase in the CROs' workload, arising from externally generated demand for their services (Section 2.1). Given the constraints within which they operate, the only viable immediate response the CROs could make to these pressures was to concentrate on a minimum performance of their statutory functions, but the result was to reduce effectiveness and to increase user dissatisfaction and reduce staff morale (Section 2.2). The CROs' longer-term response was therefore to set in hand an intensive procedural review programme, which identified in particular the need to strengthen development resources within the CROs, and to commission a number of externally directed scrutinies. These latter included a Rayner-type Functional Review and a Clerical Work Analysis Review which between them made a large number of detailed recommendations for increasing productivity: many of these have already been implemented and the remainder are in hand (Sections 2.3 to 2.5). As a result of these various measures, staffing levels have, despite a 75 per cent increase in demand, varied little since 1981, apart from the increase agreed in 1984 (following PAC criticism) to enable compliance activities to be stepped up (Section 2.6).



## 8.1.3

Studies have shown that macro-economic developments do not greatly affect the pattern of demand, and they are not expected to do so in the life of this Plan. It has in addition been assumed, in the absence of other information, that the Government's fiscal and company policies will remain constant (Chapter 3). On this basis demand for the CROs' main services is expected to grow as follows (Chapter 4):

TABLE 8.1

---

Expected Annual Rate of Growth 1986-1991 (%)

---

Incorporations	5
Document Receipt	3 in 1986/87 rising to 6.7 in 1990/91
Mortgages	5.5
Searches	15 to 18

---

## 8.1.4

7  
1  
39  
90  
91  
—  
4) 7  
16

The Users' Survey conducted as a result of the Functional Review indicated that the reputation among its customers of the CRO in England and Wales was low, and that users were dissatisfied in a number of respects with the service offered. The consultants considered that there was no untapped market for CRO services, and they recommended that the CROs' marketing priority should be to improve the present services to existing customers. In response to this and to the comments of the Public Accounts Committee, the CROs have drawn up a marketing strategy which aims to improve the service offered and to ensure that it is fully utilised (Section 5.1). The strategy will comprise continuing efforts to ensure that companies comply with their statutory duty to submit accounts and returns, the adoption of a range of measures to improve quality control, the speed of response and the regard in which the CROs are held by their customers together with the examination of new services responding to customer needs identified in the Survey (Sections 5.2 to 5.4).



#### 8.1.5

As part of their response to the recommendations of the external scrutinies, the CROs have developed a management strategy whose aim is to make the best use of scarce resources by promoting the efficient and effective performance of the CROs' tasks. The strategy covers getting the organisational structure right, strengthening the corporate planning function, making the most effective use of technology, training staff to give of their best, improving communications between management and staff and measuring and setting targets for performance (Chapter 6).

#### 8.1.6

The CROs intend to review their fee structure. This is however a complex matter, since UK and European law impose constraints and there are a number of important micro-economic and policy considerations to be borne in mind. Action has of necessity awaited the Users Survey Report. The intended review will obviously take some time and so it has been necessary to assume for the purposes of this Plan that fees will remain at their present level. Any future change in fees policy will be taken into account when the Plan is reviewed: this should not cause great difficulty, since any new fee structure would have to continue to cover costs without imposing a tax on companies, and the price elasticity of demand for CRO services is low (Chapter 7).

### 8.2 Resource requirements

#### 8.2.1

Chapters 4, 5 and 6 have indicated the staffing implications of increased demand, of the marketing strategy and of efficiency measures respectively. As can be seen from Table 8.2 below, the staff requirement of the CROs will fall from 1104 at April 1986 to 1028 at April 1989, as the once-off savings deriving from the Management Analysis Unit's programme and from the STEM project will more than compensate for the impact of rising demand; after 1989 the staff requirement will rise slowly as the effects of demand growth outstrip the scope for continuing efficiency savings.



TABLE 8.2

---

 Changes in Staff Requirement April 1986 to April 1991
 

---

Allocation at April 1986	1104
Changes due to:	
Workload	66
Technology	-50
Other Efficiency	-25
Net change	-9
Requirement at April 1987	1095
Changes due to:	
Workload	79
Technology	-89
Other Efficiency	-40
Net change	-50
Requirement at April 1988	1045
Changes due to:	
Workload	80
Technology	-33
Other Efficiency	-64
Net change	-17
Requirement at April 1989	1028
Changes due to:	
Workload	83
Technology	-81
Other Efficiency	
Net change	2
Requirement at April 1990	1030
Changes due to:	
Workload	83
Technology	-73
Other Efficiency	
Net change	10
Requirement at April 1991	1040

The figures in this table relate to permanent posts. The CROs will in addition continue to employ casuals to deal with seasonal fluctuations and to cover vacant posts pending the appointment of permanent staff. It is however intended that, as part of the drive towards greater efficiency, the use of casuals should be reduced over the period of the Plan (on 1.4.86 the CROs employed 60 casuals in addition to the permanent staff in post).

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- 8.2.2 Achieving the efficiency savings indicated above from the introduction of new technology and meeting rising demand will obviously involve capital expenditure on computers and other equipment. Table 6.3 in paragraph 6.9.2 indicated the sums needed. In addition, the marketing strategy may involve additional capital expenditure, for example on better microfiche copiers or on new methods of data transmission such as facsimile. The sums involved cannot at present be quantified, as the necessary studies have yet to be undertaken, but would be relatively small and would over time be covered by increased search receipts.
- 8.2.3 The CROs will of course also incur pay costs associated with the employment of the manpower numbers indicated in paragraph 8.2.1, together with the usual items of general administrative expenditure.
- 8.2.4 Annex E indicates the total forecast expenditure of the CROs over the next five years (including items such as attributed costs for the common services provided by the Department). It compares this, on the basis of a Memorandum Trading Account, with the level of income implied (on the basis of unchanged fees) by the forecast of demand in Chapter 4 (a more detailed analysis of fee income is given in Annex F). Table 8.3 summarises the overall position:

TABLE 8.3

Financial Year	Income and Expenditure		
	Expenditure	(£ m)	
		Receipts	Surplus
1986/87	18.43	27.64	9.21
1987/88	19.08	28.87	9.79
1988/89	19.94	30.46	10.52
1989/90	21.0	32.7	11.7
1990/91	21.8	35.28	13.48

It is clear that, even without any change in the level of fees to take account of inflation, income will continue to more than cover expenditure.



### 8.3 Sensitivity

- 8.3.1 As shown in Chapters 4 and 6, the forecasts on which the statement of resource requirements above have been based are as robust as they can be. They are central values: they are therefore as likely to be too high as too low.
- 8.3.2 In the case of demand, the outcome is largely outside the CROs' control. If the outcome for one element of demand is above or below the central forecast, then the others are likely to be as well; even on the low forecast demand will still increase, though less rapidly. Since unforecast changes in demand would affect both income and expenditure, it would require extreme changes in the trend of demand, or indeed far-reaching changes in fees, to produce circumstances where expenditure exceeded income.
- 8.3.3 On efficiency savings, it is likely that a lower outcome in one area could be balanced by a higher one elsewhere and so the variations from forecast are not expected to be great.

### 8.4 Resource constraints and options

- 8.4.1 The statement of resources above has been made on the basis of what, on the assumptions used in this Plan, the CROs need in order to meet the expected level of demand. No mention has been made of the constraints which limit the resources available to the CROs. In fact the manpower allocation of the CROs is, under present policies, to be reduced from 1104 to 1004 at the end of September 1986. So far as capital expenditure is concerned, the necessary sums for 1986/87 are provided for in the Estimates. The sums needed for later years are currently under discussion.
- 8.4.2 It is clear that there is therefore a gap in respect of manpower, running costs and also possibly capital expenditure between what the CROs need and what is at present available to them. It is most unlikely that demand will be so far below forecast as to enable the CROs to meet demand within current resource constraints. How then could this gap be closed?



- i) Reduce costs. Since the Plan already assumes that the maximum possible savings will be obtained from greater efficiency, (and a large increase in demand has already been absorbed), this could only be done by cutting activities or reducing the level of service. Most of the functions of the CROs derive from statute. To limit activities to a minimum consistent with the statutory requirement reduces effectiveness and increases user dissatisfaction and lowers staff morale, (Chapter 2). It is in effect equivalent to a reduction in service. Yet the level of service already offered is close to the minimum as a result of the measures taken to cope with demand pressure in recent years; this level is unacceptably low, as shown by the comments of the PAC and of the Users Survey, and it is Ministerial priority to improve it.
- ii) Increase fees to choke off demand. As Chapter 7 has shown, the price elasticity of demand for CRO services is low. The level of fee increases required would be politically unacceptable and would breach EC law.
- iii) Find additional resources. The Department's Finance and Resource Management Division advise that the Department could not achieve its 1987 and 1988 Treasury manpower targets, while at the same time meeting the requirements of the CROs above the 1004 staff at present provided for after September 1986, without unacceptable consequences for the Department's other activities. Additional resources can therefore only be obtained by approaching the Treasury. Such a solution would provide short-term relief, but would not deal with the longer term problem.
- iv) Secure greater flexibility, as a business covering all its costs from fees, to match resources to demand. This too would require an approach to the Treasury. This course would enable the CROs to meet the pressures from outside without having to make unacceptable choices over the level of service to the public. There



would however need to be some other means by which control over the operations of the CROs could be exercised. This could perhaps be based on net running costs and/or performance measures.

#### 8.4.3

The CROs provide, under Statute, an important service for which there is rising demand. The public are prepared to pay the full economic cost of the service provided. Ministers have decided that the provision of this service should continue to be a matter for the DTI; they attach importance to improving the CROs' performance of those functions. In addition, the service provided is a public good which assists the economy by enabling firms to take advantage of limited liability and by providing information which is not otherwise available and which assists the proper functioning of the market. In these circumstances the CROs see it as essential to have access to the resources they need to be able to meet demand and to provide the level of service their customers want. The CROs furthermore feel that they should be able to adjust their use of resources to the level of demand, provided that efficiency continues to improve.





10 DOWNING STREET

Prime Minister

Would you like a meeting with the Lord President, without the Chancellor, to discuss public expenditure tactics?

With Brian Griffiths and Brian Urwin?

Yes no

DES

19/6.



Prime Minister.

Prime Minutes 2  
See also 2 articles by  
John Redwood attacked

~~DN~~  
F  
/

PUBLIC SPENDING - THE ECONOMY

N. L. W  
20.6

Background

In the ensuing public expenditure round it is important to preserve the tax cutting strategy for the lower paid whilst avoiding a damaging row over the amount of money available for sensitive services, especially education and health.

Tax revenues are buoyant. The contingency fund is generous and could be reduced. The privatisation programme could be expanded. Given the sharp decline in international inflationary pressures, some extra borrowing could also be countenanced.

Suggested Stance

You could allow £2.5 billion from the fiscal adjustment and reduction in the contingency fund, £1.5 billion from extra borrowing, and asset sales of an extra £1 billion. That gives £5 billion to split between spending and lower taxes. If £4 billion of this is required to move immediately to 25% standard rate tax - perhaps with the reduction phased during the course



of the 1987-88 fiscal year to reduce the first year's cost - there is still £1 billion or so available for additional spending.

### Privatisation

£6 billion a year is a feasible target. The programme has faltered - the combined effects of BA, BL and now Royal Ordnance has encouraged the Opposition again who now think the government is losing its resolve on privatisation.

It could be rebuilt with Gas, BAA, BA, BL (now under Graham Day), Water, BREL, BR Properties, Bus, Rolls Royce and parts of BSC. As long as each is explained and a public competition organised where a public offering is not going to be used, they are feasible. The monopolies have to be subject to effective regulation and competition.

### Health Spending

This spending should be targeted on those areas where it can do most good. Waiting lists are too long for certain kinds of surgery. The money should only be advanced with a clear statement of its intended use to cut these lists - although guaranteeing this is difficult in a devolved health service -



and an incentive could be built in for its release to strengthen the hands of the better managers in the service. This new money could be given to the new General Manager of the NHS and his appointment signalled as a "turning of the tide." (£500m) Roy Griffiths would be ideal and could be persuaded by you to take on the job as GM with suitably enhanced powers. Somehow we need to arrest the endless stream of articles in local and national newspapers which claim that we put tax cuts above good health.

The idea that all of the problems in health are presentational is wrong. People now believe the doctors lobbies in London and the South-East asserting that money is so tight that people are having to be turned away even from life-saving heart surgery. Thanks to bad management, that is happening.

#### Jobs, the Cities and Infrastructure

You could also spend £500 million of carefully controlled monies on a programme to rebuild the inner cities, cleaning them up, making them more enterprising, and offering further job opportunities to the long term unemployed.



The aim should be to facilitate and pump prime a new array of private sector development projects. The success of the Channel Fixed Link and the Dartford River Crossing competitions shows what can be done if government is prepared to push the private sector into responding. Next could come projects like the Severn Bridge, the Manchester Ship Canal (through BWB for transport and leisure) and Terminal 5 at Heathrow. DoE, DTp and D Energy could be asked to produce a list of ideas.

Why not announce redevelopment competitions for a dozen areas in the depressed inner city areas and use a Docklands/ City Action Teams approach to push through the conclusions? You would not have all the same powers as in the LDDC but the competitions could define the scope for local authority involvement, the vacant land to be used, and the assistance that would be given to ensure planning difficulties are minimised.

I attach copies of pieces I have written for the Guardian and Listener on Wider Ownership and Enterprise. The ideas in the Guardian might help put the Opposition on the spot.

A. R. Wood



Popular capitalism is coming of age. You might not hear too much about it in the local but its been sighted in the heavier news papers and can now be heard on political platforms. You were probably watching football the other evening when Diverse Reports tried to define it. Its been invented to bring together three different thrusts of the British government's crusade. First there is the belief in choice and the benefits of competition. Scecond is the emphasis on an enterprise culture to create jobs and to regenerate the cities. And third is wider ownership, bringing more of the means of production and distribution into the hands of the people.

Not that there is anything new about capitalism itself. The Elizabethan merchants and the Victorian workers could have told you all about it. It still has many practitioners and supporters, as a visit to the local shopping centre or a trip to the Costa Brava will show you. Enterprise keeps on bubbling up in the most unlike places and guises. Some of its most recent roguish exponents have turned up in Mexico as part of England's camp-following, sporting DHSS Tee shirts and living on the proceeds of their Social Security claims. The problem has been in the 1970's that the penalties on legitimate enterprise and capitalism were so high, that enterprise had little chance away from the back streets and tax dodges of the black economy.

The case for competition is simple. If you allow anyone to enter a market as a buyer or a seller you should maximise choice and freedom. It's when you are face to face with a monopoly that you are most likely to encounter shoddy service and high prices. Monopolies are good at killing innovation, imagination and flair. By 1979 the U.K. economy had been gripped by powerful cartels, near monopolies and statutory monopolies granted to a range of nationalised industries. Far from protecting the customers, all so often the customers seemed to be on the losing end. They were left waiting for the train that didn't arrive, paying the 'phone bill which had just doubled or taking the whole day off in case the electricity man would call.

Gradually these cartels and monopolies are being brought to book or broken down. Air fares tumbled and services expanded when domestic flights were opened up to competition. There was a 70% increase in coach travel when the same thing happened to the inter-city buses. The decision of the banks to take on the building societies cut the mortgage queues. The solicitors came under pressure to reduce their conveyancing fees substantially, whilst the estate agents fought themselves to lower commission rates as the climate pointed them in the direction of competitive pricing. When parts of the telephone monopoly were broken long-distance call chages plummeted, a wide range of new telephones came on offer and a large number of businesses started new specialist services using telephone lines.

The enterprise culture is designed to allow hundreds of thousands of small businesses to grow, businesses that we need to create



thriving markets and generate enough jobs to cut the employment totals. One of the main strengths of the Japanese economy, which has avoided high employment western style, is the large number of competing small businesses. They supply at a good price and on time to the few large trading houses and assemblers that have become fierce competitors throughout the world. It's the small businesses which innovate more successfully, which can spot the next opportunity and can adapt to rapidly changing circumstances.

In Abingdon in Oxfordshire enterprise was rebuilt on the old MG works following its closure. On the surrounding land a large business park was erected with a host of new businesses and technology, bringing in the new jobs needed to fill the gaping hole left by the failure of the car industry. In Docklands public sector stimulus and pump priming has brought a torrent of private capital into the most expansive development site anywhere in Europe. 5,500 acres are being transformed with new housing, shopping centres, hotels, office blocks, leisure facilities, a railway line and an airport. It shows that city rejuvenation can come if enterprise is given its head and, if government and local government, instead of getting in the way by trying to do everything themselves, allow others to come in to solve the problems of dereliction. It is also beginning to happen for the same reasons in Hull, in the eastern area of Glasgow and in parts of the West Midlands.

Wider ownership is the means of changing attitudes and bringing more people into the wealth creating process. It has had its successes with a big expansion of employee shareholdings through employee and management buy-outs. The National Freight Consortium's employees bought their business and transformed it. Now the Vickers Shipyard has followed suit. There has been a surge in employee share schemes with 1 1/4 million people getting a stake in their company. And the government's sale programme has played its part with, for example, 222,000 British Telecom workers acquiring a share in their business.

Wider ownership is also being powered by the popularity of general share issues in the privatisation programme. British Telecom attracted almost 1 million first-time shareholders. British Gas should take this further. Changes in the pensions world are helping too. New freedoms enable many more people to control and manage their own individual pension savings if they wish. Few realise they already are part owners of much of British industry and commerce through their employer's pension scheme and their life assurance contracts. It is part of the challenge to bring more direct experience of ownership to those who are doing so much saving.

The Stock Market is rapidly being changed. Once a market for the wealthy and the well-to-do, it's becoming a market for all. Share shops are opening up in department stores and on the high street. Banks, Building Societies and the Post Office are looking at different ways of helping the saver and bringing the saver into contact with buying and selling shares. The rejuvenated new issue market is attracting a wide following. The press and TV is devoting more attention to family finance and to equity for



everyman. Personal Equity Pools, share options, personal pensions, and a variety of new tax reliefs are beginning to force the pace of wider ownership.

Many are sensing that there are big changes afoot in attitudes and realise that enterprise does have an important role to play in solving the unemployment problem. The combination of competition, new enterprise and wider ownership can break down old demarcation barriers. It can overcome conflict between Them and Us which is so much a part of the British industrial heritage. It can widen freedom, expand choice and encourage the men in the DHSS Tee shirts to come back into the legitimate economy, to make their own contributions to the prosperity of the nation.

The lessons of Docklands need to be applied more widely. Cut through the planning delay in the inner cities, release vacant land and old buildings for use, assist private investors to move in and rebuild them. The lessons of Abingdon need to be learned as well on Tyneside and in Liverpool. There may be local academics with ideas, local services that need providing, scope for rehabilitating old industrial properties and releasing them as cheap space for new enterprise. The examples of National Freight and Baxi Partnership show that good relations between managers and managed do not need to be a Japanese prerogative. There is a way, an English way, of bringing harmony and success to a large business. In the Channel 4 Diverse Reports programme last Wednesday the new shareholders spoke for themselves about what it meant for them, how it had changed relationships at work and improved the spirit of all concerned.

Six million people are now thought to be shareholders in the U.K. compared to under three million in 1979. It's a big advance. But it's only a beginning if the U.K. economy is to be transformed by new patterns of ownership, competition and small business.

John Redwood presented Channel 4 Diverse Reports on Wednesday, 18th June. He was head of the Prime Minister's Policy Unit 1983-85. The programme was produced by John Mair.



3, 10, 17 Jun

AGENDA Guardian John Redwood

Is there an inner masochism in the Labour Party, that keeps many of its spokesmen wedded to the idea that public enterprise is best? Do they still remember with affection the days when Labour ministers could wearily wend their way to the despatch box to announce yet more redundancies from a nationalised industry? Do they pine for the years when taxpayers' money was granted to "protect jobs & services", only to be spent on redundancy payments and labour displacing machinery? Are they never tempted to point out that this government has carried on in the same bad old way with British Coal and BL, busily allowing men to be sacked with the public chequebook? Jaguar and National Freight have broken away from this and offered some hope of protecting old jobs and creating new ones.

It's becoming a more damaging attachment as the months roll by. The workforces of British Shipbuilders, British Coal and British Leyland have been axed by the bi-partisan policy of lavish subsidy and lavish sacking, followed now for over a decade. So those industries no longer represent the strength they once did. Meanwhile, the long march of wider ownership has crossed the Trent & Tyne as well as the Thames, and the new experiments with employee shareholdings and buy-outs are looking evermore promising. The latest interpretations, re-interpretations and hesitations in Labour's policy towards the widening of share ownership suggests the party's senior spokespeople are worried that popular capitalism may be coming of age.

Opposing the opportunity for poorer people to own assets of their own is not, of course, a new position for Labour. For many years rhetoric and spleen was vented against tenants being able to buy their Council house. Along with that other left wing party, the Liberals, Labour said it would reduce the stock of Council houses and make homelessness worse. The new owners would probably default on their mortgages, would probably not look after their homes and so in the end the derelict properties would return as a charge to the taxpayer, they said.

I never understood how selling a house to a tenant who was likely to stay living there for many years anyway would make homelessness worse. You'd have to bulldoze it or make it a second home for that to be true. The mortgage burden often became easy as wages went up & rents soared. And far from most owners running down their properties, most set to with speed to improve them. The new front doors, coach lamps, refitted kitchens, extensions and porches give the privately owned houses on Council estates a distinctive air.

Once Conservatives grasped that the thing to offer was a right to buy for each tenant, rather than a demand that all Councils should sell, the resistance crumbled. Labour and Liberals alike had to change their minds about council house sales. Although even now opposition policy is to leave it to local councils to decide. That means you'd have to be a tenant in a Conservative area to keep the right to buy!



The Council house saga must make policy designers think long and hard about wider share ownership. The starting point is the same: hostile opposition. Labour and Liberal politicians opposed the sale of British Telecom. Yet 96% of the employees, 222,000 people, became shareholders against the advice of their Union. And almost 1 million people became shareholders for the first time through that issue.

Labour's stance was that it would compulsorily renationalise British Telecom and take away any gains people had made, whether they were employees, widows or that amorphous group of "city speculators". There was no mention of compensation for interest forgone. There was no thought of the plight of the buyer a year or so later who paid much more for his share and who might then face a special confiscatory "tax" on its surrender to the government. It all looked decidedly vindictive.

It also looks more and more incredible. The scale of privatisation is now so great that the cost of renationalisation, even on spiteful terms, would break the bank. Is it really worth and extra 5p on income tax for three years? To say nothing of the extra 5p on income tax anyway to make good the lost privatisation receipts.

So Labour is thinking again. Can the Labour movement go on opposing privatisations which involve a high degree of employee participation? Unity Trust, the Trade Unions' own merchant bank, now sponsors employees buy-outs. Labour's MPs backed employee buy-outs for parts of BL during the argument over the GM bid. Shouldn't Labour welcome the Vickers/Cammell buy-out with the employees and local communities involved? Shouldn't it be developing its own proposals to go further in this direction?

Labour's attitude to competition also needs a little clarification. The opposition spokesperson on Privatisation, Oonagh Macdonald, condemns the sale of public utilities like Telecom and Gas because they are monopolies, and monopolies, especially private ones, are bad things. There is sense in this view. But why then oppose so many of the measures designed to break or limit those monopolies through introducing competition or proper regulation? Labour should follow Dr. Macdonald's logic and support Mercury, an alternative telephone system, press for suspension of the postal monopoly, and promote airline and bus competition.

Many people in the Labour party no longer believe that Herbert Morrison's dream of public monopolies working benignly in the public interest came true. They see a continuing gulf between managers and men, a bad strike record, and a failure to design good enough products to sustain jobs. So what are they proposing in its place, if they do not like the new privatised version?

If Labour is serious about reducing the disparities of wealth and status in this country can it go on opposing every scheme that seeks to widen ownership? Giving to the many the privileges of the few - is the only thing on the present political agenda that offers any hope of justice for the many. We have had years of



sharply redistributive taxation, and it has only subsidised incomes, not created capital.

The Liberals are caught in a similar dilemma. They claim to favour Employee shareholdings and a new partnership based on wider ownership. Yet when they kept a Labour government in power they took only one ineffectual step to assist employee share schemes. Since 1979 they have opposed many of the bolder moves to wider ownership.

They now propose a move backwards to a Bullock style bi-partisanship in industry. They seek an upper tier board where employees vote in some directors. It's a line which would undermine many of the rights and values of the new shareholders. It would turn many a boardroom into a kind of hung council with political interests fighting for the soul of the business whilst jobs were lost and opportunities missed. In short, it would not work.

There are now around 6 million shareholders in this country. Its a large number to antagonise by wrong policies. Seeking to take away their new possessions is not a surefire way to win their hearts and minds. Seeking to tamper with shareholder rights and with management by promoting employee rights over their heads is not a clear winner either.

By the time of the next General Election there could be several million more shareholders, and many others might have a reasonable expectation of joining in. Many know that savings give security for the future, and wish to participate directly or indirectly in the wealth creating process of the country. That's why now is the time for the opposition politicians to do as Labour is doing - ask themselves where they go from here. Are they still better off opposing the popular parts of popular capitalism, or should they be seeking to drive it further and faster, in the interests of greater freedom and greater industrial harmony? I am sure these thoughts passed through Oonagh Macdonald's mind, as she watched Diverse Report's Popular Capitalism on Wednesday night.

John Redwood, Head of the Prime Minister's Policy Unit, 1983-5, presented Channel 4 Diverse Reports on Popular Capitalism on June 18th. The programme was produced by John Mair.





CCB/UP

SECRET

P 02111

PRIME MINISTER

**PUBLIC EXPENDITURE**

I understand that the Chancellor of the Exchequer will be seeing you this afternoon to discuss public expenditure. You may find the following comments helpful.

2. As you know, the amount of additional bids is unmanageable. Excluding local authority expenditure, which must be expected to add at least £2 to £3 billion each year, the bids so far received add up to around £5 billion in 1987-88 and 1988-89, and £7 billion in 1989-90. Of these totals, social security accounts for £1.2 billion in each of the first two years, and £2.1 billion in the last year (part of this excess is due to higher estimates of take-up, and much of the rest to the effects of new economic assumptions). As you will have seen from the various letters rolling in to the Chief Secretary, all other spending Ministers in charge of large programmes have made substantial additional bids (this perhaps confirms the doubts we had about the wisdom of inviting Ministers to endorse the bids personally at this stage).

3. Given the size of these bids, and the absence this year of any significant escape route through increased asset sales, it is not realistic to expect to be able to keep to the present planning totals. The immediate issue, therefore, is how to handle the July Cabinet discussion (which the Treasury now suggest should be on 17 July - partly to distance it from a NEDC meeting on 9 July at which there is expected to be great pressure for increased infrastructure spending).



4. There are obviously two broad approaches:-

(i) to seek to stick to the present totals in July and make and announce any changes in the context of the autumn statement;

(ii) to adjust the totals in July, and then to stick firmly to the new figures in the ensuing summer and autumn discussions.

5. There are clearly arguments for both approaches, and a risk of any adjustment at any time being badly received by the markets. I understand that so far the Chancellor has favoured option (i), and is likely to seek to persuade you of this. On this basis, the Treasury tactic will simply be to get through July and to postpone all adjustments until the late autumn. In order to do this they may want to vary the usual July Cabinet presentation. For example, the Chancellor may want to conceal the total of additional bids, in part by shunting off the local authority and social security figures separately, so preventing the full extent of the problem clearly emerging. He would then hope that the autumn forecast would reveal sufficient fiscal leeway (eg through more buoyant revenue forecasts) to enable him then to preserve the fiscal adjustment despite some upward revision of the expenditure planning totals.

6. I think this is a high risk strategy. I cannot believe that other Ministers will not in July realise the extent of the problem. Although the bidding letters have not all been circulated widely, I suspect that PFOs in departments will very quickly be able to give their Ministers a good idea of the numbers. The chances are, therefore, that a pretty accurate picture of the situation will leak to the press; and spending Ministers will know that bilaterals with the Chief Secretary on this basis will be utterly unrealistic, and will no doubt approach them (and conduct their lobbying campaigns) accordingly.

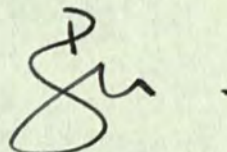


7. This course would also pose problems for the Star Chamber in October/November. Unless the Chancellor were ready to make concessions before the Star Chamber, it would have an impossible task. But equally, if he did make concessions then, they would be sure to leak and he would lose the advantage of presenting those concessions with the autumn statement.

Concessions  
made in  
the Star  
Chamber  
also  
leak.

8. My own vote, therefore, would on balance be for trying to find some way of presenting a realistic increase in the planning totals in July, and then securing colleagues' firm commitment in Cabinet to sticking to it. There would still be arguments, which would have to be thrashed out in bilaterals and then in the Star Chambers. But it ought to be possible in the autumn to deliver those revised totals and so to avoid the worst of the public squabbling that seems certain to occur throughout the summer and autumn if the July decision is patently un realistic. I suspect also that, although a change will not be easy to present to the markets at any time, it might be less damaging to slip it out towards the end of the session and near the holidays in July, than in the autumn when attention will be focused again particularly on the prospects for next Spring's Budget.

9. As accepted above, neither of the above courses is trouble free, to say the least, but if the Chancellor presses option (i) as I think he will do, I am sure you will wish to be very fully convinced that this will not misfire both with colleagues and publicly before you give your own endorsement to it.



J B UNWIN

18 June 1986  
Cabinet Office





GEORGE H. BROWN



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ccBG



2 MARSHAM STREET  
LONDON SW1P 3EB  
01-212 3434

The Rt Hon John MacGregor OBE MP  
Chief Secretary to the Treasury  
HM Treasury  
Parliament Street  
LONDON  
SW1

My ref:

Your ref:

MY

Prime Minister<sup>2</sup>

Mr Ridley's bids

13 June 1986

still amount to nearly £1 billion £ 1987-88  
for housing etc.

DES  
16/6.

Dear John

PESC 1986 - DOE (CENTRAL)

I am writing to give you my preliminary assessment of the need for resources of my Department's two main PESC programmes in 1987-88 and following years. The Programmes are complex and the sub-programmes varied, and I have not yet had time to explore every line in as much detail as I should ideally like. Nevertheless, I have been forced reluctantly to the conclusion that I must ask for additional resources. I may also want to make some adjustments within the final programme baseline totals, when I have been into the various sub-components in more detail.

Local Authority Capital Allocations

The largest element of my bids, and the one which conditions their shape as well as their size, is accounted for by the need to provide resources cover for the capital allocations my predecessors - with Treasury agreement - promised to give local authorities for 1987-88. Undertakings were given that both Housing allocations and Other Services Block allocations to each authority in that year would amount to at least 80% of 1985-86 allocations. I have considered whether it is possible to escape from them, but I cannot at present see that it is. The surest way to do so would be to legislate to establish a new capital control system to come into effect on 1 April 1987. However, the legislation would be difficult and I do not believe that we could guarantee to get a satisfactory Bill through Parliament in time. My Department have sought the advice of the Law Officers' Department on the possibility of overturning the assurances without legislative cover. The Solicitor General's advice is not encouraging. He confirms that the courts would attach considerable weight to the undertakings. He advised that I could probably resist challenges on the grounds of "a substantial change in economic circumstance which has arisen so as to disrupt to a significant degree the Secretary of State's anticipations at the time the letter of 19 December 1985 [the allocations letter] was sent." He also advises that I would have to declare my intention not to honour the undertakings at the earliest possible moment, and give the authorities concerned a chance to make representations. That seems very undesirable.



Until we have agreed the methodology for relating PESC provision to capital allocations between ourselves and the other interested Departments - Education, Transport, and Health and Social Services - it is not possible to say precisely what PESC figures I shall need in my two programmes to deliver the 80% assurance. In the discussion which follows, I have included an approximate figure in each programme, but we should understand that it may need to be adjusted in the light of technical decisions on the methodology.

The Housing Programme

The 80% assurance requires an uplift of an estimated £450m in the local authority housing capital lines. Such an increase would be distributed across the relevant lines as follows:

to meet councils' statutory obligation under the Housing Defects legislation to assist owners of former publicly owned houses and flats which are defective and beyond economic repair by buying them back: £ 10m

to meet Councils' statutory obligations to give grant to assist owners to repair defective and unsaleable houses and flats they have acquired from the public sector: £ 20m

to meet mandatory and committed expenditure on home improvement grants: £ 40m

for improvement grants to enable disabled people to carry out essential adaptation work: £40m

for grants to poorer owner occupiers for essential works to counter growing disrepair: £ 25m

to continue urgent work on the backlog of repair of council housing: £315m

Total addition to local authority capital lines covering HIP allocations: £450m

These increases would thus allow me to keep my predecessors' promises. They would not, however, allow any freedom at all to start to steer local authority expenditure more directly towards the areas where the problems are most acute, or to make any progress in channelling investment to pave the way to the privatisation and breaking up of large estates which I believe to be the only sensible long-term objective for us to adopt in relation to council housing. The Urban Housing Renewal Unit, set up 12 months ago, is spearheading this approach, and for 1986-87 has £50m of allocations held back from the general distribution which it can direct to stimulate particularly useful initiatives



consistent with our long-term objective. The lure of additional resources enables the Unit to have an influence for the good far beyond the relatively small sums it can allocate to individual authorities. This year's £50m is already heavily over-subscribed, and the Unit is building up considerable momentum. Without resources next year, it would be lost. I therefore need something over and above the provision to cover the "bare 80%" allocations, in order to keep the Unit alive, and to enable it to carry on with its pioneering work. To build on its successful start, it needs an additional £200m.

I make no bid for resources for local authorities to build new houses for rent. In my view we should discourage them from doing so. Councils, however, have a statutory duty to house the homeless, and homelessness is increasing. They are resorting increasingly frequently to the unsatisfactory and wasteful expedient of putting families in bed and breakfast accommodation. In a few stress areas there is an acute shortage of cheap rented accommodation which the private sector cannot at present meet. Some additional homes are needed. I believe we should use the voluntary housing sector to provide these homes, rather than the local authorities, for two main reasons. First, because we can direct and control their activities much more precisely through the Housing Corporation and the Housing Association Grant system, and secondly because the associations are actively working towards greater co-operation with the private sector, and can start to bring private money once again into the mass market for rented housing. Our officials are discussing a number of pilot schemes to bring private investment into housing for homeless and elderly people, and young job movers, so that only 30% of their cost would fall to the public purse. I am seeking an additional £95m for the Housing Corporation's Approved Development Plan in 1987/88, in part so that these innovative schemes can be worked up and put into operation, and, so that we can make a well-targetted and effective onslaught on homelessness, particularly in London.

The scope for offsetting savings from the other Housing capital lines is severely limited, but I have looked again at them all, and can offer you a 25% reduction of the Homes Insulation Scheme provision, from £20m to £15m for 1987-88.

Finally, on the current side of the programme, I should like very much to explore the possibility of reducing our expenditure on subsidy by increasing the subsidy guideline for council house rents. But such a policy interacts with the Department of Health's Housing Benefit expenditure, and under present conventions may have the paradoxical effect of increasing net public expenditure, rather than decreasing it. Our officials are discussing this matter urgently with their colleagues from DHSS. If they can resolve some of the difficulties, there may be useful savings to be had. Failing that, I fear I will have to return to you with a bid for a further £11m net addition to meet local authorities' forecast statutory entitlements to housing subsidy in 1987-88.



All these figures are set out in the attached table.

Other Environmental Services Programme

Turning now to my other Programme, we straightaway run up against the "80% allocations" assurance again. For LES Capital, the largest single component of the Other Services Block, an increase in provision of an estimated £125m is needed to cover the promised allocations. There is no escaping this. Again, a substantial bid is in any case justified to meet the growing pressures in this area, many of which have been created by our own initiatives or are imposed by statutory duties. Even with another £125m, the level of provision will imply a real-terms cut from previous years' outturn.

Then there are four other sub-programmes where new policy initiatives require an uplift in provision:

In the Urban Programme, the new Urban Regeneration Grant, which is designed to support and encourage private sector led area improvement without the local authority acting as an intermediary, will require at least £10m in 1987/88.

E(A) have recommended that we study the case for new Urban Development Corporations. I shall propose the designation of a number of additional UDCs. This, together with the need to maintain progress in the London and Merseyside UDC areas, particularly essential road improvements in London docklands, will require a further £45m in 1987/88.

The Prime Minister's recent initiative on litter and the National Environmental Works Scheme (NEWS) will call for £2m of new resources in 1987-88; and

OD(HD) Committee's decision that very high priority should be given to a programme of remedial action in the water industry to improve civil defence readiness demands a further £2.8m in 1987-88.

There are also three sub-programmes where irresistible external demands cannot be met from within the baseline:

the Royal Palaces and Parks need £1m extra in 1987-88 for works to make good the damage caused by the Hampton Court fire;

the Nature Conservancy Council needs more resources if it is to continue to implement agreed policy to safeguard Sites of Special Scientific Interest. For this, and other urgent work to promote agreed nature conservation policies, £7m more will be required in 1987-88; and



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my Departmental Administration line, despite a remarkably successful efficiency drive which has been sustained for several years past and still continues, is unable to cope with the new demands of collectively agreed policy initiatives, and with the continuing gap between the costs of pay settlements and the increases permitted us. I need £9m more in 1987-88.

Finally, I believe that there are two areas of policy which will justify, and will repay, a modest increase in resources. We need to maintain a vigorous programme of derelict land reclamation if we are not to be overtaken by increasing dereliction, and if we are to preserve the green belts from unnecessary encroachment. I am therefore asking for a further £15m for this programme in 1987-88.

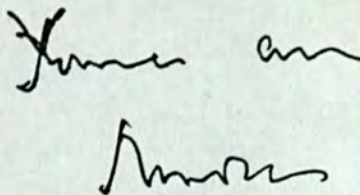
Our policies on the countryside and the rural economy rely heavily on the work of the Development Commission and the Countryside Commission, and I seek a small expansion of their provision in 1987-88, of £2.5m and £2.3m respectively.

I have looked for savings elsewhere in the Programme, but can find only £2.1m per year from reduced demand for sewerage grants, and some larger savings from the New Towns in the later years, reflecting success in increasing the share of investment costs borne by the private sector.

/ All the figures are given in the attached table. My officials will be sending supporting material to yours early next week.

I am writing separately about the PSA. We are discussing the needs of the BWB and the Water Industry in the context of the Nationalised Industries' IFR.

/ I am sending copies of this letter to the Prime Minister, Peter Walker, Malcolm Rifkind, Nicholas Edwards, and John Moore.



NICHOLAS RIDLEY



Programme Title	1987-88		1988-89		1989-90	
	Baseline	Bid	Baseline	Bid	Baseline	Bid
<b>HOUSING PROGRAMME</b>						
<b>Capital:</b>						
Public Sector renovation	1545	515 <sup>(1)</sup>	1529	525 <sup>(1)</sup>	1550	535 <sup>(1)</sup>
Provision for rent	1084	90 <sup>(2)</sup>	1017	100 <sup>(2)</sup>	1031	85 <sup>(2)</sup>
Private sector renovation	390	120 <sup>(3)</sup>	373	120 <sup>(3)</sup>	378	120 <sup>(3)</sup>
Home Ownership	191	15 <sup>(4)</sup>	189	5 <sup>(4)</sup>	193	5 <sup>(4)</sup>
<b>Total Gross Capital</b>	<b>3210</b>	<b>740</b>	<b>3108</b>	<b>750</b>	<b>3152</b>	<b>745</b>
Receipts	-1481	-	-1335	-	-1335	-
Current <sup>(5)</sup>	639	11	639	-3	656	-
<b>HOUSING NET BASELINE AND BID</b>	<b>2368</b>	<b>751</b>	<b>2412</b>	<b>747</b>	<b>2473</b>	<b>745</b>
<b>DOE OTHER PROGRAMME</b>						
LES Capital	179	125	177	127	182	122
Urban Regeneration Grant	-	10	-	15	-	20
Derelict land	81	15	84	15	86	15
Urban Development Corporations	86	45	89	70	91	70
Development Commission	28	2.5	28	6	29	9
Royal Palaces and Parks	37	1	38	2	39	2
Countryside Commission	18	2.3	18	2.6	19	2.8
Nature Conservancy Council	32	7	33	7	34	7
Other Environmental Bodies (NEWS/Litter bid)	9	2	9	2.5	9	2.5
Departmental Administration	103	9	106	7.3	109	7.5
Environmental Research	39	2	40	3	41	3
Civil Defence	0.2	2.8	0.2	4.3	0.2	5.8
<u>Reduced Requirements</u>						
New Towns	-35	-	-25	-15	-25	-28
Other Water Services (Sewerage grants)	4	-2.1	4	-2.1	4	-2.1
<b>DOE OTHER: BASELINE AND NET BID</b>	<b>880<sup>(6)</sup></b>	<b>221.5</b>	<b>907<sup>(6)</sup></b>	<b>244.6</b>	<b>930<sup>(6)</sup></b>	<b>236.5</b>

(1) Bid includes £200m for UHRU, £50m of which may be spent through the Urban programme

(2) Bid includes £80m for Housing Corporation provision, £30m of which is for joint schemes with the private sector

(3) Bid net of £5m reduction in Homes Insulation Scheme

(4) For Housing Corporation Low Cost Home Ownership

(5) Figures exclude rate fund contributions, which is now outside Housing Survey total. The bids are net of savings flowing from reduced interest rate assumptions, which must be surrendered to the Treasury under the "Concordat". Gross bids are £21m in 1987-88 and £39m in 1988-89

(6) Total DOE Other Survey baseline, excluding UP current expenditure.









2 MARSHAM STREET  
LONDON SW1P 3EB  
01-212 3434

My ref:

Your ref:

The Rt Hon John MacGregor OBE MP  
Chief Secretary to the Treasury  
HM Treasury  
Parliament Street  
LONDON  
SW1

*Prime Minister*

13 June 1986

*Dear Chief Secretary,*

*The reductions in the bids made by Mr Riley from those made by Mr Baker are quite modest.*

PES 1986: PSA EXPENDITURE

I have now had an opportunity to review the needs for expenditure by the PSA.

The PSA has an urgent need for extra resources to tackle the present under-funding of accommodation work which is now causing acute difficulties for the Agency and its clients. To a substantial extent, this represents unavoidable commitments which must be met, notably on rents. But it is equally necessary not to jeopardise Government operations by failure to provide for essential works, and to recognise the strong economic case for investment to save future expenditure rather than to continue to let the Government estate deteriorate.

I have however felt able to make some reductions in the bids previously thought necessary. For 1987-88 I have done this by re-examining the need for freehold purchases, rephrasing extra expenditure on estate rationalisation, and taking credit for expected additional PRS rent receipts on the basis of latest information. The net effect is a reduction in the overall bid to £99.6m. For the later years, I have made larger reductions, lowering the total bid for 1988-89 to £108.6m and for 1989-90 to £113.8m. I have flattened out the bid for extra maintenance funds in each year, and reduced the bids for rents and administration. I should point out that the latter is something of a misnomer, since it represents the extra resources required for consultants' fees and professional and technical staff to design, specify and control the extra new works and maintenance programmes proposed.

I attach a table which shows the bids. I have re-cast this somewhat to focus rather more closely on the issue of the Government's investment in property assets. I have retained the bid for purchase of freeholds (though reduced in amount in 1987-88) because I recognise that ownership rather than leasing of essential office accommodation generally makes good economic sense (a point which the Environment Committee press on us again in their report on PSA's 1986-87 Estimates published this week). On disposals of surplus land and property, PSA exceeded its target in 1985-86 and expect to do so again this year. This has in some cases meant pulling forward sales which had been expected to take place in later years, thus making the future task more difficult. Nevertheless I want to look a bit further at whether there is any



scope for doing more, particularly in the storage estate, where there may be a case for contracting out the storage function to the private sector and thus releasing capital at present tied up in property. I recognise that policy issues may arise here for colleagues and I will of course be in touch with them as necessary. I have added £2m to the disposals figures for later years, but at this stage I would not want to raise expectations that more can be found here for the PSA programme - particularly since the disposals baseline already takes credit for continuing sales of non-specialised storage property.

/ I am sending copies of this letter to the Prime Minister; to all departmental Ministers with an interest in the PSA works programmes; and to Sir Robert Armstrong.

Yours sincerely,

*Nicholas Ridley*

PP NICHOLAS RIDLEY

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



	1985-86	1986-87	1987-88			1988-89			1989-90		
	Forecast	Provision	Baseline	Bid	Proposed New Baseline	Baseline	Bid	Proposed New Baseline	Baseline	Bid	Proposed New Baseline
Major New Works	72	51.0	21.8	34.1	55.9	15.8	24.2	40.0	16.2	18.3	34.5
Minor New Works	33	27.2	27.1	5.0	32.1	27.8	5.1	32.9	28.5	5.2	33.7
Fees	13	12.5	6.4	-	6.4	6.6	-	6.6	6.7	-	6.7
<u>Sale and Purchase of Capital Assets</u>											
Disposals	-23.0	-22.8	-22.0	-	-22.0	-16.0	-2.0	-18.0	-16.4	-2.0	-18.4
Purchase of Freeholds	-	-	-	5.0	5.0	-	10.0	10.0	-	10.0	10.0
Net Investment	-23.0	-22.8	-22.0	5.0	-17.0	-16.0	8.0	-8.0	-16.4	8.0	-8.4
TOTAL CAPITAL :	95	67.9	33.3	44.1	77.4	34.2	37.3	71.5	35.0	31.5	66.5
Rent Payments	207	225	230.6	18.7	249.3	236.4	31.7	268.1	242.2	41.0	283.2
Rent Receipts	-33	-33.3	-34.1	+7.5	-26.6	-35.0	+8.6	-26.4	-35.9	+8.4	-27.5
TOTAL RENTS :	174	191.7	196.5	26.2	222.7	201.4	40.3	241.7	206.3	49.4	255.7
Maintenance	76	84.2	79.7	15.0	94.7	81.7	15.0	96.7	83.8	15.0	98.8
Running Costs	31	29.1	31.2	-	31.2	32.0	-	32.0	32.8	-	32.8
TOTAL MAINTENANCE ETC :	107	113.3	110.9	15.0	125.9	113.7	15.0	128.7	116.6	15.0	131.6
Vacant Space	39	46.1	49.7	9.0	58.7	50.9	9.0	59.9	52.6	9.0	61.6
Administration	75	73.6	80.0	8.5	88.5	82.0	6.5	88.5	84.1	5.5	89.6
Conference Estate*	(1.5)	(5.0)	(1.5)	3.0	3.0	(1.0)	3.0	3.0	(0.5)	3.0	3.0
PRS Rent Receipts	-433.6	-425.3	-437.3	-10.0	-447.3	-446.4	-10.0	-456.4	-455.7	-10.0	-465.7
PRS Other Receipts	-145.1	-142.5	-142.3	-	-142.3	-147.7	-	-147.7	-153.2	-	-153.2
TOTAL PRS RECEIPTS :	-578.7	-567.8	-579.6	-10.0	-589.6	-594.1	-10.0	-604.1	-608.9	-10.0	-618.9
TOTAL OFFICE PROGRAMME :	-88.7	-75.2	-109.2	95.8	-13.4	-111.9	101.1	-10.8	-114.7	103.4	-11.3
PARLIAMENTARY WORKS :	9.2	9.3	14.4	3.8	18.2	14.7	7.5	22.2	15.1	10.4	25.5
TOTAL PSA :	-79.5	-65.9	-94.8	99.6	4.8	-97.2	108.6	11.4	-99.6	113.8	14.2

\*Provisions for expenditure on the Conference Estate are included in the other lines shown in this table.



The Rt Hon Lord Hailsham of St Marylebone PC CH FRS DL  
Lord Chancellor

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

The Rt Hon Paul Channon MP  
Secretary of State for Trade and Industry

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer

The Rt Hon Douglas Hurd MP  
Secretary of State for the Home Department

The Rt Hon Peter Walker MP  
Secretary of State for Energy

The Rt Hon George Younger MP  
Secretary of State for Defence

The Rt Hon Malcolm Rifkind MP  
Secretary of State for Scotland

The Rt Hon Nicholas Edwards MP  
Secretary of State for Wales

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

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

The Rt Hon John Moore MP  
Secretary of State for Transport

The Rt Hon Lord Young of Graffham  
Secretary of State for Employment

The Rt Hon Kenneth Clarke QC MP  
Paymaster General

The Rt Hon Sir Michael Havers QC MP  
Attorney General

The Rt Hon Lord Cameron of Lochbroom QC  
Lord Advocate









1. N. W. Noyce  
 cc 2. N. W. Taylor  
 (and we pt)

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

Have a word.  
 N.W.

Nigel Wicks Esq  
 Principal Private Secretary  
 10 Downing Street  
 London SW1

12th June 1986 3.6

Dear Nigel,

**PUBLIC EXPENDITURE - PRESENTATION**

Thank you for sending me Bernard Ingham's note on the presentation of the PES round.

Clearly there are some severe presentational problems here which Ministers will need to consider carefully over the coming weeks. In the meantime, I am sure the Chancellor will be anxious for our respective press offices to avoid appearing to endorse any global total for bids. No doubt there will be speculation and informed guesses; but the less said to substantiate this sort of thing, the better.

The best line to take will, I think, be that which has served us well in earlier years: that the total of Departmental bids may well be a large number, that it is the Government's job to scrutinise these requests for additional spending and that these large bids in June/July have previously melted away in September and October. In short, this is all business as usual.

Similarly, if there is anything that can be done to prevent remarks of the sort attributed to Mr Biffen from gaining wider currency, that would be helpful too.

I am copying this letter to Joan MacNaughton (Lord President's Office) and Brian Unwin (Cabinet Office).

Yours ever  
 Rachel

RACHEL LOMAX





10 DOWNING STREET

Prime Minister <sup>2</sup>

Unlike other Ministers  
Mr Baker has copied his  
bidding letter quite widely.

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11/6

Aschmayer





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DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE YORK ROAD LONDON SE1 7PH

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FROM THE SECRETARY OF STATE

CONFIDENTIAL

The Rt Hon John MacGregor OBE MP  
Chief Secretary of the Treasury  
Parliament Street  
LONDON SW1P 3AG

11 June 1986

Dear John,

1. Education is at the centre of the political stage. I have inherited policies which are widely supported but equally widely seen as underfunded. Our decisions in this PES round will be crucial. We must give ourselves the means to implement our own policies and demonstrate to the public that we are in earnest.

2. E(LA) is dealing separately with local authority current expenditure. I have now reviewed the Vote expenditure which forms the remaining 25 per cent of my programme and have reached the conclusion that increases are necessary to restore credibility to the Government's policies for education and science. I list below my additional bids. They are not in a particular priority order: they represent in my view the minimum necessary increases to achieve Government objectives or to meet unavoidable commitments.

£ million

	1987-88	1988-89	1989-90
Universities	114.0	164.0	216.0
Science	50.0	65.0	75.0
Maintained sector			
capital expenditure	150.0	150.0	150.0
Continuing education	10.4	12.9	18.4
EEC Higher Education programmes	5.0	6.5	11.0
Student awards	8.0	15.0	18.0
Cranfield	3.5	-	-
DES running costs	5.0	6.0	7.0
	<u>347.9</u>	<u>419.4</u>	<u>495.4</u>

CONFIDENTIAL



Universities

3. Keith Joseph told the House on 20 May that we would consider increased funding for the universities. The additional provision which I am seeking consists of three elements:

	£ million		
	1987-88	1988-89	1989-90
Level Funding	64	98	130
Pay restructuring	40	56	71
Equipment	10	10	15
	<u>114</u>	<u>164</u>	<u>216</u>

4. It would be political folly for this Government to preside over university insolvencies or closures, whether deliberately or by default. Yet universities are accumulating overdrafts which they will not be able to repay from present funding or from reserves. My bids do not amount to a policy change or a retreat. The emphasis of our policies for higher education has been on increasing cost-effectiveness. These policies are working. We have maintained access to higher education while securing a shift to science and technology; we are ensuring a greater selectivity of funding in support of quality and rationalisation; we have provoked the university system to pay greater attention to management efficiency; and the proportion of university funding from outside sources has increased by 50% since 1979.

5. These gains will be endangered if we continue with the present baseline. If we do not find more money, it will lead to a contraction of the university system and a sharp initial increase in expenditure to pay for redundancies and premature retirements. This will also mean the denial of access to universities and a reduction in research. Worst of all, it will force us to abandon our policy of selectivity to concentrate on shoring up the existing system as best we can.

6. Instead, as Keith Joseph had hoped, we must take the initiative. A promise of level funding can be used to secure an agreed action programme to press home our policies of selectivity, improved standards of teaching and better financial management. We are already discussing such a programme with the UGC and the CVCP. My intention is to announce an agreed programme at the same time as the autumn public expenditure statement.

7. Better pay and equipment are both necessary if the universities are to play their proper role in the economy. Universities need more money used selectively to enable them to recruit and retain good academic staff. This is a serious problem, particularly in key areas for the economy. Today's undergraduates must also train on equipment used in industry rather than, as is too often true, on the valve-operated technology of fifteen of twenty years ago.



CONFIDENTIAL

8. The pay restructuring element of the bid is contingent on an acceptable outcome to present negotiations. The CVCP and the AUT seem to be willing to see a more discriminating pay structure introduced: both realise that additional money will depend upon reaching a deal of which Ministers can approve.

Science

£ million		
1987-88	1988-89	1989-90
50	65	75

9. In science too, our success in rationalising research and moving it closer to industry could be jeopardised by failing to maintain and enhance the quality of the science base. The science community has pulled its weight in efficiency and restructuring: 600 jobs have been lost in each of the last three years from the AFRC, to give one example. But the lack of new prospects, and severely constrained equipment budgets, are causing more talented British scientists to vote with their feet, and take up jobs in research laboratories in competitor countries. The morale of our scientists has rarely been lower.

10. Obviously we cannot afford to underwrite the unconstrained aspirations of the scientific community. Limits have to be set. But in setting those limits we need to have regard to the investment policies of our economic competitors, since science is an international activity; and to the pressure of national needs, in particular the development of new technologies. These factors argue strongly for an increase in our investment in the science budget.

11. The amounts I propose will enable the Research Councils to build up particular programmes in response to national needs and help them to replace out-worn and obsolete equipment. The figures take account of the scope for savings from redeployment. They also make some allowance for the effects of the recent Civil Service pay settlement and of the drop over the last few months in the value of the £ against relevant European currencies. These two factors alone add an additional £18m annually to Research Councils' costs from 1987-88. There are a number of other prospective pressures on the science budget which are not included in the figures because of my concern to keep the bid to a minimum.

Maintained Sector Capital Expenditure

£ million			
	1987-88	1988-89	1989-90
County and voluntary schools	115	115	115
Further and higher education	35	35	35
	<u>150</u>	<u>150</u>	<u>150</u>



CONFIDENTIAL

12. With £150 million in each year I can begin to grapple with the serious problems of the physical deterioration of schools and the under-resourcing of polytechnics and colleges.

13. The state of school buildings is now a matter of mounting political and public concern. Forceful criticism has come from the Audit Commission, the NEDC, HMI and members of all parties. The executive of the 1922 Committee recently drew attention to the 'stark contrast' between the conditions which children enjoy at home and those in their schools and expressed the view that 'education has become the most urgent priority and one which demands immediate action'.

14. Preliminary results of a recent survey of school buildings confirm the need for a substantial and sustained injection of resources. We are committed to make known the full results of the Survey this autumn and I must by then be in a position to tackle these problems.

15. My bid for schools is the minimum that would be credible. It would begin to restore my ability to match capital allocations to those urgent priorities on which LEAs are ready to spend from their own resources. There is no such match at present. Our top priorities - basic need and removal of surplus places - have only been covered at the expense of committed expenditure. On present plans, even those priorities would be jeopardised. Authorities, like Buckinghamshire, Devon and West Sussex among others where total 1986-87 allocations are not enough to cover their commitments, would be deterred from undertaking essential rationalisation schemes. Nor is there any cover at all for work to remedy the dilapidation and educational unsuitability of school buildings. Not only is the state of school building making it increasingly difficult to carry out teaching in a cost-effective way; many buildings are becoming unsafe to the point where laboratories, for example, can no longer be used. This is where we are most vulnerable; where increased spending will achieve quick and visible results, and where LEAs are demonstrating their willingness to invest.

16. I also require £35 million extra a year for capital spending on buildings and equipment in polytechnics and colleges of further education. The most pressing need is for equipment. We have been roundly criticised by employers, led by the CBI/Colleges panel and the IT skills agency, for failing to provide students with access to the sort of machinery commonplace in industry. The Council for National Academic Awards has announced that present resourcing policies will, if continued, force them to choose between accepting lower quality degree courses or withdrawing course approval in some poorly-equipped institutions. This would be particularly damaging at a time when we have been pressing further and higher education to increase the output of manpower qualified in scientific, engineering and other vocationally-related disciplines.

CONFIDENTIAL



Continuing Education (the PICKUP programme)

£ million		
1987-88	1988-89	1989-90
10.4	12.9	18.4

17. Since 1982 my Department has, with modest funding, run the Professional, Industrial and Commercial Updating Programme (PICKUP) to stimulate training for adults in universities, polytechnics and colleges. The programme has been enormously successful in an area where Britain lags well behind her competitors. It is also moving higher education closer to industry.

18. My bid is aimed at a rapid expansion of mid-career training and updating for those in work. It is obviously right that the main spending on such activity should fall on the employers and individuals who will benefit. But before income from fees becomes available, investment by the universities and colleges in market research, course design and marketing is essential. They cannot make that investment from existing resources. The urgency and scale of the need to restore competitiveness and make good past neglect demands an investment of public funds to prime the pump on the scale I am seeking. My aim is to achieve by 1991-92 a five-fold increase in the present volume of updating training provided for employers by universities, and colleges. Pilot studies - the Coventry Consortium is an example - shows that rapid growth is possible. I intend to relate earmarked grants to targets for expansion. This is the minimum necessary to match measures which the Government is taking, through the MSC and other channels, to stimulate commerce and industry to recognise the importance of a well-trained and up-to-date workforce.

European Aspects of Higher Education

£ million			
	1987-88	1988-89	1989-90
COMETT	0.4	0.6	1.0
ERASMUS	2.0	3.0	6.0
EC Fees	2.5	2.9	3.8

19. My bid is designed to enable the United Kingdom to participate in the following programmes:

- (i) **COMETT.** This programme, to which we are now committed, complements at a European level the Government's general policy of encouraging closer links between industry and higher education and to improve economic performance. We supported the programme in the Council of Ministers which will develop transnational schemes aimed at improving the supply of skilled manpower; extending the skills of those already in industry; and strengthening contacts between academics and industrialists.



CONFIDENTIAL

- (ii) **ERASMUS** is designed to increase the mobility of students in order to improve academic performance. It has yet to be endorsed by the Council. Some member states support the full programme but we and others have reservations about the cost. My bid assumes that the scheme will be launched at about half the level proposed by the Commission. That would permit a substantial development of existing Community joint study programmes with potential benefit for improving awareness of the European dimension in our foreign trade and an early introduction to the importance of language skills in trade with the Community.

In addition my bid includes:

- (iii) **EC Fees**. In view of the threat of Treaty infraction proceedings because we charge students from other Community countries a tuition fee while that for home students is paid as part of the grant, you have agreed that the Government should in future pay fees for EC students. The concession will help to avoid retrospective payments back to our accession to the Community, and will safeguard the UK's position on maintenance awards. I cannot absorb the cost of this concession within my baseline.

20. These European items would not have been my priorities for higher education and, in view of my other bids, I cannot find offsetting savings from within my own programme. It would be wrong to forego essential domestic provision in order to finance a UK share of European initiatives which, though desirable, can be expected to have their impact only in the longer term. But we are politically committed to giving a high priority to the creation of the internal market and, during the EC Presidency in particular, we should be in a position to play a constructive role in the development and implementation of related Community proposals in higher education. At this stage, the costs must be regarded as provisional but they reflect my judgement of the minimum price to enable us to play our full part in the Community.

Student Awards

	£ million		
	1987-88	1988-89	1989-90
Maintenance	5.0	10.0	11.0
Tuition Fees	3.0	5.0	7.0

21. Present plans assume that the student maintenance award rates will increase from 1987-88 at less than our estimates for inflation as measured by the GDP deflator. There are strong political arguments for an increase in line with the GDP deflator and that is what my bid seeks. The value of the award will have decreased in real terms by about 14% between the academic years 1979-80 and 1986-87 - a period during which the parental contribution has increased from 20% to 35%. I am sure that we have been right to seek a higher



CONFIDENTIAL

proportion of the cost of student support from students and their families. But the combination of the drop in the value of the grant, the action that we are taking on student benefit disentanglement and increases in the parental contribution has been severe. The uprating in 1987-88 will be the last in the present Parliament and the process of erosion has gone as far as it can without serious political damage.

22. I also propose that tuition fees for courses covered by mandatory awards should be allowed to rise by the projected GDP deflator and that the fee element in the Awards Vote should be increased accordingly. Tuition fees paid from public funds as part of the student award system represent about 7.5% of universities' recurrent income to which the argument for the preservation of volume advanced in paragraph 4 also applies. In addition, the local authority interests will regard any decision to uprate tuition fees by less than the projected GDP deflator as imposing a further squeeze on the public sector of higher education that will encourage them in their argument that they cannot afford to admit the number of students who will be coming forward.

Cranfield: Privatisation of the School of Management

£ million		
1987-88	1988-89	1989-90
3.5	-	-

23. My predecessor discussed with some of the University Business Schools the possibility of one or more of these institutions developing privately as a centre of excellence without grant from this Department or the UGC. £3.5m in 1987-88 only would provide for a once only payment sufficient to secure the privatisation of the Cranfield School of Management. This is a strong school which has made an extremely modest proposal compared with some others, notably LBS. The future of management education is an important issue and I am convinced that a positive response to the Cranfield proposal would be well received as well as providing a stimulus to improvement elsewhere. The political advantages are obvious.

Departmental running costs

£ million		
1987-88	1988-89	1989-90
5.0	6.0	7.0

24. I know that Keith Joseph discussed with you the inadequacy of existing provision for Departmental running costs. I am writing to you separately about the problems which have already arisen for 1986-87. I simply say here that present levels of funding and manpower do not permit the level of service which my colleagues and I must have if we are to promote our policies. My bid is designed:



- (i) to make adequate provision for the non-pay costs of administering my programme: it will be essential to have adequate resources to present the success of our policies.
- (ii) to meet the costs of a level of staff appropriate to the tasks involved: my bid is for 90 additional staff above the 1 April 1987 manpower ceiling of 2417 with staff numbers being held constant thereafter.
- (iii) to meet the continuing costs of the 1986-87 pay settlement and of likely pay increases over the Survey period.

25. In addition to these bids, there are some minor switches between sub-programmes within my baseline required to reflect agreed changes in Estimates. My officials will be writing with details. The detailed level of control now being assumed in respect of minor changes represents in my view a retrograde step which undermines the principles established in the FMI. If I am to manage my overall programme with maximum regard to value for money as I seek to do, I must have a minimum degree of flexibility to take account of changes in the emphases of spending or to accommodate the introduction of new priorities by appropriate redeployment. My intention is to do so by appropriate adjustments within my overall programme, once the totals have been agreed between us. If that is not possible under the Survey arrangements for this year, then I reserve the right to add to my additional bids.

26. I have confined my bids to those which I regard as essential, and to a scale which I believe to be both realistic and compatible with the continuing need to restrain public spending. To do less than I am proposing will damage not only the education service but also the standing of the Government.

27. I am copying this letter to the Prime Minister, the Lord President and the Secretaries of State for Scotland, Wales, Northern Ireland, Employment, Trade and Industry, Environment and Foreign and Commonwealth Affairs.

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**CONFIDENTIAL**



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DEPARTMENT OF EDUCATION AND SCIENCE  
ELIZABETH HOUSE YORK ROAD LONDON SE1 7PH  
TELEPHONE 01-934 9000

FROM THE SECRETARY OF STATE

Princ Nister 2  
SER  
11/6.

The Rt Hon John MacGregor OBE MP  
Chief Secretary of the Treasury  
Parliament Street  
London SW1P 3AG

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11 June 1986

Dear John,

Public Expenditure Survey

I have written to you separately about additional bids for the education vote programme in 1987-88 and later years. The purpose of this letter is to remind you of the continuing discussions under the Prime Minister's chairmanship about more wide-ranging reform, including the possibilities of reintroducing direct grant schools and other options for increasing variety and quality in the schools system. I am reflecting further on this but we should not rule out the prospect of taking some initiatives on this front before the next election. I shall bring forward firm proposals as soon as I am able to do so. My preliminary view is that we may need to think in terms of spending something of the order of £25-50m to make it plain to the public that we mean business. Both because of the sensitivity of the issues and the stage of development of my proposals, I have not included this within my formal PES bids.

I hope soon that we may also have a further word about local authority capital. I am sure that we must do something this year. Perhaps we might explore further my suggestion that I might reduce my 1987-88 bid for local authority capital in return for some increase in allocations this year.

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

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**CONFIDENTIAL**





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10 DOWNING STREET

*From the Principal Private Secretary*

11 June 1986

**PUBLIC EXPENDITURE - PRESENTATION**

David Norgrove has already spoken to you about the presentation of the PES round, and in this connection I think that you might be interested to see, on a personal basis, the note attached by Bernard Ingham.

I am sending a copy of this letter on a similar personal basis to Jill Rutter (Chief Secretary's Office, H.M. Treasury), Joan MacNaughton (Lord President's Office) and Brian Unwin (Cabinet Office).

(N.L. Wicks)

Mrs. Rachel Lomax,  
H.M. Treasury.

CONFIDENTIAL AND PERSONAL



cc: Mr Norgrove  
Mrs MacNaughton

MR WICKS

PUBLIC EXPENDITURE - PRESENTATION

I am becoming increasingly concerned about the presentation of the PES round, and especially immediate prospects. I have briefly discussed these fears with the Lord President.

The Lobby is now asking me whether the Secretaries of State for the Environment and for Education have put in their revised bids after their fortnight's grace. It is now only a matter of time (unless we do something) before the total of overbids is published. Since the media started with an incomplete overbid figure of £7bn a few weeks ago, the "final" total is potentially horrendous with implications for confidence and the credibility of further tax cuts.

So far I have got away with a rather casual approach - namely that there is nothing new in overbidding at this stage. It has happened each year to my certain knowledge since 1980 and an overbid of £5-6bn has latterly been pretty routine. There is a slight difficulty about this line: this year Ministers have been required specifically to endorse overbids in an attempt, as it was seen, to discourage them.

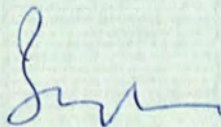
It may be argued that if in these circumstances we have so far got away with a figure of £7bn there is not much to worry about. I am afraid, however, that that simply will not wash.

Mr Biffen argued in my discussion in Liaison Committee this morning that a high figure was only a real problem if tax reductions were still the firm objective. That is not necessarily so, but the fact is that tax reductions are considered very much to be the aim of the Prime Minister (Women's Conference) and the Chancellor (economic debate in the House last week).



Unless action is taken, we are thus faced with the prospect of stories either of a brakes-off spending-spree or an end to prospects of lower taxes, or more likely both - under an overall picture of the Prime Miister staring economic U-turn and reverse in the face.

In my view every effort must be made now to secure a "reasonable" final figure for overbids which ideally should not exceed £5-6bn.



BERNARD INGHAM

10 June 1986



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cc LG



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Oddi wrth Ysgrifennydd Gwladol Cymru

The Rt Hon Nicholas Edwards MP

From The Secretary of State for Wales

9 June 1986

*Da JM*

*NBN*

1986 INTERDEPARTMENTAL PES

*WILL REQUEST IF REQUIRED*

At the end of my letter of 22 May I said that I might write to you further in the light of bids made by colleagues. Not all our colleagues have written yet, but time is passing and I think the picture is now taking clear enough shape for me to write.

First of all, I have to lodge an additional bid. Paul Channon mentioned to me that he was considering proposing to you that the moratorium on new-style RDGs agreed in the course of last year's survey should be lifted. Paul has not discussed the proposal with me in detail, but I understand from officials that he has now made it, in respect of 1987-88 only, the cost in England to be found from within his baselines. We estimate that the cost of the proposal in Wales would be £7m, and I must therefore lodge that as an additional bid to be met if you accept Paul's proposal. I note that Malcolm Rifkind's letter of 30 May uses reduced requirements on housing subsidies (surrendered to the Treasury under the Concordat) as an offset to additional bids. On the same basis I can offer an offset of £1.05m in 1987-88 from this source.

Turning to the other bids, which I have seen, it seems to me the thread running through them is that 1987-88 will be a year that faces us with special challenges. Within my own block I have most pressing demands, which not only mirror but exceed those I have seen explained in colleagues' letters. In my internal survey a particularly large bid has been made for Health and Personal Social Services. Higher morbidity in Wales has been a long standing problem, but we now have a call on the Family Practitioner Services much higher than we had expected. My officials are conducting an inquiry into this. As in England, waiting lists in Wales are of great concern. We have invested heavily in new Health Service buildings but for them to make an impact we have to staff them. When it comes to implementing pay awards, the mix of Health Service staff in Wales is more expensive than the mix in England, so we have to find proportionately more for additional pay costs than the one-seventeenth consequential of increases in England. Housing continues to demand resources, with a continuing backlog of house improvement work (a much more serious problem in Wales than in England). This is one element of the Valleys Initiative I

/have launched ..

The Rt Hon John MacGregor OBE MP  
Chief Secretary





have launched to improve environmental and general living conditions in the South Wales Valleys. There are other exciting projects for urban regeneration and development in South Wales where grant aid could lever very large amounts of private investment, offering dramatic improvements of lasting importance. I noted with sympathy the case put to you by Richard Luce in respect of the Arts. In Wales there is an urgent need for capital construction work for housing the arts, which I must fulfil if the Government is to be recognised as caring for our culture. We cannot afford not to respond to all these needs and opportunities.

I therefore need every penny of every consequential I can get from this year's survey. I stress this particularly in connection with the additional provision which will have to be made for local authority spending in England. I look to that source for the margin I urgently need over and above the routine consequentials of any increases in comparable England central government programmes, and as I have already noted in the course of discussion in E(LA) I must have a full consequential of that additional local authority provision.

/ I am copying this letter to the Prime Minister and to Malcolm Rifkind.

*J. M.*  
*D. J.*







CBG

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Secretary of State for Trade and Industry

CONFIDENTIAL

9 June 1986

The Rt Hon John MacGregor OBE MP  
Chief Secretary to the Treasury  
HM Treasury  
Parliament Street  
LONDON  
SW1P 3AG

NBA

Dear John,

Although ECGD's administration expenses are met from trading income, they are nevertheless included in the annual Public Expenditure Survey for purposes of control.

... I enclose a paper setting out the details of ECGD's additional bids using last year's PES as the baseline. From this you will see that the Department plans to reduce its manpower considerably over the survey period, although not to the extent forecast in last year's exercise.

Last year's manpower numbers were highly speculative and were accepted as such by the Treasury. We had to make an immediate guess at what the manpower effects of the Management Review, which had only recently been considered by Ministers, might be. That review was aimed at improving business performance, and was not a cost cutting exercise; hence no manpower figures were included in the report. Moreover, the recommendations that were likely to have the greatest effect on staffing numbers involved radical proposals for changing ECGD's methods of operating which would have to be weighed carefully before taking final decisions to go ahead. Over the past year the Department has made a good deal of progress in implementing the Management Review and it is now in a position to make a more considered assessment of its future manpower levels. The enclosed proposals therefore are the product of this work (relating as it does to the Department's Business Plan) and produce savings that the Department is reasonably confident of achieving.

JF5BGQ

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BOARD OF TRADE  
BICENTENARY



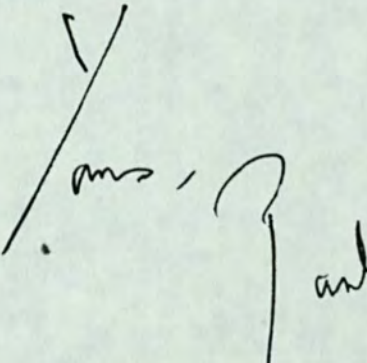


CONFIDENTIAL

Certain of the more radical Management Review proposals may, in the longer term, produce additional manpower savings but much research remains to be done before we can be sure that they are workable.

I am satisfied that the Department's proposals, which involve a 12 per cent reduction of staff over the Survey period, represent a realistic approach to the recommendations of the Management Review and ECGD's current business environment. I have written separately on ECGD's Tender to Contract (TTC) facility and the Cost Escalation scheme, on both of which I am seeking additional bids.

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



PAUL CHANNON

JF5BGQ

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19 **86**  
BOARD OF TRADE  
BICENTENARY



MANAGEMENT IN CONFIDENCE

1986: ADMINISTRATIVE PES

ECGD's running costs requirements over the Survey period exceed the baselines published in the White Paper earlier this year. A detailed submission is being submitted at official level, but the significant departures from PES baselines are explained below.

PES BASELINE FIGURES

The baseline figures arising from the 1985 PES round, incorporating agreed changes since then, were:-

	£ million		
	1986/87	1987/88	1988/89
	32.9	32.1	31.0

Manpower baseline figures were:-

as at	1.4.86	1.4.87	1.4.88	1.4.89
	1813	1797	1612	1339

These figures reflected initial assumptions made by the Management Review team of possible staff savings if all the Review's recommendations were implemented within a 2/3 year period. Many of the recommendations of the Review were neutral in their staffing implications but some involved radical proposals for risk assessment and the handling of claims which could conceivably lead to large staff reductions, especially in



Cardiff and the Regional Offices, if the ideas advocated were shown to be sound. However, these ideas need to be tested, and the extent to which they may lead to staff savings is uncertain. In any event, implementation of the Review is now planned to extend over a slightly longer timescale.

#### 1986 PES BID

The current proposals, arising out of Group Business Plans and the main ECGD Business Plan, are for a smaller reduction in staff numbers. The proposed manpower figures are:-

as at	1.4.87	1.4.88	1.4.89	1.4.90
Bid	1833.5	1735.5	1671.5	1599.5
PES baseline	1797	1612	1339	[1339]
variance	36.5	123.5	332.5	260.5

The overall bids therefore exceed the baseline figures by a relatively small margin in 1987/88, but by larger amounts in 1988/89 and beyond. Nevertheless, a reduction of 234 posts is envisaged over the period.

The overall running costs bids are as follows:-

	£ million		
	1987/88	1988/89	1989/90
bids	35.7	35.6	35.1
PES baseline	32.1	31.0	32.2
variance	3.6	4.6	2.9



The bids exceed the baseline figures by 11% in 1987/88, rising to 15% in 1988/89 and falling to 9% in 1989/90. For comparison purposes, the running costs cash limit for 1986/87 is £33.38 million.

The variance between the PES manpower and running costs baselines and ECGD's current bids is largely due to ECGD's more considered assessment of what is achievable in manpower terms, under the Management Review implementation programme. The Review pointed to changes in three main areas where significant manpower reductions were expected:

(i) Buyer Risk Assessment

The Management Review recommended changes in buyer underwriting practice and procedures, although it recognised that such changes could not be made quickly. The Cardiff Group intends to implement new procedures stage-by-stage. The initial stage will be to build a computer system which will be able to recognise risk factors and characteristics and to process applications automatically against pre-determined criteria without the need for the traditional underwriting approach. Thereafter, the second and subsequent stages will incorporate further criteria and sieving algorithms. Progression from one stage to the next will depend on the thorough testing, implementation and measurement of the early results of the preceding stage. This system will provide the basis for moving to the portfolio management approach recommended in the Management Review; but the concept is untested and will require considerable IT support. Careful evaluation of likely resource and efficiency gains over and above those expected to be achieved by statistical underwriting techniques will be needed before final decisions can be taken.

(ii) Portfolio Management of Political Risk.

The International Group is pursuing vigorously the remit to study alternative arrangements for the management of



ECGD's country risk portfolio, as recommended in the Management Review. Work to date is leading to the conclusion that country risk assessment should continue to be undertaken within ECGD, but with greater use of professionally qualified staff, computer technology, and analytical techniques, and with a more structured and effective interface with specialists undertaking similar work in other parts of Government. The aim will be to recommend a system which achieves a significant saving in staff and other costs, though a change over to such a system is likely to take at least 2 years. In the meantime, and in parallel with the new system during the change over period, it will be necessary to carry out country assessment and policy work by existing methods.

(iii) Claims and Recoveries

The Management Review recommended the introduction of statistical sampling techniques in the processing of small claims and a more cost-effective use of resources in seeking recoveries. Initial studies, however, suggest that the existing claims examination process is cost-effective although some measures to improve efficiency are in hand. On the recovery work, the Department is increasing manpower in order to improve the proportion of claims payments that is recovered and is setting suitable performance budgets to ensure a return on this investment. Overall, the manpower reductions on the claims activity (including recoveries) is now considered to be less than was supposed in last year's Survey.

The plans of the other Groups produce manpower and resource bids which are broadly in line with PES baseline figures.







SECRET



case 2  
Prime Minister  
The bids total  
nearly £1200 m for  
1987-88.

DEPARTMENT OF HEALTH & SOCIAL SECURITY  
Alexander Fleming House, Elephant & Castle, London SE1 6BY

SKW  
9/6.

Telephone 01-407 5522

*From the Secretary of State for Social Services*

The Rt Hon John MacGregor OBE MP  
Chief Secretary to the Treasury  
HM Treasury  
Parliament Street  
LONDON  
SW1P 3AG

ms 6 June 1986

John John.

PUBLIC EXPENDITURE SURVEY 1986: SOCIAL SECURITY AND DHSS ADMINISTRATION

I am writing under the revised guidelines agreed for this year's Public Expenditure Survey to give you details of the increased provision required for the social security programme and Departmental administrative expenditure. I have carried out my scrutiny of the social security expenditure situation from the basis of our reforms of the system which are now before Parliament. These reforms are of course important in themselves for the improvements which they offer; will give better control of expenditure; and are vital to our political position. I have therefore kept to an absolute minimum policy bids unrelated to them; the only one of any significance is the cost of resolving the problem over Invalid Care Allowance. But if our reforms are to succeed we must be as realistic as we can about the probable demands on the social security system and the scope for financing these demands out of policy changes of a politically damaging kind. This letter deals with these issues, and Annex 1 sets out the principal figures.

Benefits

Review Related Bids

We expect over the next few months to re-cost the Review measures in particular in relation to income support, family credit and housing benefits in the light of recent data and I wish to consider the position of the various groups in the light of that examination. We also still have to settle in E(LF) the future arrangements for assisting low income families with the community charge which will have significant distributional effects. But it is already evident from the Social Security Bill's passage through the Commons that some easements will be essential if we are to secure public acceptance of the reforms. For example, severely disabled claimants will suffer large losses as will some one-parent families. We have also identified some very minor changes which will make the operation of the social fund more acceptable. At this stage I can only register a provisional bid of £50 million for improvements to the package of review measures.



E.R.

Social Fund - start-up

There is a particular problem over the social fund's start-up costs. Loans will form a major element of the fund. Clearly, because of the timelag between the granting and recovery of loans it will be necessary to provide additional resources for the first year of its operation. The only alternative would be to curtail severely the number of loans made in that year. This would be impossible to justify and would get the new arrangements off to the worst possible start. I estimate that an additional £25 million will be required for 1988/89 to deal with this problem, but I should be able to cover this cost by savings on the uprating in 1988/89. The Social Security Bill provides for the main uprating to take place in the week beginning with the first Monday in the new tax year, rather than the week in which 6 April falls. In 1988 this will mean that the uprating will not take place until the week commencing 11 April, saving about £25 million.

Invalid Care Allowance

You are well aware that this bid stems from a probable, adverse judgement of the European Court and we are due to discuss the matter again shortly. We have not yet agreed what action should be taken, if any, to limit the expenditure consequences of the anticipated judgment but for the purposes of this exercise I have assumed that a recent work test will be introduced. I must reserve my position on the size of the bid until we have discussed further.

Minor Changes

These are very small indeed and I will not trouble you with the detail at this stage. I expect to find offsetting savings to finance them.

Housing Benefit Administration

Local authorities will incur significant additional expenditure in 1987/88 if they are to make adequate preparations for the start of the reformed housing benefit scheme and, in my view, the Government must be seen to be providing an appropriate level of support for these unavoidable costs. My best estimate at this stage is that I will need to bid for £30 million to cover this. We will be having detailed discussions with the Local Authority Associations but until these are concluded the figure must remain provisional. I suggest that initially we pursue this question in the context of RSG discussions, not least because the timetable on that front is tighter.

Administration

My bid on the Administration Vote consists of three main elements, normal work, reform implementation and operational strategy.

Normal work: when we reached agreement on manpower and money for normal work in 1986/87, the carry forward to future years was left open. The bulk of the bid is this carry forward. This line also has to reflect pay settlements over the period. I am not bidding for more than the assumed inflation rate but I must stress that we control neither the pay negotiations nor the settlement. This bid has to be judged against the background of two concurrent exercises: the complement review in our local offices and the joint study by our officials of the scope for



E. R.

efficiency savings. The results of these two exercises will not be available until well after the PES round and I suggest our officials discuss how this inevitable uncertainty can best be handled. For the purpose of the current estimates, leaving aside the interim costs of implementing the social security reviews, we have simply assumed the continuation of the agreed 1.4.87 figure for manpower of 96,750. You will recognise that at this stage I can give no guarantee that the results of these two exercises will in fact balance out.

Reform Implementation: I have shown separately my bid for the costs of implementing the current Social Security Bill. The 1987/88 figure given in Annex 1 - which must necessarily be subject to a degree of uncertainty at this stage - covers the staff costs of reassessing cases under the new rules and of training our local office clerks, plus items such as accommodation, the development of new computer systems, reprinting of leaflets and publicity. On the other side of the equation, there are administrative as well as benefit savings flowing from the reforms which are already apparent in the figures for the last two survey years. I believe these fully justify the initial costs. Indeed, the administrative savings alone would make this an attractive investment under the normal criteria, with an internal rate of return in excess of 10 per cent over ten years.

Operational Strategy: I have also shown separately my bid for the costs of implementing our operational strategy: again an investment justified by large future savings. Our officials are currently conducting the annual review of the strategy and the bids may have to be adjusted in the light of that exercise.

The details of these bids will be provided separately to your officials. I recognise that the consequences for the running costs total are very significant. A substantial part of this is very much an investment, however, more akin to capital expenditure - indeed, I believe many private sector firms would classify it as such. The underlying increase in running costs for the day to day work of the Department does come within the target at the end of the survey period, though it is slightly above it at the beginning. In practice, we could come within the target only by reducing our manpower requirement and the arguments against this are precisely those you found persuasive in February.

#### Forecasting changes

Annex 1 also records our current estimate of forecasting changes to the baseline. In the first two survey years, the economic changes are simply a reflection of changes in the underlying economic assumption provided by your Department, and of the significant increase in rents and rates in the current year. The large figure in the third year is a direct consequence of the artificial way in which the baseline has been created, without full provision for the benefit upratings which we are committed to make. In the last two PES rounds, it was accepted that provision for a full uprating should be treated as essentially an agreed change, and I assume this will be the case this year.

It is disappointing that despite the efforts of both our Departments to improve our forecasting methodology, we are still faced with uncomfortably large estimating changes. In part they arise because the new methodology is giving us early warning of increased



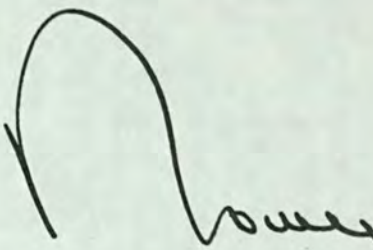
E. R.

expenditure; there appears to be a continuing upward movement in the number of people receiving benefit, in lengths of period in receipt of benefit and in entitlement, but further statistical information will be necessary to confirm this. Moreover, the figures underlying Cmnd 9702 were vulnerable to the limited availability of much of the basic statistical data following the 1984 dispute at Newcastle. It is now necessary to correct for this in the light of the information becoming available. Experience indicates that the figures for both the economic and the estimating changes are likely to change significantly as the PES round proceeds, and it would not be sensible to base discussion on the current figures, which are inevitably far from precise. I suggest that the forecasting changes in Annex 1 be regarded as for reference only at this stage, and that any substantive discussion be based on the next cycle of forecasts in August.

#### Offsetting savings

I have considered the scope for offsetting savings but, having just concluded an extensive review of social security provision, I am in no doubt that I could only find such savings by either announcing major changes to the new schemes before they have even begun or by making savings in those few areas not covered by the review, eg disability benefits. I attach an illustrative list of possible savings measures which my officials have identified and one has only to look down the list to appreciate that securing savings of this kind would carry a very high political risk indeed. Even then, the list is short of the sum which would be necessary to offset in full the increase in baseline expenditure. We have had experience of the political difficulties which a series of social security savings measures can produce and I am certain that to introduce the measures of the kind in the list would place us in even greater difficulties.

I am copying this letter to the Prime Minister and the Lord President.

*Yours ever* 

NORMAN FOWLER



## SOCIAL SECURITY - BENEFIT AND ADMINISTRATION BIDS

	£ million cash		
	1987-88	1988-89	1989-90
1. Baseline	42,458	43,834	44,930
2. <u>Benefit bids</u>			
2.1 Review related contingency bid	+11	+50	+50
2.2 ICA - recent work test	+50	+47	+41
2.3 HB start-up cost	+30		
3. <u>Administration bids</u>			
3.1 Normal work <sup>1</sup>	+147	+161	+181
3.2 Operational strategy	+42	+64	+32
3.3 Reform implementation	+93	-7	-22
<b>TOTAL</b>	<b>373</b>	<b>315</b>	<b>282</b>

-----

Forecasting changes

economic	+250	+310	+645 <sup>2</sup>
estimating	+550	+600	+1,140

Notes:

- This is the continuation of the sum already agreed for this year.
- £300 million of which is due to the way the baseline has been constructed for the final year.
- Two benefit bids are to be fully offset by savings and do not add to the total:
 

a) Social Fund - start-up	-	+25	-
b) Minor changes	+5	+2	+9



## POTENTIAL SAVINGS MEASURES

PROPOSAL	£ million cash		
	1987-88	1988-89	1989-90
1. Offset occupational pension exceeding £35 against unemployment benefit for all age groups	-	40	45
2. Offset occupational pension exceeding £35 against unemployment benefit for those aged 55-60.	-	30	35
3. Offset occupational pension exceeding £35 against sickness benefit/invalidity benefit for those aged over 60.	-	90	95
4. Offset occupational pension exceeding £35 against sickness benefit/invalidity benefit for all age groups.	-	170	170
5. Defer abolition of retirement pension earnings rule by a further year.	-	-	100
6. Abolish 25p age addition for pensioners over 80.	-	24	24
7. Abolish Christmas Bonus.	-	114	114
8. No uprating of supplementary benefit additional requirements in April 1987.*	17	-	-
9. Increase available scale margin by 10p/50p in April 1987. (This is an offset against additional requirements for claimants in receipt of the long-term rate of supplementary benefit).*	10/50	-	-
10. Housing benefit - steepen rent taper from 29% to 33%.*	28	-	-
11. No child benefit uprating in April 1987.	80	80	80
12. No uprating of "unpledged" benefits in April 1987.	350	350	350
13. Unemployment benefit disqualification for claimants voluntarily unemployed - extend period from 13 weeks to 6 month/1 year.	-	110/160	110/160
14. Attendance Allowance - pay a reduced rate for children aged 2-4.	8	8	9

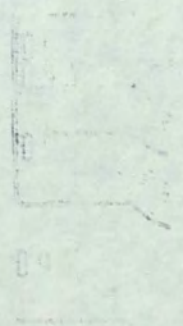
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15. Attendance Allowance - pay a reduced rate for children of all ages.	40	41	43
16. Widows - apply £75 earnings rule (as for retirement pensioners).	-	27	27
17. Apply an earnings rule of £100 to both widows and pensioners	-	100	100

\* Note: savings from these measures are subsumed in review savings in 1988/89 and 1989/90.







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CBG

NORTHERN IRELAND OFFICE  
WHITEHALL  
LONDON SW1A 2AZ



SECRETARY OF STATE  
FOR  
NORTHERN IRELAND

1. <sup>EDP</sup> EDP to see.  
2. Prime Minister 2  
for bid relating to the  
contents of the Anglo-Irish agreement,  
described on the second page.  
DLS  
6/6.  
6 June 1986

Rt Hon John MacGregor OBE MP  
Chief Secretary of the Treasury  
Treasury Chambers  
Parliament Street  
LONDON  
SW1P 3AG

mt

Dear Chief Secretary,

1986 PUBLIC EXPENDITURE SURVEY

The guidelines for the 1986 Public Expenditure Survey require that any proposal for additional resources should be sent to you. I apologise for being rather behind.

I have considered the expenditure requirements of the Northern Ireland Block on the basis of a preliminary assessment of prospects for the 1986 Public Expenditure Survey. Although the fall in the price of oil will reduce our requirements for the tariff subsidy to the Northern Ireland Electricity Service, at least in the short term, I am faced with difficulties, in some cases very severe, on practically all other aspects of Block expenditure, including in particular law and order, industrial development and support, education, and health and personal social services. However, taking account of your request that colleagues keep to an absolute minimum any bids for additional resources in this year's Survey, I have decided not to seek any addition other than that described below. This is on the specific assumption that public expenditure classifications in the 1986 Survey remain in line with those underlying my existing Survey baseline.

It will consequently be necessary for me, as also proved necessary in last year's Survey, to make what are likely to be very uncomfortable adjustments in order to balance my books but I am prepared to do my utmost to that end, as my contribution to keeping the Government's Public Expenditure plans on course.

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/...



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Anglo-Irish Agreement

There is however one area where, for political reasons, it is necessary to make a bid. This concerns the costs arising from the Anglo-Irish Agreement and you are familiar with this problem. When we corresponded last winter, we agreed that the question of additional costs arising from the Agreement in the years after 1986/87 should be handled in the 1986 Public Expenditure Survey. My letter of 5 December 1985 set out the case for special treatment of this expenditure and the points remain valid. Unionist hostility to the Agreement has not in any way diminished and we must avoid letting them claim that the costs of implementing the Agreement were being met at the expense of and to the detriment of social and economic areas where progress needs to be made in Northern Ireland. I therefore find it necessary to lodge a bid to cover the cost of servicing the Secretariat, its security, static guarding for the Secretariat premises and extra police costs to guard the Conference on the days it meets as well as the additional policing costs in relation to the reaction to the Agreement.

The attached table sets out our current projections of costs. These are, of course, subject to further refinement during the course of the year. We are still looking at two options, one of which involves significant capital expenditure, mainly in respect of the improvement of security at existing premises used by the joint Secretariat. The expenditure in the first line of the table is in the main within Departmental Running Costs and I will therefore need to increase the NI running cost limit by this amount.

Departmental Running Costs

My officials have already indicated to yours that as part of the Survey process I will be reviewing Departmental Running Costs in the NIO and the NI Departments for 1987/88 onwards, bearing in mind the objective of living within the existing published target. It is much too early to say what the outcome of the review is likely to be but I will of course let you know in due course if I see a need for any change in the level of running cost provision.

I am copying this letter to the Prime Minister, The Lord President, the Foreign Secretary and to Sir Robert Armstrong.

Yours Sincerely  
N Howard  
(Private Secretary)

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

JLD

2  
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**E.R.**

1986 PES: ANGLO/IRISH COSTS

	£m	1987/88	1988/89	1989/90
(1) A/I Secretariat pay of 12 staff, gae, and communications capital (net of ROI contribution)		0.4	0.4	0.4
(2) Capital Works Maryfield		0.2	0.1	0.1
(3) Static police guard Maryfield		0.5	0.5	0.6
(4) Intergovernmental Conferences policing costs		1.1	1.2	1.3
(5) Additional expenditure at Joint Secretariat premises				
a) Major Capital		1.0	-	-
b) Minor Capital		0.3	0.1	0.1
c) Static police guards		0.5	0.5	0.6
(6) Additional Policing Costs		4.8	4.8	4.6
		—	—	—
<b>TOTAL BID</b>		<b>8.8</b>	<b>7.6</b>	<b>7.7</b>

NOTE:- If item 5 above does not go ahead the bid would reduce to £7.0m, £7.0m, £7.0m.

*PS / SO S (B) m*  
*PS / Dr Boyson (LEB) (DFP) m*  
*PS / PUS (LEB) m*  
*Am Bloomfield m*  
*Dr Quigley m*  
*Miss Pease*  
*Mr Costan m*









**DEPARTMENT OF HEALTH & SOCIAL SECURITY**  
 Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

*From the Secretary of State for Social Services*

The Rt Hon John MacGregor OBE MP  
 Chief Secretary to the Treasury  
 HM Treasury  
 Parliament Street  
 LONDON  
 SW1P 3AG

6 June 1986

NBM

Dear Chief Secretary,

PUBLIC EXPENDITURE SURVEY 1986: OPCS

This letter sets out the addition that is necessary to the provision for the Office of Population Censuses and Surveys.

The OPCS baseline at present includes provision for the 1991 Census in the three Survey years as follows:

£ millions		
<u>1987/88</u>	<u>1988/89</u>	<u>1989/90</u>
1.90	3.04	3.12

This figure is likely to need to be increased by the following additional amounts:

£ millions		
<u>1987/88</u>	<u>1988/89</u>	<u>1989/90</u>
1.25	1.47	1.80

The precise amount depends on whether you approve the business case which has been put to your officials for a method of planning numeration districts based on postcodes.

The office is absorbing additional work within its baseline, but cannot meet these Census costs without additional cash provision.

OPCS is also undertaking additional work on the computerisation of the National Health Service central register as part of the DHSS strategy for computerising family practitioner services administration.

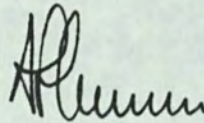


Cash provision is already in my DHSS baseline so while no net increase in increase in provision is required, authority is needed to increase OPCS gross running costs by:

£ millions		
<u>1987/88</u>	<u>1988/89</u>	<u>1989/90</u>
0.53	0.90	1.75

I am copying this letter to the Prime Minister and the Lord President.

*Yours sincerely*



*for*

NORMAN FOWLER

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







60

CCBS

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD  
WHITEHALL PLACE, LONDON SW1A 2HH



From the Minister

The Rt Hon John MacGregor CBE MP  
Chief Secretary to the Treasury  
HM Treasury  
Parliament Street  
London SW1

1. EDP  
2. NBSA

5 June 1986

**PES 1986: AGRICULTURE FISHERIES AND FOOD**

After consulting my agricultural colleagues I can now advise you of our net bids for expenditure over the three Survey years by the Intervention Board and on domestic agriculture fisheries and food.

The picture is inevitably dominated by the Intervention Board estimates which, as you will know, are highly volatile. Moreover they bring only indirect benefit to the farmer. They cannot be seen - and are certainly not so regarded by the farming community as offsetting the particular needs which we have identified as requiring some small additional expenditure provision at this time. Needless to say we have rigorously sought for offsetting savings wherever possible.

Intervention Board Market Support (Including EC Schemes Administered by Other Departments) and Projects Assisted by the EC

In this area we regularly review forecasts and our latest estimates show expenditure in 1987/88 some £100 million above the baseline of £1,601 million, in 1988/89 £105 million above, and in 1989/90 £98 million above. This includes the economies achieved in the last price fixing, such as the levy on cereals which itself will yield nearly £80 million next year. This forecast expenditure does not include receipts from the Community, forecast to increase to £1,331 million in 1987/88, which are scored separately in programme 2.7, net payments to the EC. The Exchequer requirements net of these receipts will be +£81 million on the baseline of £401 million in 1987/88, +£86 million in 1988/89, and +£87 million in 1989/90. All these estimates are subject to verification by your officials. The main reason for this increase is higher expenditure in the beef sector, some £104 million over a baseline of £235 million. However these estimates take no account of reforms to this regime which the Council has agreed must be decided before the end of 1986, and again have yet to be verified.



## Intervention Board Administration

IBAP's workload has increased considerably, the latest addition being the cereals corresponsibility levy agreed in the price fixing. They will require modest increases in provision in each of the Survey years to meet the cost of higher manpower numbers. Progress on computerisation has been slower than anticipated when the baseline was established and projected staff savings will come through later than expected. The increase in staff costs in 1987/88 is £0.8 million but is partly offset by expected savings of £0.3 million on computer software costs. The net increases in 1988/89 and 1989/90 are £0.6 million and £0.5 million respectively.

### Domestic Programmes

We are in correspondence over the pressing need for more expenditure on flood protection and I have already entered bids for £4.5 million, £4.5 million and £2.0 million for the Survey years, net of savings from allied areas. As you know, the sea defences on several parts of our coast are in a precarious state. It is becoming very clear that the substantial cuts made over the last three years in the PES provision for flood protection work have gone too far. We must make more money available: indeed our real need may well be higher than the extra provision I have asked for. As I have explained in my previous letters to you, we need to announce the necessary decisions immediately together with increased provision for this year in order to enable at least some work to be carried out this summer. Otherwise, especially if flooding does occur this coming winter, we will be exposed to extremely serious criticism.

We have agreed that to reduce our surplus stocks of commodities it will be necessary to supplement a tough price policy by a variety of other weapons, such as a set aside programme and diversification programmes. The Commission have produced structural proposals along these lines and various official groups are examining the possibilities. As yet it is too early to put a figure on the net cost of these initiatives, although it may in the meantime that a marker should be put down about the possible need for more money here.

A firmer figure can be put on structural programmes aimed at helping the most disadvantaged parts of the country. You already know of the programme to develop the Scottish Islands, and Malcolm Rifkind wishes to bid for £0.2 million in 1988/89 and £3.9 million in 1989/90 to get this off the ground. The details of this programme were communicated to your officials in February. A similar but much smaller programme is intended for the Scilly Isles but you will be pleased to know that if this goes ahead I will find the necessary funds within existing provisions for land improvement.

The only other programme bids which I would like to enter concern several items which although in total only add to about £1 million in each year are individually worthwhile. These are:



the programme to tackle coypu in East Anglia, a very damaging pest which with determination we can eradicate;

help for egg producers to implement Community requirements for larger battery cages, a very sensitive issue;

increased grants to fishermen and cooperatives to match extra Community funds for better marketing;

and more money to pay the Milk Marketing Board for administering the milk outgoers scheme.

Details of these schemes will be passed to your officials.

Turning to capital grants we need to distinguish between the old schemes, of which the two major ones have been terminated, and the new schemes introduced at the end of last year. My officials are discussing with yours the latest projections of the four Agricultural Departments under both heads. In the case of the old schemes there is a significant estimating increase in 1987/88 over the baseline, particularly in respect of unavoidable commitments under the AHDS and AHGS, of about £6.0 million. As regards the new schemes, these have been in operation for only about 7 months and there is a very thin basis of actual expenditure on which to construct forecasts. Agriculture Departments have discussed their forecasts as they currently stand with your officials but clearly these will need to be reviewed very closely in August when we will have another 3 months experience and hope to have made progress in the computerisation of plans and payment commitments. A particularly difficult area is the expenditure under the national (non-plan) part of the AIS and officials in the Agriculture Departments are examining this area very closely to identify what further action may be needed.

As regards provision for fisheries expenditure, I should for your information record that demand for construction and modernisation grants has been stronger than expected. The European Community are shortly due to discuss the structures measures to apply from 1 January 1987, when the present schemes expire, and we will wish to review with the Treasury the provision for our national schemes in the Survey period when we are clearer about what the Commission intend to propose.

Turning to administration, there are a few items where bids are unavoidable. In recent years I have managed to keep down my Department's running costs by substantial cuts in personnel. This pressure is still continuing but I need additional provision of £5.7 million, £7.7 million and £10.5 million to cover essential requirements in the three Survey years. These figures are made up as follows:-

(a) Information Technology. To maintain efficiency with shrinking numbers and to cope effectively with tasks facing my Department which are becoming more and more complex it is essential to invest in more modern technology. Our present provision is seriously inadequate and I wish to enter a bid for £3.0 million, £2.9 million and £3.5 million for the three Survey years, covering a combination of capital and current expenditure and a variety of projects.



(b) Pay Increases. Last year we agreed that the introduction of limits on running costs required us to include realistic assumptions for pay increases. We settled a +5% for 1986/87 (I wanted a higher figure), +5% for 1987/88 and +4½% for 1988/89. The net effect on my Department's pay bill of this year's centrally negotiated pay settlement will be an increase of at least 6½%. In the short term I am seeking ways of coping with this overrun on provision for example by restricting recruitment but such expedients cannot be sustained for long without damaging the Department. The excess is too large to absorb in an administration budget of which some two thirds is committed to pay and I need an increase for each Survey year. In addition the cash factor for pay increases of +2½% for 1989/90 is clearly too low and should be at least 4%. These two elements together leads to a net bid of £2.2 million, £2.3 million and £4.5 million in the three Survey years. DAFS have a similar problem with the pay of their Research Institutes and Colleges and wish to bid for some £0.4 million, £0.4 million and £0.8 million.

(c) Accommodation. The lease expires shortly on Great Westminster House in which are the majority of my London staff. The building is in a very poor state and alternative accommodation will inevitably cost more - the increase is likely to be £2 million from 1988/89. This unavoidable extra cost is too large to absorb.

(d) Other Requirements. A number of central initiatives and great demands are pushing up my Department's running costs. More training is being urged by the MPO and we need to increase our publicity campaigns eg. against rabies. Some of the pressures can be absorbed but I must ask for an extra £0.5 million in each Survey year.

There are also two recent developments for which bids have yet to be quantified. First, there is the transfer of PES responsibility for certain categories of works from the Property Services Agency which I will write to you about as soon as possible. Secondly, a bid could in due course arise from attribution of part of the cost of the proposed EC R & D Framework Programme for 1987/1991: there are too many uncertainties about the size and nature of the agricultural element of the programme (and the baseline) for this to be quantified at present.

Lastly, for your information, I should mention a future development under the technology heading. We agreed last year that a pilot study should be undertaken for a computer based information network, designed to provide ADAS advisers with rapid access to the latest developments, thus saving many man years spent shuffling papers. The pilot study is now being working up but it will not be capable to evaluation for two years. If it is a success, there will be a need for capital investment in 1989/90. At this stage I am obviously not in a position to make a firm bid for this investment but I felt you would wish to be aware of this potential requirement.

In line with our earlier exchanges, our baseline will need to be increased to provide for redundancy costs flowing from the last two PES rounds. My officials will keep yours in touch with our

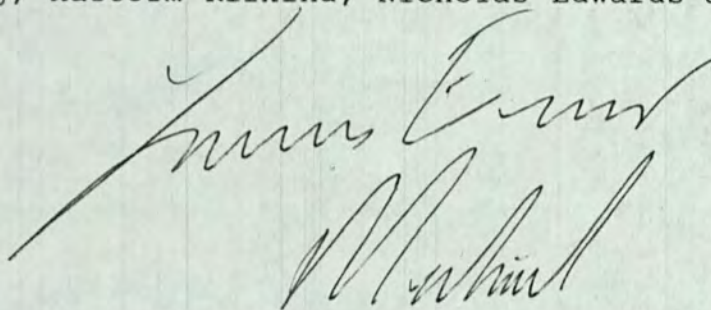


estimates under this head and will also be sending other supporting details relating to this Survey including a breakdown of estimating increases in demand determined expenditure of which the only major element relates to the old capital grant schemes to which I have referred.

I understand that Malcolm Rifkind has some small additional bids arising in part from his problem in meeting the share of the savings in advisory services allocated to his Department. You will no doubt want to discuss this because of the implications for my own savings targets.

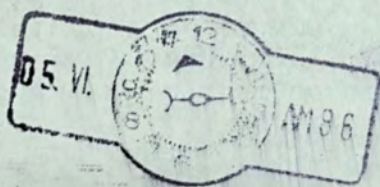
In conclusion I would ask you to consider carefully the bids outlined in this letter. None has been entered lightly. They should be seen in the context of heavy cuts over recent Surveys in such areas as capital grants, research and development, advisory services, and flood protection. Taken together these will have saved over £360 million by 1988/89. Even with these bids expenditure on both IBAP and domestic programmes throughout the Survey period will be well below the level in 1985/86 in cash terms, which of course represents a significant fall in real terms. I hope therefore that my bids will be acceptable.

I am sending copies of this letter to the Prime Minister, the Lord President, Tom King, Malcolm Rifkind, Nicholas Edwards and to Sir Robert Armstrong.

A handwritten signature in cursive script, appearing to read 'Michael Jopling', written in dark ink.

MICHAEL JOPLING









Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY

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5 June 1986

The Rt Hon John MacGregor OBE MP  
Chief Secretary to the Treasury  
HM Treasury  
Parliament Street  
LONDON  
SW1P 3AG

NSP 7

*John*

**PUBLIC EXPENDITURE SURVEY 1986 : OFFICE OF FAIR TRADING**

... I annex a summary of the provision which I request for the Director General of Fair Trading. The Director General's Vote is relatively small (£8,658,000 in the current year) and is separate from that of my own Department.

My proposal falls broadly into three parts: the cost of slippage of the consumer credit computer; additional manpower and running costs in the licensing branch in 1987/88 pending computerisation; and additional consultancy provision. I propose that manpower and running cost allocations in 1988/89 and 1989/90 should be regarded as provisional while a review is undertaken of OPT's future work and staffing needs.

**1987/88**

You will recall from earlier correspondence that the Director General's financing plans in recent years have been badly hit by difficulties associated with the computerisation of the consumer credit licensing system. A large investment project of this sort (total costs will approach £3 million) is extremely difficult to handle within a small annual budget and the constraints of annuality. The arrangements made last year should have covered the position. Unfortunately, the Director General tells me that the contractor selected for the critical task - the conversion of paper

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records to a computerised format - has proved incompetent and the contract has now been terminated. As a result in 1985/86 (when the Treasury had agreed to a call on the reserve) the Office was underspent by some £600,000 and expenditure which would otherwise have been incurred in 1986/87 has been pushed forward in time. Unless an appropriate adjustment can be made to the Director General's financial ceiling in 1987/88 for this, and for the unavoidable increase in the cost of new contracts, the entire project will have to be called off. The money spent to date would then be wasted and other non-productive costs would be incurred in terminating contracts. Clearly that would not represent a defensible stewardship of public resources.

I strongly support the Director General's request that the OFT ceiling for 1987/88 should incorporate the sums needed to allow computerisation to proceed. The case for this expenditure has already been accepted. In the long run it will save money. The financing problem that has arisen is a technical problem which would not exist had the same end-year flexibility been available for this project as for capital spending. I hope that you will be able to give the Director General assurance very promptly so that the programme is not held in suspense until the completion of the Survey exercise. The Director General's plans assume that the computerised system will be operating in the second half of 1987. This programme will slip if authority to proceed is delayed. From the end of July, total costs will also increase by approximately £100,000 for every month in which the funding decision is delayed.

Licence fees are producing more than two million pounds per annum and there is a net surplus (ie an excess over the costs of running the system) of around £500,000 per annum which unfortunately the Director General cannot appropriate. The surplus accumulated over the years is already more than £2,500,000. A computerised system will be more effective and will also mean that firms do not have to wait so long for a licence. In the circumstances I suggest that it would be both politically and managerially inept to fail to complete the system because spending has been re-phased. I therefore support the Director General's proposal that there should be an increase over baseline of £750,000 for this purpose.

In addition, the Director General has made a strong plea in the enclosed paper for an increase in the real resources available to him for the full and growing range of his statutory duties. He considers that his present complement of 321 is already proving inadequate to carry out his statutory duties, to respond promptly to new consumer problems, to keep pace with rising workloads under regulatory laws, to participate fully in plans to prevent monopoly





abuse after privatisation, to cope with the current merger boom and to undertake new duties this year under my Financial Services Bill and under new legislation on misleading advertising.

The Director General has asked for a temporary strengthening of his licensing branch to hold the position in face of increasing workload until the relief promised by computerisation materialises. I support both the request for the translation of casual hours to "permanent" posts and the request for ten new posts to keep pace with applications for this short period. Without these the increasing wait for licences will risk becoming a political embarrassment. This is a temporary expedient, however, to meet a temporary problem. In the long run computerisation should much reduce the number of staff needed for the licensing operation.

Beyond this, I have told Sir Gordon Borrie that, although I sympathise with his position I cannot endorse all his requests. His analysis appears to reflect more long standing problems which need to be considered fundamentally in the context of a consultancy study of workload and complement which he has in mind and on which your officials and mine will be kept in touch.

I support the Director General's request for a small increase in his funding for bought-in consultancy (an additional £75,000 to increase the total OFT capacity to some £225,000). This is a cost-effective way of topping up and supporting professional studies for which resources are not available in-house.

In 1987/88 the total cost of the new licensing posts and bought-in consultancy would be £167,000. Aggregated with the knock-on effects of the latest pay settlement and the £750,000 requested for the computer the bid for the first survey year totals £900,000 above baseline.

#### 1988/89 and 1989/90

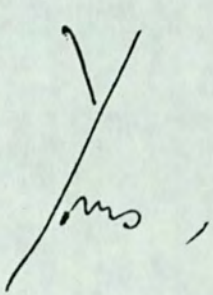
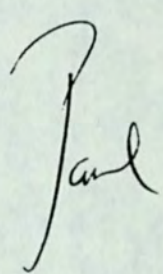
For the second and third survey years I support the continuation of the extra funding for consultancy but the position on staff numbers and running costs must await the outcome of the further review. By that time the role of the Office in the Government's competition policy may be clearer as a result of our proposed review of competition legislation. And when the computer is fully operational this will cut down the number of clerical staff handling licences. It may be that posts thus saved could relieve growing pressures elsewhere in the Office without any overall increase in complement. Since some figure for manpower must go





into the Survey I propose the present baseline figure of 319 for the rest of the survey period but I shall regard this figure as provisional until these various uncertainties are resolved.

I am copying this letter to the Prime Minister.

  
PAUL CHANNON 

Encl

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## OFFICE OF FAIR TRADING

## PES SUBMISSION

## PES 1986

## Manpower

	1987-88	1988-89	1989-90
Present Pes baseline	321	319	319
Addititonal posts required	24	0	0
<b>Total posts required</b>	<b>345</b>	<b>319</b>	<b>319</b>

## Finance

## 1. Present PES baseline

	£000	£000	£000
<b>A. Running Costs</b>			
EC 110: Pay of OFT staff	4,081	4,201	4,306
EC 115: DG's Pay	64	65	67
EC 130: Gen. Admin. Costs	3,822	3,918	4,016
<b>B. Non-Running Costs</b>			
EC 440: Capital Costs	73	75	77
<b>TOTAL PES BASELINE</b>	<b>8,040</b>	<b>8,259</b>	<b>8,466</b>

## 2. PES 1986 BID

## A. Running Costs

EC 110: Pay of OFT staff	4,246	4,285	4,392
EC 115: DG's Pay	73	74	76
EC 130: Gen. Admin. Costs	4,546	3,991	4,093
<b>B. Non-Running Costs</b>			
EC 440: Capital Costs	75	70	70
<b>TOTAL PES BID</b>	<b>8,940</b>	<b>8,420</b>	<b>8,631</b>

## ADDITIONAL PES REQUIRED

900	161	165
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CONFIDENTIAL

16 May 1986

1986 Public Expenditure Survey

OFFICE OF FAIR TRADING

SUMMARY

1. This paper sets out the reasons for seeking an increase on baseline provision for the Office of Fair Trading.
2. The Director General of Fair Trading needs extra staff if the performance of his Office is not to deteriorate over the survey period. Additional financial provision is needed in a number of areas to cover such additional staff costs and to allow the Office to buy in services needed to support its work. Part of the bid reflects this need for an increase in the real resources made available to the Director General for the performances of the full and growing range of his statutory duties. This is dealt with in paragraphs 19 to 24 below and Annex 1. Secondly, provision will be needed to complete the programme to computerise the consumer credit licensing system. This is dealt with in paragraphs 25 to 27 below and Annex 2.
3. The total additional requirement is as follows:



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quality of its staff.

5. The Office cannot be regarded as a single whole within which resources can be freely diverted, at the Director General's discretion, between one task and another. The Director General has a wide range of statutory duties and functions, each largely self-contained. Performance on each has to be maintained at an effective level. The statutory framework is rigid and no unit can be run down below a certain critical point in order to relieve another.

6. The Office is very small by the standards of departments dealing with policy work of equivalent difficulty. There is no reserve on which to draw in any emergency.

7. The Director General has recently reviewed the position with his senior staff. He has concluded that the continued growth in the obligations and duties placed upon the Office, in terms of its present resource arrangements, has created an unacceptable degree of strain in responding to external developments and political imperatives, especially in relation to competition. Further statutory duties are to be added to the Office during 1986/87, ie on the subjects of Financial Services and Misleading Advertising. Unless positive steps are taken to give the Office more elbow-room the Director General sees an imminent risk that the quality of the investigations undertaken by his Office will be impaired, that mistakes and backlogs will accumulate in regulatory work and that he will be unable to respond as he (or they) would wish to Ministers' requests for advice.

8. It is of course the case that on each occasion on which laws have imposed new statutory duties on the Director General some allowance has followed in staff ceilings. However

- (a) the major new tasks imposed by statute on OFT in 1986-87 are in the Financial Services area, and in connection with the monitoring and control of Misleading Advertising. While it is true that some allowance has been made in staff ceilings, the increases authorised have been at the minimum end of the range deemed necessary, and they applied only to the staff directly engaged in the activity - no allowance was made for the demands imposed on professional and support services;
- (b) the remarkable surge in mergers case in 1986 has generated enormous pressure on the Office which is the product of outside events and established Ministerial policy (which requires comprehensive



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Outputs must necessarily reflect the number and quality of these staff, at which level there is little scope for productivity and efficiency savings.

10. This diagnosis of the general problem experienced by the Office of Fair Trading is necessarily subjective. It is not the outcome of any full scale external consultancy. The programme for the preparation of the 1986 Survey Report precludes any such study. It is however the considered view of the Director General and his senior managers, who believe that it can be supported at each point by recent experience. Its timing results from the improved management planning system now in force in OFT: its content reflects the situation which has developed gradually over the life of the Office to date.

11. The case made below necessarily presents the need for extra posts in terms of particular functions, but such individual bids must be considered in context of a more general need for depth and elbow-room to keep the work flowing and respond to the unpredictable. Note that what is unpredictable is the nature of the particular competition and consumer issues that will assume priority in 1987/88 and subsequent years as - for example - tasks associated with privatisation are currently making new demands on the Office. That demands of this nature will arise is not unpredictable at all.

12. Unless and until relevant legislation is changed (and the only changes currently in the pipeline would increase rather than reduce functions) the Director General has to plan to manage his Office on the assumption that he is to achieve the required objectives in relation to all his statutory functions. These can be grouped broadly into three categories:

- (i) functions connected with promoting competition and dealing with anti-competitive practices under the Fair Trading Act, the Restrictive Trade Practices Act, the Resale Price Act and the Competition Act (77\* complemented posts)
- (ii) functions under the Consumer Credit Act (93\* complemented posts)
- (iii) other functions for the protection of consumers under the Fair Trading Act and the Estate Agents Act (39\* complemented posts)



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restrict claims for additional resources to a minimum, the bid for more Mergers staff is limited to 2. The Director General must reserve the right to bid for further increases if present merger pressures continue.

- (c) The Director General is anxious to respond positively to the Government's requests for expert assistance on problems affecting competition. The Office is currently well advanced on a programme of studies on restrictions in the professions which he believes Ministers have found valuable. Such work can most efficiently be done by a small dedicated team. One study was handled in this way (a team of four on the patent agents monopoly) and it is noteworthy that this went most smoothly and speedily. Those which had to be handled by staff simultaneously dealing with statutory case-work have not been so successful. Failing adequate resources the Director General would reluctantly have to consider whether further requests of this kind could be accommodated.
- (d) The Office receives about 800 complaints a year from firms, Members of Parliament, Departments and Local Authorities alleging anti-competitive and restrictive trade practices. At present all are carefully considered except when it is immediately clear that they give no legal basis for action. All the rest are investigated, although few lead ultimately to court action or to an investigation under the Competition Act or a monopoly reference. The Director General has recently determined that the Office should adopt a firmer policy in dealing with those complaints which do not offer a high prospect of appropriate investigation under the legislation.
- (e) The Director General is to examine and advise the Secretary of State on the anti-competitive features of the rules of SIB, some six self regulatory organisations, six additional investment exchanges and the International Commodities Clearing House. Sir Kenneth Berrill (Chairman of SIB) is concerned that shortage of resources at OFT will hold up the timetable for putting the new régime in place, and has made representations to the Department of Trade and Industry. Although four new complemented posts were allowed in PES 1985 for Financial Services work, three of these were diverted to other urgent work, and a further bid is therefore made. It remains to be seen whether a total of four



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management and to the work of the Office. At the same time the increase in applications and information about traders supplied to the Office makes it impossible to speed up dealing with cases of unfitness. The Office has always been proud of the information and guidance it issues to firms subject to regulation, since long before this approach was commended to Departments in Lifting the Burden (Cmnd.9571). It has however been impossible to undertake the necessary publicity on unfair business practices within the meaning of the Act so that licensees know what not to do. In other words, staff shortages render it impossible to get full value from the licensing process.

- (d) The licensing branch has a permanent complement of 50 for day to day work. For many years this has been inadequate and since 1983 Treasury have authorised an addition of 14 casuals to the staff. The constant turnover, recruitment and training of casuals is highly inefficient. To relieve pressure on a busy branch, there is a strong case to convert these into permanent posts. In addition, however, since 1983, there has been an increase of 16% in licence applications and notifications and the first quarter of 1986 saw an increase in input of nearly 30% over the corresponding period in 1985. There is, therefore, also a strong case for another 10 additional staff to help cope with this increased and heavy workload.
  - (e) Legal problems are becoming apparent in the handling of appeals from the Office to the Secretary of State under the Estate Agents Act and the Consumer Credit Act. They need to be analysed. Both the analysis and consequential changes in procedures are expected to require more legal input to these processes. In order to cover this requirement, as well as the problems connected with Part III of the Fair Trading Act mentioned below and the consequences of the greater volume of pro-active work now proposed for OFT, an additional 2 legal posts are sought.
- (iv) Other consumer protection functions
- (a) Similar problems arise in relation to action against law-breaking traders under Part III of the Fair Trading Act - the complement of nine with responsibility for the entire UK is considerably smaller than the trading standards



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the recent reviews of opticians, patent agents and restrictions that continue to inhibit competition between members of various professions.

16. Beyond measures of this sort, which would release little real resource but cause a public and political upset and damage good management out of all proportion to the slight alleviation of pressure gained, the Director General cannot independently decide to stop carrying out a particular task. He would therefore have to consider asking the Secretary of State to initiate legislation to relieve him of particular duties. The priority to be attached to particular measures to promote competition or the interests of the consumer involves a question of political judgement. Realistically, primary legislation to repeal any of the statutes under which the Director General operates is unlikely in this Parliament. The immediate effect of continued tension between resources and requirements would therefore be that all the present functions would continue with delays, complaints and a higher risk of error. Sir Kenneth Berrill's fear that the Office will be the stumbling block in the way of introducing the new financial services régime could prove justified. The increasing disposition of aggrieved parties to challenge decisions of administrative authorities in the courts must make this scenario particularly alarming.

17. The continuation of the present hand-to-mouth situation must seriously curtail the Director General's ability to pursue service-wide initiatives to tighten up Civil Service management, for example the introduction of divisional budgets and of new staff appraisal systems.

18. In the context for which this analysis is required, the emphasis unfortunately has to be on what is going wrong and could go worse. Taken alone, this could convey a quite misleading picture of OFT performance and potential. Achievements in 1985 are summarised in the Director General's Annual Report. The record speaks for itself, the Office deploys considerable talent, experience and expertise in respect of competition and consumer affairs, and its reputation generally stands high. It is for precisely this reason that the Director General thinks it right to present the Government now with this analysis of his current problems and his considered view of what is needed to resolve them, while recognizing that it is for others to rank these matters in relation to other public spending.

BID FOR GENERAL PURPOSES

... 19. The details are annexed at 1. Broadly, the "extra" relates to



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22. In addition to staff costs, the Director General seeks extra funds for the consultancy work which is essential to back up complex consumer and competition studies. Within the ceiling, only about £145,000 could have been accommodated. There is an urgent need for greater provision. The purposes can be illustrated by specific priorities foreseen for the first survey year which have not been allowed for in that sum:

	consumer studies	£50,000
	misleading advertising (payment to experts to investigate the factual basis of advertisements)	£10,000
Commercial in Confidence	the reopening of a major case (cement) before the Restrictive Practices Court	£15,000

23. The bid covers the knock-on effect of the latest civil service pay rise in relation to the existing complement and the additional posts required, £87,000 in all, which, for the reasons already outlined, cannot be absorbed within OFT's present PES baseline.

24. The Director General is considering whether to commission an early inspection of some of the areas where he sees a need for extra staff. In some cases, the need is born out by statistics showing increase in workload. In others such as merger work the problem is as much an increase in the complexity the task.

BID FOR COMPUTER LICENSING PROJECT

25. The Director General's letter to the Secretary of State of 17 February 1986 explained the situation which has arisen in connection with the project to computerise consumer credit licensing. Partly because of delays last summer in obtaining financial authority to complete contracts, but more largely because of the failure of the contractor selected to convert manual records to disc, the project has to be rephased and new contracts negotiated. Briefly, this will push into the first survey year expenditure which would otherwise have taken place in FY 1986/87.

26. There are still uncertainties about the cost, but to allow realistic headroom a net addition to baseline of £750,000 is required. This represents a deferment of spending, but not a significant increase. The costs of licensing are met by fees (there is in fact an accumulated surplus of £2.6 million) so the computer costs will ultimately be self-financing.



## OUTLINE PES SUBMISSION

## PES 1986

## Manpower

	1987-88	1988-89	1989-90
Present Pes baseline	321	319	319
Additional posts required	50	51	51
Total posts required	371	370	370

## Finance

## 1. Present PES baseline

	£000	£000	£000
A. Running Costs			
EC 110: Pay of OFT staff	4,081	4,201	4,306
EC 115: DG's Pay	64	65	67
EC 130: Gen. Admin. Costs	3,822	3,918	4,016
B. Non-Running Costs			
EC 440: Capital Costs	73	75	77
TOTAL PES BASELINE	8,040	8,259	8,466

## 2. PES 1986 BID

## A. Running Costs

EC 110: Pay of OFT staff	4650	4856	4976
EC 115: DG's Pay	73	74	76
EC 130: Gen. Admin. Costs	4,432	3,723	3,817
B. Non-Running Costs			
EC 440: Capital Costs	90	70	70
TOTAL PES BID	9,245	8,723	8,939

ADDITIONAL PES REQUIRED	1,205	464	473
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## Detailed PES submission

PES 1986

## A. CONSUMER AFFAIRS DIVISION

(i) <u>Salaries/Manpower</u>	1987-88	1988-89	1989-90
<u>Staff numbers</u>			
Present complement:	132	132	132
PES additional bid:	+37	+37	+37
Total staff required:	<u>169</u>	<u>169</u>	<u>169</u>
	£,000	£,000	£,000
Total cost of additional staff:	241	247	253

Narrative

CA division require 37 additional permanent staff. This figure includes 14 staff which are at present casuals. The additional costs and posts listed according to function, and in descending order of priority are:

Function	Number of staff	Cost £,000		
		1987-88	1988-89	1989-90
Misleading Advertising work	+2	31	32	33
Additional staff for the Consumer Credit Licensing Branch.	+10	82	84	86
Part III of the Fair Trading Act.	+5	52	53	54
Register of convictions work	+1	8	8	9
Representations and Appeals work	+1	22	23	23
Casework policy work	+4	46	47	48
Consumer Credit Licensing Branch: Convert 14 casual posts to permanent ones.	+14	-	-	-
	<u>37</u>	<u>241</u>	<u>247</u>	<u>253</u>

The cost of 14 casuals is already budgetted for in the PES baseline and is not therefore shown in the additional costs here.



PES 1986

## B. COMPETITION POLICY DIVISION

(i) Salaries/Manpower	1987-88	1988-89	1989-90
Staff numbers			
Present complement	77	75	75
PES additional bid	6	7	7
Total staff required	<u>83</u>	<u>82</u>	<u>82</u>
Total cost of additional staff:	£,000 89	£,000 78	£,000 80

Narrative

CP division requires 6 additional staff for 1987-88 and 5 additional staff for 1989-90.\*

Function	Number of staff		Cost £,000		
	1987-88	1988/1990	1987-88	1988-89	1989-90
Financial Services					
work:	+3	+2	47	36	38
Additional workload					
of Mergers Secretariat	+2	+2	30	30	30
Work in connection	+1	+1	12	12	12
with EEC competition					
rules					
TOTALS	<u>6</u>	<u>5</u>	<u>89</u>	<u>78</u>	<u>80</u>

## \* Note

The manpower baseline figure for 1988-89 and 1989-90 is too low for present needs and provision has been made within the existing baselines expenditure for an additional 2 staff for 1988-89 and 1989-90.

## (ii) General administration expenditure

Research/consultancy: additional requirements are for £15,000 consultancy costs for a possible re-examination of the Cement cartel case.



D. LEGAL DIVISION

	1987-88	1988-89	1989-90
(1) Salaries/Manpower			
Staff numbers			
Press complement:	14	14	14
PES additional bid	<u>2</u>	<u>2</u>	<u>2</u>
Total staff required:	<u>16</u>	<u>16</u>	<u>16</u>
	£,000	£,000	£,000
Total cost of additional staff:	55	56	57

Narrative

Legal division require 2 extra staff for the increase of work that will arise in connection with the Misleading Advertising directive and the other statutory obligations. The salaries bid has also been increased to allow for the prospective re-grading of 5 Senior Legal Assistants to Grade 6.

	£,000	£,000	£,000
Cost of 2 extra staff	35	36	37
Cost of regrading	<u>20</u>	<u>20</u>	<u>20</u>
Total costs:	55	56	57



detailed PES submission

PES 1986

F. ADMINISTRATION BRANCH

	1987-88	1988-89	1989-90
(i) Salaries / Manpower			
Staff numbers	71	71	71
There are no additional bids for extra staff.			

G. ALL BRANCHES / DIVISIONS

(i) Salaries

The 1986 pay settlement has been agreed at 6%. The 1986-87 salaries were calculated using an inflation factor of 4%, resulting in an extra £86,000 on the 1986-87 pay bill. It is considered that this amount can be funded from within the 1986-87 running costs, but for the forward years of the PES exercise there will be no leeway for the knock-on effect of the pay rise. It is essential therefore that £87,000 for 1987-88, and revalued for the following two years, is added to the pay bill for the existing OFT staff. The salaries of the staff required over and above the PES baseline include the knock-on effect of the pay rise.

(ii) General Administrative Expenditure

Included in the bid is £29,000 for the running costs (postage, telephones, etc.) associated with the additional bid for staff, and £20,000 for furniture and fittings for 1987-88 only.



## COMPUTERISATION OF CONSUMER CREDIT LICENSING

### Background

1.1 To date, 196,000 applications for licences have been received by the Office of Fair Trading (OFT). Files are kept relating to each application and the names of applicants (no matter whether the application was refused, surrendered, granted or revoked), trading names and names of all relevant officers, and the names of some 50,000 traders who currently have adverse information recorded against them (regardless of whether they have a licence or not), are indexed and at end 1985 totalled some 900,000 names.

1.2 Each month, an average of 1,650 new applications and 1,800 requests for variation of existing licences and notifications of changes of directors, etc, are received.

1.3 Licences presently expire in 1986. Provision had been made in 1986/87 for additional casual staff to assist in the renewal exercise in the period immediately before computerisation. However, because computerisation has been delayed, see below, the Secretary of State has agreed to extend licence validity by 5 years so that renewals will now start in 1991.

### The Present System

2.1 Apart from checking the validity of, and an individual scrutiny of, each application form and supporting documents, all applications, variation applications and details of new directors, partners, etc., notified to OFT, are physically checked against the index; if the name is similar and adverse information is revealed, or if the similarity appears misleading (eg because of geographical closeness of two similar businesses), further checks are carried out, involving a physical check of the appropriate files. Licences, supporting documents, and statistics and records are all prepared manually.

2.2 The system was designed for operation by computer but this was aborted in 1979 because of Government financial cut-backs.



4.4 The preliminary estimates of the planned scheme were based on the initial proposals of three short listed suppliers; as they conducted detailed studies, the overall resources required clarified. In July 1985 the estimated costs for 1985/86 and 1986/87 were £2,383K. OFT had available only £1,034K and had to ask for £800K extra in 1985/86 and £600K in 1986/87. This was, eventually, provided, as to the £800K by an increase in the contingency fund and as to the £600K by an increase in OFT's vote for 1986/87 in exchange for a corresponding reduction in DTI's vote.

#### The Turnkey

5. The turnkey has gone ahead as planned. The Business System Design has been conducted and paid for. A special air conditioned computer room has been constructed and a new electricity supply installed. A 1 PDP 11/84 mini-computer, 28 visual display units, 12 microfilm viewers, 2 printers, 2 slave printers, and 1 camera, with associated wiring and associated equipment, have been installed.

#### The MRC Exercise

6.1 Three factors make the MRC exercise unusual and complex:

a) the amount of data to be captured on tape - the information from the present 196,000 files (and the 24,000 applications expected in the next year) and from 50,000 index slips (involving in all one million pages of forms and 66 million alphabetic and numeric characters which have to be punched on to tape);

b) the state of the original data (some sixty different format of forms, completed in a variety of manuscript and typing styles);

c) the amount of paper to be micro-filmed (and indexed to link to the computer) - 4 million pages.

6.2 The MRC exercise, involving handling working files and the administrative controls resulting therefrom, was planned in two sub-projects:



## The Present Financial Position

8.1 In 1986/87 OFT has in its estimates provision £1,022K for the project as a whole. Had the project gone ahead as planned, most of the MRC exercise would have been paid for in 1985/86; of the 1986/87 provision most was earmarked for the completion of the turnkey system and associated costs (staff, consultants, staff training, etc).

8.2 However, to complete the project now, a longer overall timetable will be necessary. The turnkey will have to be extended, consultants, permanent OFT and casual staff spend a longer period than envisaged on the management and staffing of the project, etc. Thus, in addition to finding a suitable alternative for the completion of the MRC exercise, a complete redistribution of the financial expenditure plan has been necessitated. This paper examines the options for completing the MRC project and translates the cost of the chosen option into the overall effect on the financial plan as a whole.

8.3 If it were not for annuality, there would be little problem in going ahead with the chosen option. The "underspend" in 1985/86 could be carried forward and the project completed within the financial limits of July 1985. The end year flexibility scheme ("EYF") was introduced to improve value for money from capital expenditure by minimizing the delays and disruption associated with unavoidable slippage. If the slippage in this case had occurred on the capital equipment, OFT might have been able to take advantage of EYF but it is understood that expenditure on data capture cannot count as capital expenditure, even though such expenditure is necessary before live running can commence and is therefore the equivalent of capital expenditure.

8.4 The cost of the project increases each day as new applications, notifications, etc, add to the amount of data to be captured.

## The Options

9.1 OFT has examined the options before it, with a view to seeing how the MRC exercise, and, thus, the project as a whole, can be satisfactorily concluded.

9.2 The essential task remaining to be done is the key-punching of the data and the micro-filming of the documents. This can be broken down into four elements:

- a) microfilming of all file documents;



9.6 To reduce costs, and contrary to previous planning, all short-listed options envisage that keyed data will not be verified by being double keyed and that stock keeping of forms and booklets will no longer be done by computer. (The accuracy of the keyed data will be reduced by not being verified but not to an unacceptable level; accuracy will be checked by the computer on input and database loading stage and by a sample visual check).

9.7 All short-listed options (described briefly at Annex A) envisage that micro-filming will be carried out by a specialist supplier because of the scale of the exercise, the type of equipment required and the need for special lighting and accommodation. Suppliers' costs, increased costs of OFT, casual, and consultant staff being engaged on a longer project than originally envisaged, extra costs of consumables and miscellaneous expenses, and the cost of completing the preparation of the paper files and all other MRC related costs are included in the total cost of each option.

9.8 The five options considered for critical examination have been selected as those which:

- a) limit the suppliers to those previously short-listed or at present connected with the project (to avoid the need for full tendering procedures, if possible; to shorten the "learning curve" and to enable the fastest possible re-start) (short listed suppliers not mentioned in this paper are no longer interested in taking on the task);
- b) look to a good relationship between prime and sub-contractors; and
- c) appear the most practical.

9.9 Each short-listed option assumes, inter alia, that:

- a) suppliers have properly understood the requirements, their estimates of costs are correct, and that inflationary increases of more than 5% will not occur;
- b) where two suppliers are involved, they will work well together;
- c) OFT staff in sufficient numbers and capability will be made available (though in no option do the requirements for OFT permanent staff exceed the current plan);



11.4 This option has operational and contractual advantages in that HGL being the turn-key supplier, they have a contractual interest in seeing the project as a whole completed and OFT is in constant dialogue with them. Another advantage is that PSI was the sub-contractor under Databasix, know the task and are keen to do it although they are more expensive than SMF.

11.5 It has, however, the major disadvantage that HGL no longer operate a major data capture bureau themselves and would have to sub-contract such work out. This would cause substantial control problems and calls into doubt the accuracy of their estimate, already the largest.

### Option C

12.1 Under this option, all work (except micro-filming, contracted to SMF) is carried out by OFT using a mix of clerical staff and "bought in" data capture operators and supervisors.

12.2 The option can be divided into two sub-options; under C.1 special software is bought to enable the data capture to take place speedily on the existing OFT computer; under option C.2 the use of the planned turnkey software is envisaged.

12.3 The total cost of option C.1 would be £714k and option C.2 £678K.

12.4 The overall staff required would be 54.

12.5 The option has the advantage that using OFT staff to do all the work (except micro-filming) reduces costs. It reduces total file movements, increases security of files, flexibility and control of expenditure.

12.6 It has, however, major disadvantages. It involves the establishment by OFT of a data preparation team staffed and supervised by contract casual personnel. Because of their specialist nature they may be difficult to recruit. OFT has no experience of running a data capture exercise and unforeseen snags could crop up. Over a 9 month period there would doubtless be a high turnover of the bought-in data capture operators, leading to managerial problems. Overall control may therefore be a problem. Option C1 has the further disadvantage that HGL would have to write special software which could take 8 months to develop, causing a further delay and associated increased costs.



15.2 OFT has £1,022K available in 1986/87. As the Secretary of State has agreed to a deferment of renewals (see paragraph 1.3 above) the money intended for use in 1986/87 for casual staff to deal with renewals prior to the computer going live (£199K) will also be available to be used on the computer project.

15.3 If any of the options described above were to be adopted, and the cost thereof to be worked into an overall financial plan for the project as a whole, OFT could meet the costs in 1986/87 from its present provision. If option A were chosen, however, an additional £796K would be required in 1987/88, option B - £826K; option C.1 - £672K; option C.2 - £636K; option D - £760K and option E - 759K.

15.4 In the light of these figures and the advantages and disadvantages of each option, it is considered that the risks attaching to options A and B are too great for them to be seriously short-listed further.

15.5 Similarly, although options C.1 and C.2 have the advantage of cost, the lack of OFT managerial experience in running a data capture operation seriously increases the overall risks and disadvantages described in paragraph 12.6 above. The delay and increased costs inherent in option C.1 additionally makes that option further unattractive. It is by no means clear that option C.2 could be run by OFT and it could be necessary, if this option were chosen, to pay more for consultancy control of the project. This option cannot therefore be recommended further.

15.6 Option E has the disadvantage of duplication of management and control (see para. 14.5 above) for virtually no real cost saving. Option D appears to be the most risk free. It is also the most advantageous, both from a planning and an operational point of view.

15.7 Option D is therefore recommended as the best option.

#### Financial Justification

16.1 Using the rules in "Guide to Standard Costings" contained in the document "Investment Appraisal and Cost Monitoring for Information Technology Projects" produced by HM Treasury, it is calculated that, taking March 1986 as the starting point, option D would produce a scheme breaking even in 1993/94 (with a cumulative net present value of £866K over ten years).



17.5            However, even if sufficient staff were available, the system (originally designed for computerised operation) is growing more difficult to operate manually. The system entails, as described above, a check on all previous similar names, etc. The greater the number of total applications made, the greater and more demanding this searching task. Yet this difficulty is a physical one, easily solved under a computerised system.

#### CONCLUSIONS

18.1            It is concluded that:-

(a)            because of:-

(i)            the increasing volume of data and complexity of the manual system;

(ii)           the inherent difficulties of running such a system manually: and

(iii)           the staffing restrictions on the system;

that consumer credit licensing can no longer be run on a manual basis; and

(b)            because of:-

(i)            the expenditure already incurred (and which would otherwise be wasted) (£1,211K to end 1985/86) and the capital equipment already purchased;

(ii)           the fact that, proportionally, only a small (but difficult) part of the overall scheme needs to be done: and

(iii)           the conclusion at (a) above,

that the computerisation scheme should be completed; and

(c)            that completion should be by option D (SMF - microfilming; AMP - data capture; OFT - indexing, correction and control).



Short-Listed Options

Appendix A

	<u>Option A</u>	<u>Option B</u>
Microfilming	Surrey Microfilm (SMF)	Photographic Suppliers (PSI)
Indexing	A.M. Programmers (AMP)	Hoskyns (HGL)
Data Capture	AMP	HGL
Correction & Control	AMP/OFT	HGL/OFT
	<u>Option C.1</u>	<u>Option C.2</u>
Microfilming	SMF	SMF
Indexing	OFT	OFT
Data Capture	OFT	OFT
Correction & Control	OFT	OFT
	<u>Option D</u>	<u>Option E</u>
Microfilming	SMF	SMF
Indexing	OFT	OFT
Data Capture	AMP	AMP/OFT
Correction & Control	AMP/OFT	AMP/OFT



**Overall Cost**Appendix B

(a) Cost of each MRC Option, broken down into elements.

	<b>A</b>	<b>B</b>	<b>C.1</b>	<b>C.2</b>	<b>D</b>	<b>E</b>
Microfilming	150	174	150	150	150	150
Data Capture	446	451	330	296	416	415
Administration	157	157	155	155	153	153
Consumables and miscellaneous	10	10	10	10	10	10
Consultancy	35	35	35	35	35	35
<b>Sub Total</b>	<b>798</b>	<b>827</b>	<b>680</b>	<b>646</b>	<b>764</b>	<b>763</b>
Add 5% (inflation)	40	41	34	32	38	38
<b>TOTALS</b>	<b>838</b>	<b>868</b>	<b>714</b>	<b>678</b>	<b>802</b>	<b>801</b>

(b) The extra funds required in 1987/88\*, when each option has been worked into a new overall plan for the project as a whole with all consequential costs:-

	<b>A</b>	<b>B</b>	<b>C.1</b>	<b>C.2</b>	<b>D</b>	<b>E</b>
	796	826	672	636	760	759

\* OFT meeting 1986/87 costs from its present 1986/87 PES provision.



CONSUMER CREDIT LICENSING

Appendix C

RECEIPTS AND EXPENDITURE

	Receipts	Expenditure	Surplus	£ Accumulated Surplus
1975	-	72,382	(72,382)	(72,382)
1976	66,611	604,006	(537,395)	(609,777)
1977	1,714,950	876,969	837,981	228,204
1978	1,478,691	1,232,751	245,940	474,144
1979	1,595,498	1,024,447	571,051	1,045,195
1980	1,142,279	1,220,042	(77,763)	967,432
1981	1,640,784	1,587,876	52,908	1,020,340
1982	1,809,260	1,538,886	270,374	1,290,714
1983	2,090,756	1,583,156	507,600	1,798,314
1984	2,114,531	1,767,092	347,439	2,145,753
1985	2,205,578	1,727,605	477,973	2,623,726







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QUEEN ANNE'S GATE LONDON SW1H 9AT

4 June 1986

*Prime Minister 2*

Dear John,

*DKS  
4/6.*

*ms*

**PUBLIC EXPENDITURE SURVEY**

In your letter of 6 February you asked Ministers to write to you by the end of May if, having scrutinised their programmes, they wished to put forward proposals for net additional resources. I have reviewed our existing provision for Home Office programmes against forecast savings and additional requirements and concluded that, although sizeable reductions have been achieved, I must put forward proposals for significant net increases.

A main reason for the bids is sustained increased demand, arising from the prison population; CICB applicants; immigration traffic; passport applicants. I have reviewed the policy options for reducing these increases, but conclude that none offers a realistic means of avoiding the bids I am putting forward.

A second significant reason for the bids is that there are areas where the provision is simply out of line with up to date forecasts of costs. This is a factor in the non prison pay bids, and in bids for non departmental public bodies; it also explains the large bid for fire service capital expenditure. I am unable to find efficiency savings to the extent that would be needed to enable these shortfalls to be absorbed.

Third, there are some areas where I wish to fund new policy initiatives: implementation research and development; reduction of racial disadvantage; and crime prevention.

The details of the net bids are as follows:

**(i) Prisons**

**(a) Prison Building**

Bearing in mind our discussions in last year's PES I have reviewed the whole range of factors bearing on the prison population and the provision that needs to be made for it. My conclusions are set out in a separate minute I am sending to the Prime Minister. For PES purposes the important conclusion is that the prison building programme must be sustained. To facilitate this, I propose net additions to existing provision of:

1987-88	1988-89	1989-90
£0.6	-£1.3	£27.1

For this purpose provision includes both the external (PSA) and internal (DOW) building programmes and those of related.

Rt Hon John MacGregor OBE MP

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programmes, including purchase of and improvements and alterations to prison officers' quarters. The bid in the first year and the reduced requirement in the second year take account of the most recent estimates of progress in the PSA building programme: these estimates produce reduced requirements on the PSA programme of £5.1 million and £1.7 million respectively in these two years. The bid in the first year is needed to ensure that we have sufficient provision to buy the site of the proposed new prison at Milton Keynes. We postponed this purchase from 1986/87 in order to meet an expected shortfall in receipts from sales of surplus quarters. Most of the third year bid of £27.1 million is needed to ensure that the new prison building programme continues to go forward as previously agreed, but the bid also includes £1.8 million for design work on two new establishments in addition to the 18 for which there is already provision in the baselines (although your position has so far been reserved on whether work on two of those should begin.)

The third year bid is large because seven of the larger projects already agreed in principle are due to enter their construction phase at the end of the Survey period, and we are planning to build three of them to the more expensive 'new generation' prison designs, whose additional capital costs should be offset by reduced operating costs during the life of the establishments concerned. I consider it essential to add provision for the design of two more establishments: even if one takes the most optimistic projection of the prison population, two new starts are needed to prevent the gap between CNA and inmate numbers from widening in the 1990s.

(b) Prison manpower

We face extreme uncertainty over the provision for prison manpower. Given present methods of working I have no doubt that the existing provision would be inadequate, mainly because it assumes reductions in average overtime working and therefore of take home pay - of a size that I do not believe are likely to be deliverable (and which would further limit regimes). That is why I have attached such importance to the new shift and complementing systems to which the study with PA management consultants has pointed, and about which we corresponded on 9 and 12 May. I do not believe we are yet in a position to make reliable forecasts about the outcome of the attempts we shall be making to secure new working systems by April 1987. I face a choice between:

- (a) leaving the baseline as it is;
- (b) making a pessimistic assumption that new working practices will not be in place in time to affect expenditure in 1987-88 (this would result in substantial bids; and
- (c) making a fairly arbitrary assumption about expenditure in 1987-88 on the assumption that new shift and complementing systems will be in place in time to have some effect on that expenditure.

I cannot make a firm assessment of future prospects, so soon after the recent industrial action; I am unable to propose any change in the baseline. I should be happy to discuss with you the implications of this, especially for 1987-88.



(c) Other Prisons Expenditure

£25.9m                      £20.0m                      £26.0m

The most significant of these bids, of £13.0 million, £9.0 million and £10.0 million across the Survey period, is to make good a reduction in forecast of receipts from sales of surplus prison officers' quarters. We have concluded that sales are likely to yield only £33 million over the PES years against the £65 million assumed in the baseline.

For the most part the remaining bids represent the cost of maintaining current programmes at existing volumes. For example, a bid of £4.3 million, £4.7 million and £5.3 million is needed to maintain the education programme - the complicated system under which this programme has hitherto been funded disguises a serious insufficiency in the baseline; and a bid of £1.2 million and £1.9 million is needed to reflect increased costs of fuel and public utilities. There are also bids reflecting unavoidable additions to programmes of asbestos removal, deep cleaning of kitchens and replacement of the defective computer-assisted control systems at some establishments. Efforts to meet these additional commitments from the baseline would have damaging effects on the rest of the prison programme.

(ii) Victim Support(a) Criminal Injuries Compensation Board

£35.4m                      £40.8m                      £47.4m

We have discussed bilaterally and collectively the CICS and you are aware of the problems. The bid (which is net of a Scottish contribution of 20%) is to keep pace with applications and reduce arrears by about 10,000 a year until we achieve, probably some time during 1991-92, a working balance of 20,000 cases in the pipeline. If no additional provision is found the consequences are that the Board's arrears will increase from the present level of 50,000 to 60,000 by 1 April 1987, 73,000 by 1 April 1988 and 90,000 by 1 April 1989. In order to make the proposed inroads into arrears in 1987-88, a start would have to be made in the current financial year.

(b) Other victim support

£1.9m                      £2.9m                      £3.9m

I also wish to increase support for victims by more effectively controlled and directed means than through the CICB. We already provide for the central administrative costs of the National Association of Victim Support Schemes (NAVSS). The bid is to provide assistance to local victims support schemes by funding 200 rising to 400 local co-ordinators - no more than one for each scheme. The objective is to facilitate a substantial enhancement in the quality of the service provided by victims without changing the essentially voluntary nature of the movement and without creating a dependency on public funding for anything other than the payment of co-ordinators (or alternatively a small contribution towards administrative costs).







Home Office Research and Planning Unit to develop and test new ideas in other areas such as community response to drugs, efficient court management and social crime prevention in schools and housing estates. All experimental development projects would have a limited timescale and measure cost effectiveness.

(b) Reduction in Racial Disadvantage

£2.7m                      £2.7m                      £2.7m

The bid is to provide grants to non-statutory organisations working to reduce racial disadvantage. £1.0 million per year of the bid is to support national organisations the objectives of which are to improve the position of minorities in this country. Examples of bodies that might be assisted would be Project Full-Employ, Community Roots and, the newly formed Black Churches Umbrella Group and a small number of similar Asian groups. Grants paid to such organisations would be developmental, time limited and subject to regular review. Measures of effectiveness would include the proportion of those trained to go on to employment and further training. The remainder of the bid is to pay grants to bodies meeting special needs of ethnic minorities at a local level. The three black business agencies are already so funded and the intention is to promote the establishment of additional agencies of this kind, especially in the eight inner city areas. If no additional provision was made available the initiatives described above would not take place.

(v) Fee earning services

(a) Passports

£3.1m                      £3.6m                      £3.6m

These bids would in fact be entirely offset by additional receipts from passport fees, but since those receipts are not classified as public expenditure I have to declare them as additional requirements as if they were net bids. The amounts reflect the forecast increase in demand for passports from 3.6 million applications (including standard passport services, British Visitors passports and visas) in 1984-85 to 4.4 million in 1987-88. £2.0 million per year of the bid is for payment to the Post Office for the issue of British Visitors passports and the remainder is increased general administrative expenditure. The manpower and accommodation consequences of the forecast increase in demand for passports are dealt with under the relevant headings below. The bids make no assumption about increased demand after 1987-88.

(b) Data Protection

£2.6m                      £3.8m                      -£1.9m

The net bids in the first two years are to pay for the running costs of the Data Protection Registrar. The Registrar is expected to be self financing but the matching of expenditure against fees can only be achieved over a period of several years because registration fees cover a three year period and also because of the need to cover the Registrar's initial costs. The irregular pattern of fee income



results in a net saving in the third year. In PES 1985 provision was to cover the Registrar's then best estimate of his requirements based on assumptions made shortly after he took up office. He has now been able to make more informed estimates of the likely volume of work and the costs of the operation. The increased costs result from three main factors: an increase in the estimate made of initial registrations from 100,000 to 300,000 leading to a need for more staff; an increase in expenditure on publicity and research; and new provision for additional work on inspection/enforcement activities. Despite the re-phasing of the expected pattern of expenditure and receipts, income from fees should still exceed expenditure by the end of the PES period.

(c) Cable Authority

£0.3m                    -                    -

The bid is to make a further loan to the Cable Authority. You recently wrote to me authorising a loan of £0.35 million in 1986-87 and recognised that a contingency bid for 1987-88 would be required pending the outcome in the autumn of the review of the Cable Authority's position.

(d) Gaming Board

£0.4m                    £0.4m                    £0.4m

From 1987-88 the way in which the Gaming Board is funded is to be brought into line with conventional arrangements for financing non-departmental public bodies. This has the consequence of increasing superannuation and VAT payments on the staff salaries by £0.2 million per year. The remainder of the bid is to correct the profile of income from fees paid to the Board and taken as appropriation-in-aid. Only 25% of the Board's costs are met in this way. Of course, all the Board's costs must be met from fees from licences and the remaining 75% of the Board's costs are met from fees paid to the courts. I am unable to offset these rather technical increases in any other way.

(vi) Administrative Support Services

(a) Accommodation

£2.4m                    £2.3m                    £1.7m

The bids are for three purposes:

- (i) to cover increased accommodation charges by PSA as a result of the change from average to individually assessed rates and rents;
- (ii) to cover the cost of major new works by PSA, for which PES responsibility has been newly transformed from PSA to departments, in our case without any baseline provision at all; and
- (iii) to provide for additional accommodation in central London to relieve overcrowding.



I have no control over (i). The sums bid for under (ii) are to cover essential work as part of the computerisation of passport department, the relocation of the PNCU, and refurbishment of Horseferry House. The bid at (iii) is for £0.1m and reflects current pressures on the available accommodation. Longer term measures to relieve those pressures are being considered but no alternative to additional accommodation in the short term can be found.

(b) Publicity

£0.7m                      £0.8m                      £0.8m

The bid is mainly for publicity about the provisions of the Representation of the People Act 1985, for example on absent voting, and to encourage electoral registration generally. If provision for such publicity was not available it is likely that the number of those registered to vote will be a lower proportion of those eligible to vote than it would otherwise.

(c) Information Technology

£4.5m                      £5.8m                      £7.7m

These bids are for computerisation in various parts of the office. A significant element is for the Prison Service's Inmates Information System where there is now a clearer picture, following a decision on the procurement strategy, of likely costs. A slippage in this project also requires provision previously made for 1986/87 to move to later years. The bids also reflect more realistic costs for the Passport Department project now that the trade has had the opportunity to assess and make proposals. Considerable savings from both these, and the IND computer projects, are expected, though generally they fall outside the PES period.

(vii) Non-prisons manpower

£10.5m                      £11.3m                      £10.5m

The bids are necessary to enable the department to cope with the increasing demands being made on it, most notably in immigration control, after taking account of reductions that are being achieved through improved methods of working, tighter complementing, contracting out etc. Specifically, the bids would cover:

- (i) An increase of over 152 posts in the Immigration and Nationality Department (112 for the Immigration Service and 40 for the after entry control) up to 1 April 1988. IND are operating in an environment where passenger traffic is increasing substantially in numbers and difficulty, most rapidly with the non EEC citizens subject to control. The bids are put forward on the basis of the maintenance of the present policies and system of control. If the bids were not made there would be an increase in delays to passenger at ports with potential loss of effectiveness in operating the controls.



- (ii) Provision for overtime and casual (not permanent) staff in Passport Department to meet the forecasts of increased demand - to which I have already referred.
- (iii) Provision for more casual (not permanent) staff in the Directorate of Telecommunications to deliver the WARC re-equipment programme on time.
- (iv) the cost of the consequential manpower ceilings proposed below, taking account of the inadequacy of present provision to pay for even the existing ceiling.
- (v) The cost of a pay award in 1987 of 5%

The manpower implications of these bids are set out below.

	1.4.87	1.4.88	1.4.89	1.4.90
Existing ceiling	9628	9578	9578	(9578)
Forecast complement (up to 1.4.88)	9846	9909	9909	9909
Proposed ceiling*	9696	9759	9759	9759
Bids on current ceiling	+68	+181	+181	+181

\* Estimated complement less 150

**(viii) Running Costs**

The running cost implications of the total bids are as follows:

+£27.1m                      +£27.1m      £29.0m

**(ix) Local authority non-relevant current expenditure**

£2.7m                      £2.8m              £2.8m

The bid is to provide for the Imperial and National Service Grant which is a fixed percentage of Metropolitan Police expenditure in recognition of the national functions undertaken by them. The increase in the grant will be neutral in public expenditure, being a transfer from local authority relevant to non-relevant current expenditure.

**(x) Fire capital**

£24.8m                      £23.7m              £23.2m

The bid is to make realistic provision for fire capital. The PES provision has been exceeded by over 100% in the last three years and is quite unrealistic in terms of maintaining an essential level of renewal of the capital stock without which the speed and effectiveness of fire service response will decline. Before 1986-87 fire authorities were able to spend above provision because of the



flexibilities available to multi-service authorities to switch resources between services, and to use capital receipts to boost their capital allocations. These flexibilities are not available to the single service fire and civil defence authorities and in their case has thrown much greater weight on individual allocations. Those made this year by DOE on the advice of the AMA in respect of the metropolitan areas (not London) amounted in the case of the Greater Manchester, Tyne and Wear and South Yorkshire authorities to less than known inherited contractual commitments. In all cases they fell short both of the fire provision in the metropolitan areas which could reasonably be imputed from the PES line for fire capital and of historic spending which might objectively be assessed as need, allowing for the known condition of fire brigade buildings and front line fire and rescue vehicles and equipment.

In last year's PES I made a bid for fire capital but did not press it because of other priorities and the difficulty of predicting exactly what the effect would be for the new joint boards of obtaining no additional provision. It is now clear that various of the joint board authorities have run into difficulties this year which could lead, if the present capital allocations are unsupplemented quickly, to major political embarrassment. As part of the assessment of the problem my officials and members of Her Majesty's Inspectorate of the Fire Service have conducted detailed examinations in the joint board brigade areas, taking a stringent view upon the necessity for each authority's spending. As a result my officials are in touch with yours about how to deal with the problems which have arisen this year.

In doing so, Home Office officials and the Inspectorate have also taken an entirely fresh look at the capital needs of the metropolitan areas from 1987-88 onwards. They have taken into account local circumstances, including, for example, the known lives of pumping and other major fire appliances and the sixty to eighty year life span of fire stations according to their location and use. The very detailed discussions with all seven metropolitan authorities have convinced us that they have certainly not enjoyed adequate capital investment in recent years and that there is a backlog of modernisation and repairs which needs to be retrieved if the service is not to suffer a continuing decline. Officials are attempting within the Home Office expenditure group to make a further analysis of shire county needs.

**(xi) Other policy issues: Visa policy and detention accommodation**

There are issues in immigration control for which I have not judged it right to enter bids but on which decisions might be needed during 1986-87, which would affect expenditure thereafter. I have circulated the report of the joint Home Office/FCO review setting out the arguments for and against greater use of entry clearance, and, the expenditure implications. If visas were to be introduced in the ten candidate countries identified in the review group's report, the cost would be £14.0 million a year. If new visa requirements were confined to the countries of the Indian sub-continent the cost would be £3.5 million a year. These increased costs would fall in part on the FCO and in part on the Home Office, although it would clearly be for the Home Office to take the lead in seeking adequate PES provision. If no new visa requirements are introduced, and current increases in difficult traffic are sustained,



additional provision for the detention of people refused entry will be necessary. The existing detention accommodation is inadequate and it is planned to replace it with new purpose built accommodation. If visas are not introduced we shall need to add, perhaps substantially, to what is already planned, and even with some new visa regimes additional detention accommodation might be required.

**(xii) Conclusion**

Your guidelines for the survey indicate that I should attempt to list my proposals for additional provision in broad order of priority. I find this difficult, given the wide range and varied nature of the programmes for which I am responsible. I have included only those bids which are of the highest priority. The net bids take account of reductions totalling £24 million £20 million and £24 million. The summary position is:

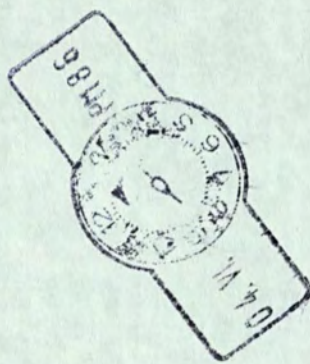
	..... £ MILLION.....					
	EXISTING PROVISION			ADDITIONAL REQUIREMENTS		
	1987/8	1988/9	1989/0	1987/8	1988/9	1989/0
Prisons	728.1	767.4	786.6	+26.5	+18.7	+53.1
CICB	41.1	42.2	43.3	+35.4	+40.8	+47.4
Non Prisons (Manpower)	113.3	116.1	119.0	+10.5	+11.3	+10.5
Non Prisons (Other)	249.0	242.3	248.7	+22.8	+26.0	+22.7
Local authority non-relevant current	16.7	17.1	17.5	+2.7	+2.8	+2.8
Local authority capital	164.3	168.6	172.8	+24.8	+23.7	+23.2
Fines and Fees	-164.5	-168.7	-172.9	-	-	-
<b>TOTAL</b>	<b>1148</b>	<b>1185</b>	<b>1215</b>	<b>+122.7</b>	<b>+123.3</b>	<b>+159.7</b>

I am copying this letter to the Prime Minister, Willie Whitelaw Geoffrey Howe, Malcom Rifkind and Tom King.

*Yours,*

*Douglas,*







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BM2AOR

BM

bc BG

10 DOWNING STREET

*From the Private Secretary*

**MR. UNWIN**  
**CABINET OFFICE**

**STAR CHAMBER 1986**

Thank you for your minute of today about the need to look carefully at requests from senior Ministers for overseas travel in October and the first half of November.

We shall certainly do that, but sometimes, despite our best endeavours, requests for overseas trips come to us too late for the Prime Minister in practice to be able to turn them down. The obvious answer would be for me to write to Private Secretaries drawing their attention to the need to bear the Star Chamber in mind in planning overseas trips. However, the risk with doing this would be that the temperature would be raised a little and there could well be an unhelpful story in the press about it. I shall certainly mention the point to Private Secretaries as the opportunity arises, but it would be helpful if you also could mention the point to your contacts in departments and suggest that they have a word with their Principal Private Secretaries.

I am copying this minute to Miss MacNaughton (Lord President's Office).

**DAVID NORGROVE**  
**3 JUNE 1986**

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DEPARTMENT/SERIES ..... <i>PREM 19</i> ..... PIECE/ITEM ..... <i>1702</i> ..... (one piece/item number)	Date and sign
Extract/Item details:  <i>Letter Armstrong to MacGregor dated 3 June  1986</i>	
CLOSED FOR ..... YEARS UNDER FOI EXEMPTION	
RETAINED UNDER SECTION 3(4) OF THE PUBLIC RECORDS ACT 1958	<i>4/11/2014</i> <i>S. Gray</i>
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MISSING	
NUMBER NOT USED	





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CCBG

P 02081

From: J B UNWIN  
3 June 1986

MR NORGROVE

c Miss MacNaughton

STAR CHAMBER 1986

I expect that, as in previous years, some form of Star Chamber process will be necessary as part of this year's Public Expenditure Round. I am minuting you at this early state to forestall a repeat of one particular difficulty which we encountered last year.

2. This difficulty was caused by overseas travel by key participants in the Star Chamber process. You may recall that Mr Heseltine was committed to a visit to the Far East when agreement had not been reached on the defence programme; and one of the members of Star Chamber, Mr Brittan, was unable to take part in a number of Star Chamber discussions because of his absence in the United States. Mr Younger was also away for a few days when the Scottish Office programme was still unresolved.

3. We are not, of course, in a position at this stage to identify the Ministers whose spending programmes will need to be scrutinised by Star Chamber, nor those senior Ministers who will comprise the Star Chamber itself. Moreover, I assume that there may be further Ministerial changes before the onset of the Star Chamber process.

4. However, I think it would be prudent and helpful if requests to No 10 from senior Ministers for overseas travel in October and the first half of November could be treated with great caution, and only approved subject to the proviso that if the Ministers in question are required to appear in the Star Chamber, then Star Chamber business must have precedence over whatever foreign travel arrangements they may have made.

J B UNWIN

Cabinet Office

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PRIME MINISTER

PUBLIC EXPENDITURE

The Chancellor has telephoned me at home to ask where things stand on the public expenditure and taxation passage in your speech. He is extremely anxious about this. He believes that if the passage is included as you had it this afternoon it would dominate the reporting of your speech. It would he thinks be a major news story because it would amount to throwing out the public expenditure plans as published in the last Public Expenditure White Paper because those were founded on maintaining the planning total constant in real terms. He thinks the result would be to torpedo the coming Public Expenditure Survey. (The clear statement in this year's Public Expenditure White Paper is quoted in my minute below which was to have gone into your box overnight.)

The Chancellor would like to see you first thing tomorrow morning if you wish to continue the line which was in this afternoon's draft.

I thought you would want to know this as soon as possible.

David Norgrove

3 June 1986



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PRIME MINISTER

THE PUBLIC EXPENDITURE OBJECTIVE

The Government's present objective for public expenditure is clearly to hold it constant in real terms. The passage on "Aims and Objectives" in this year's public expenditure White Paper says:

"The cash totals set within this framework for public spending are designed to hold total spending broadly level in real terms. As the economy grows, public expenditure will continue to fall as a percentage of national income. And the burden of taxation can come down - improving motivation, efficiency and employment."

To abandon this objective now would give quite the wrong signal to the spending colleagues. But the Treasury too are trying to fudge it a bit. You will see from the Chancellor's own speech for tomorrow (below) that it says:

"It is only by improving our own economic performance that we will be able to pay for the improved services that we all want to see."

The fudge here is that the word "public" does not appear. There is also no reference to totals.

The present draft of your speech is stark, with its direct comparison between total spending and total taxation. But we should surely be able to meet your objective without prejudicing the public expenditure round. It would, for example, help if any passage about the role of greater wealth in allowing better services were to come nearer the end of the section.

The draft has no doubt changed since the Tuesday afternoon version, but taking that as a model, one possibility would be to drop the two paragraphs from the sentence "Madam Chairman,



some people talk as if there were a simple choice ...."

The main point is already made, though more briefly, on page 31 of the Tuesday afternoon draft (copy attached) and you could take a leaf out of the Chancellor's book by dropping the word "public" from the last sentence of the second paragraph. The Chancellor could scarcely object to that.

David Norgrove

3 June 1986



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OFFICE OF ARTS AND LIBRARIES  
Great George Street  
London SW1P 3AL  
Telephone 01-233 8610

From the Minister for the Arts

The Rt Hon John MacGregor OBE MP  
Chief Secretary to the Treasury  
HM Treasury  
Parliament Street  
LONDON SW1P 3AG

*ABBA*

*Prime Minister 2*

*Always nifty -  
and the British Library  
continues to compound the  
problems.*

2 June 1986

*Dear John*

*DRS  
2/6*

*[Handwritten mark]*

1986 PUBLIC EXPENDITURE SURVEY: ARTS AND LIBRARIES

In accordance with the new guidelines for the 1986 Survey, I am writing to bid for additional resources for the arts and libraries programme. I have thoroughly examined the whole of the programme, including the scope for savings and redeployment. I am satisfied that the net additions that I seek are no more than the minimum that is essential to maintain a credible arts policy.

2. The additions are £18.0m in 1987-88, £26.5m in 1988-89 and £29.5m in 1989-90. Details are given in the table and paper annexed to this letter.

Objective

3. My objective is that the Government should be seen to be living up to its manifesto commitment to keep up the level of government support for the arts, while promoting new attitudes and practices to improve over time the will and ability of arts bodies to find additional sources of funding for themselves.

4. The second part of this objective depends on success in the first. The unanimous advice from arts bodies and sponsors/patrons alike is that private money can be attracted in order to build upon a steady base of Government funding, but not in order to make good any apparent withdrawal by the Government from the funding job that it has previously



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undertaken. The private donor will support a new development. He will not - for the present at least - mend the old drains or pay the existing staff. Our manifesto recognised this when we undertook both to keep up the level of Government support and to review the tax system.

5. I warmly welcome this year's Budget measures on charitable giving and the new receipts regime for the national museums and galleries. Over time these will tend to promote an atmosphere of greater self-help. We shall however poison that atmosphere from the start if we appear to be taking immediate advantage of their introduction to cut back our own support. To do that destroys the incentive for the arts and dries up the generosity of those who would otherwise support them. So while I am delighted to see these changes, they do not reduce the need for my present bids.

The Root of the Problem

6. My problem has three main causes. The first is the new British Library project at St Pancras.

7. On the present baseline, my total central programme rises by 3.2% in 1987-88 and by 3.5% and 2.5% in the two later years respectively. Within the total however the provision for the new building rises much more steeply. I gladly acknowledge that you and your predecessors have been helpful to us over this large project, but you have not felt able to ring-fence it, and it still exerts a damaging squeeze on the rest of my small programme. For this reason, I have had to restrict my planned recurrent grant increases to 2½% for most of my bodies and to 2% and 1½% for the British Library itself. In addition, I have heard during the past few days from the PSA that there has been a further rise in the forecasts of expenditure on phase 1A of this project with the result that the baseline figures are too low by £1.8m, £4.9m and £7.6m in the three years of the survey period; and we shall have to make some provision for preliminary design work for Phase 1B if the programme is not to be delayed. Such cost increases, if not compensated for, can only worsen the squeeze on the rest of my programme.

8. We shall of course probe these figures carefully, In addition I have considered very carefully whether in these circumstances I should introduce deliberate delays in the construction programme; I am satisfied however that to do so would increase costs to a quite indefensible degree in the end, multiply inefficiency and attract ridicule. We have committed ourselves as a Government to this new building and must carry it through in the most cost-effective way.

9. Secondly, the squeeze on the rest of my programme is intensified to the extent that public service and analogous pay settlements exceed the planned provision. This has happened



in each of the last few years and its effects are of course cumulative. It affects almost all bodies but hits hardest at the museums and galleries which have no choice but to apply Civil Service rates, and typically spend 75%-80% of their running costs on pay. We have now reached the point where successive squeezes of this kind are beginning to have a serious impact on their service to the public.

10. Thirdly, there is a small element of real growth which has to be provided for, but which we cannot expect the private sector to meet. It arises mainly on the museum side. Thus, for example, the Clore Foundation has paid most of the capital costs of the new Turner Gallery at the Tate, and the Government is publicly committed to finding its running costs. We must make it possible for the British Museum, V & A and others to computerise their cataloguing. We must put a bit more into maintaining the museums' buildings if we are not to have more leaking roofs and flooding drains. I also include under this head the transitional costs involved in untying the museums from the PSA, on which I shall write separately to Nicholas Ridley and you within the next few weeks. These examples underline the point I have made about our objective; private money will not be attracted to deal with what potential donors will rightly see as the housekeeping duties of the Government.

My proposals

11. These are set out in greater detail in the table and paper attached. In broad terms, I propose:

(a) Increases in the provision for the British Library building to cover the increases in the cost of Phase 1A over the current baseline plus some provision for preliminary design work on Phase 1B.

(b) Increases in the recurrent grant baselines for my largest clients (the Arts Council, the British Library and the national museums and galleries) to help them broadly to maintain the present levels of their activity.

(c) Some relatively small enhancements for the museums of the kind described in paragraph 10, plus a partial restoration of the cut in their purchase grants which was imposed two years ago.

(d) A modest scheme to encourage arts bodies to improve their marketing and managerial efficiency. I attach importance to this in the context of changing attitudes and practices and of taking maximum advantage of the Budget concessions on charitable giving. The Business Sponsorship Incentive Scheme has been a great success in this sphere. We should complement it with a scheme to pump-prime demonstration projects in marketing and management; and I propose an additional £0.5m a year for this.




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(e) I need slightly to increase the staffing of the Office. In the nine months I have been Minister for the Arts I have been greatly struck by the tiny size of the Department (51) compared with the tasks expected of it (responsibility for some 30 non-departmental public bodies and a very high level of Parliamentary and public interest). This imposes a very considerable strain, and I propose a slight easement. The financing of this can be dealt with by a minor redeployment of the less than £0.1m involved, but I should warn you now that I shall probably ask for 3 additional staff (including the one about whom my staff have already written to yours).

12. The proposal at 11(b) above means a total grant for the Arts Council of some £141m in 1987-88, rising to £150m by 1989-90. That involves abandoning the tapering-down of the extra post-abolition central funding which we agreed on last year. I return to this question only with the greatest reluctance. But I do not think that we can get away with the cash reduction in the Arts Council's grant which the taper will impose next year without appearing to abandon the manifesto commitment in a particularly sensitive area. More importantly, we shall jeopardise our gains over abolition. With great difficulty and after long negotiations we have safeguarded the position of arts bodies immediately after abolition. The Arts Council have done an excellent job in persuading the successor local authorities to provide matching funds. But all concerned have made it abundantly clear to me that if the central funds are reduced next year, the local authorities will not step in to fill the gap; on the contrary they will reduce their own contribution. If this happens, we shall arouse abolition fears and arguments all over again just when they have been put to rest. It cannot be worth while to incur all that for the sake of saving the £4m in 1987-88 and £5m in 1988-89 which the taper presently involves.

13. That point, I am convinced, applies more generally. Mine is a relatively small programme, and the increases I seek are tiny in the context you are dealing with. Our record on arts funding since 1979 is a good one and I am grateful for colleagues' help in achieving this but any credit for this will disappear if we seem to be bringing about a contraction over the last two years of this Parliament. I believe that my bids would purchase (and are the least that would do so) the ability to claim successfully at the next Election that this Government had stood to its word in supporting the arts throughout its period in office. Without them, we shall have disproportionate troubles in this sensitive area. A very modest sum of money can put this right.

14. I am ready to discuss these proposals with you. Copies of this letter go to the Prime Minister, the Lord President of the Council and the Secretaries of State for Scotland, Wales, Education and Science and the Environment.

  
RICHARD LUCE

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1986 PUBLIC EXPENDITURE SURVEY

ARTS AND LIBRARIES PROGRAMME

	£ million		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
1. Existing central government programme baseline	331.6	343.1	351.7
2. Additional resources sought for:			
(a) Sustaining recurrent grants	10.2	15.6	16.9
(b) Purchase grants	1.0	1.0	1.0
(c) Gallery costs	1.0	1.0	1.0
(d) Museum building/maintenance	2.5	2.5	2.0
(e) Marketing/Management initiative	0.5	0.5	0.5
	—	—	—
Total: 2(a) to (e)	15.2	20.6	21.4
3. British Library St Pancras project			
(a) net adjustment for revised stage 1AA/LAB forecasts	+1.8	+4.9	+7.6
(b) additional provision for stage 1B	+1.0	+1.0	+0.5
	—	—	—
Total: 3(a) + (b)	+2.8	+5.9	+8.1
4. Net additions sought			
(2 + 3)	18.0	26.5	29.5



## OFFICE OF ARTS AND LIBRARIES

## 1986 PUBLIC EXPENDITURE SURVEY: ADDITIONAL BIDS

1. The OAL's baseline and additional bids are summarised in the table attached to this paper. Details are as follows:

(A) Sustaining recurrent grants

2. This bid is for £10.2 million in 1987-88, £15.6 million in 1988-89, and £16.9 million in 1989-90. It would provide annual grant increases for major institutions averaging some 4 per cent in cash terms in 1987-88, 3½ per cent in the following year, and 3 per cent in 1989-90. The distribution is set out in the table below:

	£ million		
	1987-88	1988-89	1989-90
Arts Council			
Baseline	134.4	136.2	139.6
Bid (1)	<u>6.6</u>	<u>9.8</u>	<u>10.4</u>
Total provision	141.0	146.0	150.0
British Library			
Baseline	50.8	51.3	52.5
Bid (2)	<u>1.0</u>	<u>2.2</u>	<u>2.5</u>
Total provision	51.8	53.5	55.0
Museums and galleries			
Baseline	95.7	98.1	100.6
Bid (3)	<u>2.6</u>	<u>3.6</u>	<u>4.0</u>
Total provision	98.3	101.7	104.6
Total bids (1)+(2)+(3)	10.2	15.6	16.9

3. The bulk of these bodies' costs is attributable ultimately to the employment of staff. In some cases (British Library, museums) pay levels are determined by civil service settlements, which in recent years have significantly exceeded both general inflation rates and the Treasury's pay assumptions used in fixing grants. In other cases (subsidised performing arts) pay levels are set by going private sector rates for e.g. actors, musicians, technicians, which likewise have exceeded inflation. In both areas it is reasonable to assume



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that future settlements will be no lower than the prevailing inflation rate. The scope for absorbing excess pay costs has been steadily eroded over the years, and virtually none now remains without adversely affecting services to the public. The rolling programme of staff inspection in the museums and library to date has identified little room for staffing economies. Similarly, in the performing arts the numbers required to maintain the existing level and range of productions are relatively fixed, and where efficiency scrutinies have identified potential manpower savings these have been implemented. Nevertheless the bid assumes that pay costs overall will be contained at or below forecast inflation levels, thus implying a continued element of squeeze. It also makes a similar assumption about non-pay costs, where the particular patterns of goods and services purchased tend to be associated with cost increases at least in line with inflation, and where the room for significant real economies in this minority proportion of spending is still more circumscribed.

4. The bid is designed broadly to maintain present levels of arts activity, which are illustrated by the sample intermediate output indicators shown in the OAL chapter of the 1986 PESC Report. The existing programme baseline will permit annual cash increases of only 2½ per cent from 1987-88 onwards in the basic recurrent grants for most arts bodies, and somewhat lower rates overall for the British Library and the Arts Council (as a result of the tapering post-GLC/MCC abolition central funding) in particular. For reasons explained in the covering letter and the PESC Report, private sector funding and local authority contributions cannot be expected to expand at the substantially faster rate than general inflation which would be required in order to make good the central funding shortfall and thus maintain total resource inputs.

5. If the existing baseline were to be maintained, there would be a cumulative decline in levels of activity and services. In particular:

- (a) Museums and galleries would be forced to cut staffing (probably involving compulsory redundancies, with the associated offsetting costs), and thus to reduce opening hours and/or temporarily close parts of their exhibitions,



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and restrict other services to visitors and scholarship. This would affect public access and especially tourism, and would run counter to recent Government initiatives (e.g. "Pleasure, Leisure and Jobs"). Halting or reversal of the growth in visitor numbers would in turn reduce income from trading activities (publications, shops, catering etc). There would be a growing backlog of conservation of the collections, with serious implications for preservation of heritage items.

- (b) Corresponding effects would face the British Library. Its ability to respond efficiently to demand for loan and reference material from public, academic and commercial users would be curtailed, to the detriment of both scholarship and business needs. Paid acquisitions (other than statutory free deposit), already well below the level required under standard selection criteria agreed with major users, would continue to decline, particularly as book prices rise faster than general inflation and the volume of new publications expands annually: again to users' detriment. The conservation backlog would grow, with progressive risks of irreversible deterioration of items. So would the cataloguing backlog, affecting not only direct services to users but also revenue from bibliographic sales. The scope for greater offsetting income increases from charged services is limited because a large proportion of their users are publicly-funded (Government, academic etc) bodies. The bid, on the other hand, would facilitate more investment in automated systems with the prospect of longer term cost savings and increased revenue.
- (c) The Arts Council's 1986-87 grant included £25 million for post-abolition funding of which some £9 million is devoted to the South Bank complex, and £16 million to arts bodies elsewhere in London and the metropolitan areas. The present baseline tapers the post-abolition funding to £21 million in 1987-88, leaving only £12 million for other arts bodies (a 25 per cent cash cut) after providing for



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the South Bank. In 1986-87 successor authorities are channelling a matching £15 million for those bodies. Of this some £4 million is through the "transitional" voluntary funding scheme, whereby the local authority share is supposed to rise from 25 per cent in 1986-87 to 50 per cent next year. To compensate for the taper in cash terms alone, the authorities would have to find an extra £5 million (42 per cent) from their own resources in 1987-88: and this does not allow for inflation. As the covering letter explains, the authorities are more likely to cut than to increase their support. The result would be an even greater real diminution in provision in the abolition areas. There would also be a major outcry if support for arts bodies outside those areas, already facing real cuts under the present baseline, had to be further reduced to divert resources to abolition areas. In practice, the jam could not simply be spread more thinly; selective closures of whole organisations would have to be contemplated. Altogether, some five provincial receiving theatres (providing 1½ million seats a year), at least one regional and one London orchestra, one London opera company, one main National Theatre stage, and many smaller arts organisations throughout the country would be at risk. Public access, and especially tourism, would be seriously affected; there would be a loss of jobs, both directly among subsidised arts bodies' employees and indirectly in other sectors (e.g. catering, transport, media) dependent upon the subsidised arts. The bid would seek to avert these consequences.



(B) Purchase grants

6. Museum and gallery purchase grants were cut by 13 per cent in 1985-86, and the baseline for 1986-87 onwards remains frozen at that lower cash level (£8.1 million for the 8 national institutions, and £1.3 million for the Museums and Galleries Commission's local museum fund). The continuing rapid rise in art market prices - not only for old master paintings now costing anything from £1 - £8 million apiece but also for other historic and contemporary pictures and artefacts, including industrial and scientific objects - makes it increasingly difficult for the institutions, even on a highly selective basis, to acquire pre-eminent objects for the nation or fill critical gaps in collections when once-only opportunities arise. The National Heritage Memorial Fund, with limited resources, can only act as a long-stop in a few outstanding cases. The new acceptance-in-lieu arrangements announced last July, while a most welcome improvement, do not cover objects of museum quality which do not qualify as "pre-eminent" for acceptance or do not involve a tax liability. Private fund-raising appeals cannot be expected to make good a growing shortfall in public funding. The bid (£1 million a year) would not fully restore the 1985 cut or cover continued price rises; but it is the minimum easement needed to regain Government credibility in a field which attracts much public attention from heritage interests.

(C) Gallery costs

7. The bid to sustain recurrent grants does not cover the additional real costs of certain museum and gallery developments to which the Government is committed. A number of projects are in train where some or all of the construction costs are being met from funding outside the OAL programme which does not extend to meeting the subsequent recurrent (staffing, services etc) expenses. These include the new Clore (Turner) Gallery on Millbank, the "Tate in the North" at Liverpool, the Merseyside Maritime Museum, the V and A's Theatre Museum in Covent Garden, and the National Gallery's Hampton Site Extension. Following an earlier Public Accounts Committee report, the museums and galleries have been encouraged to improve



their inventories and cataloguing, which requires significant initial investment in new information technology before longer term cost savings or improvements in services can be realised. Proposals from the British Museum, V and A and National Maritime Museum are awaiting implementation, and more are expected from other institutions. Without additional resources, the opening of the new galleries is liable to be delayed amidst much public criticism, and cataloguing improvements deferred with probable adverse comment from the PAC. This bid (£1 million a year) will not meet the whole costs but will enable progress to be made and act as a spur to further private funding.

(D) Museum building/maintenance

8. The 1984 Survey resulted in a once-off boost for the museum building and maintenance programme to over £28 million in 1985-86, falling back to £27.5 million in 1987-88 and failing to keep pace with inflation thereafter. This enabled part of the growing maintenance backlog to be tackled but not eliminated; but the position worsens again in the baseline for coming years. The bulk of the programme is, and will continue to be, devoted to major and minor maintenance and refurbishment rather than new construction; even so, not all of the existing top-priority maintenance needs of the aging and historic premises can be accommodated over the next three years. There will be an increasing risk of building fabric and service failures (leaking roofs and plumbing, electrical fire hazards etc), as well as unacceptable environmental conditions if temperature and humidity control and security systems are not modernised. Parts of galleries will have to be closed and collections put in store to safeguard the public, staff and objects. In addition, if Ministers accept the recommendations of the forthcoming inter-departmental report on the PSA and national museums and galleries, there will be transitional costs mainly over the next two years in untying the institutions from the PSA, estimated at £1.4 - £1.8 million in 1987-88 and £0.8 - £1.5 million in 1988-89. These costs could only be met within the present baseline at the expense of still further cuts in maintenance work. The bid (£2.5 million in the first two years, falling to £2 million in 1989-90) would enable the maintenance backlog to be reduced and cover the transitional costs of untying.



(E) Marketing/management initiative

9. This bid (£½ million a year) is for a new central initiative to encourage arts bodies to market themselves more effectively to the paying public and to take further steps to improve their managerial efficiency. Financial pressures alone cannot be relied upon to achieve such improvements cost-effectively where most needed. The initiative would involve pump-priming a series of demonstration projects in selected arts organisations and publicising the results, not only benefitting the bodies directly involved but spreading the lessons more widely. Applicants would be invited to submit, with the aid of consultants where appropriate, a marketing/management development plan with clearly stated objectives, timetabled income and expenditure targets, and monitoring arrangements. These would be vetted by the OAL with outside help, and selected suitable applicants (some 20 to 50 a year) awarded a once-off grant of between £10,000 and £25,000 towards the implementation costs of the plan, subject to matching funding from other sources. Each plan would be publicised both at the time of granting the award and when the report was received at the end of the project. Administration of the scheme within the OAL would require one extra full-time equivalent staff member whose costs are allowed for in the £½ million. Like the Business Sponsorship Incentive Scheme, this initiative would have a multiplier effect: a modest investment could reap great dividends.

British Library St Pancras Project: Revised Forecasts

10. Following a major review of this project in 1985, Ministers authorised and announced a start on stage 1AB concurrently with stage 1AA already under construction. They deferred until the 1986 Survey a decision on preliminary design work for the following stage 1B, which would need to start in 1987-88 if the overall timetable for the project is not to be delayed.

11. The latest PSA forecasts for stages 1AA and 1AB exceed the previous forecasts shown in the 1986 PESC Report, which in turn differ from the existing PES baseline provision resulting from the



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1985 Survey (which also made no provision for stage 1B pending decisions on that). The position is as follows:

	£ million		
	1987-88	1988-89	1989-90
Existing PES baseline (stages 1AA and 1AB)	20.7	25.8	26.5
Current forecasts:			
1AA + 1AB -			
Construction costs	19.4	27.5	30.9
PSA resource costs	3.1	3.2	3.2
Total	<u>22.5</u>	<u>30.7</u>	<u>34.1</u>
1B -			
PSA resource costs only	<u>1.0</u>	<u>1.0</u>	<u>0.5</u>
Total forecast: 1AA+1AB+1B	<u>23.5</u>	<u>31.7</u>	<u>34.6</u>
Additional requirement:			
1AA + 1AB	+ 1.8	+ 4.9	+ 7.6
1B	<u>+ 1.0</u>	<u>+ 1.0</u>	<u>+ 0.5</u>
Total	<u>+ 2.8</u>	<u>+ 5.9</u>	<u>+ 8.1</u>

12. The reasons for the increased forecasts are attributed by the PSA to a combination of a reassessment of the impact of inflation on costs, additional VAT payments, past under-estimation of quantities, design changes, and unforeseen changes in statutory requirements (health, safety etc). As in previous Surveys, these additional requirements will need to be reflected in corresponding additions to the OAL programme baseline. If they had to be accommodated within the existing baseline, the implications for other arts provision would be very much more serious than those described earlier in this paper.

13. The OAL and PSA have considered whether it would be feasible to freeze annual spending on stages 1AA and 1AB for the next three years at the 1986-87 cash levels (some £11 - £12 million). They have concluded that this would be impracticable and undesirable. It would delay completion of these stages by about three years and would not be cost-effective. There would ultimately be a cost penalty of £14 - £17 million to cover increased contractors'/consultants'



overheads and extra temporary works. The British Library would need additional temporary storage accommodation costing up to £5 million, and there would be extra conservation requirements as a result of the delay in moving stock into the improved environment of the new building. Users would also suffer from the postponement in realising the benefits of the new building. Catching up the timetable later would be expensive; perpetuating the delay into subsequent stages would exacerbate the above problems. Finally, there would be presentational and industrial difficulties in artificially slowing down work on a major Government-funded construction project.



## OFFICE OF ARTS AND LIBRARIES

## 1986 PUBLIC EXPENDITURE SURVEY: ADDITIONAL BIDS

1. The OAL's baseline and additional bids are summarised in the table attached to this paper. Details are as follows:

(A) Sustaining recurrent grants

2. This bid is for £10.2 million in 1987-88, £15.6 million in 1988-89, and £16.9 million in 1989-90. It would provide annual grant increases for major institutions averaging some 4 per cent in cash terms in 1987-88, 3½ per cent in the following year, and 3 per cent in 1989-90. The distribution is set out in the table below:

	£ million		
	1987-88	1988-89	1989-90
Arts Council			
Baseline	134.4	136.2	139.6
Bid (1)	<u>6.6</u>	<u>9.8</u>	<u>10.4</u>
Total provision	141.0	146.0	150.0
British Library			
Baseline	50.8	51.3	52.5
Bid (2)	<u>1.0</u>	<u>2.2</u>	<u>2.5</u>
Total provision	51.8	53.5	55.0
Museums and galleries			
Baseline	95.7	98.1	100.6
Bid (3)	<u>2.6</u>	<u>3.6</u>	<u>4.0</u>
Total provision	98.3	101.7	104.6
Total bids (1)+(2)+(3)	10.2	15.6	16.9

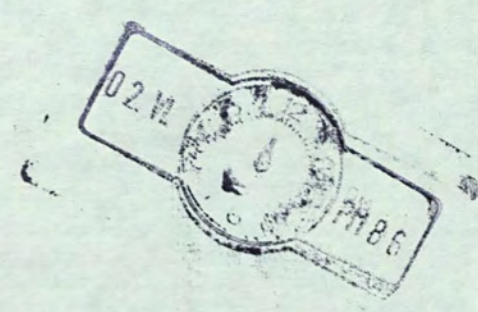
3. The bulk of these bodies' costs is attributable ultimately to the employment of staff. In some cases (British Library, museums) pay levels are determined by civil service settlements, which in recent years have significantly exceeded both general inflation rates and the Treasury's pay assumptions used in fixing grants. In other cases (subsidised performing arts) pay levels are set by going private sector rates for e.g. actors, musicians, technicians, which likewise have exceeded inflation. In both areas it is reasonable to assume



1986 PUBLIC EXPENDITURE SURVEYARTS AND LIBRARIES PROGRAMME

	£ million		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
1. Existing central government programme baseline	331.6	343.1	351.7
2. Additional resources sought for:			
(a) Sustaining recurrent grants	10.2	15.6	16.9
(b) Purchase grants	1.0	1.0	1.0
(c) Gallery costs	1.0	1.0	1.0
(d) Museum building/maintenance	2.5	2.5	2.0
(e) Marketing/Management initiative	<u>0.5</u>	<u>0.5</u>	<u>0.5</u>
Total: 2(a) to (e)	15.2	20.6	21.4
3. British Library St Pancras project			
(a) net adjustment for revised stage 1AA/1AB forecasts	+ 1.8	+ 4.9	+ 7.6
(b) additional provision for stage 1B	<u>+ 1.0</u>	<u>+ 1.0</u>	<u>+ 0.5</u>
Net Total: 3(a) + (b)	+ 2.8	+ 5.9	+ 8.1
4. Net additions sought			
(2 + 3)	18.0	26.5	29.5









Secretary of State for Trade and Industry

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2 June 1986

The Rt Hon John MacGregor OBE MP  
Chief Secretary  
HM Treasury  
Parliament Street  
LONDON  
SW1P 3AG

*Prime Minister<sup>2</sup>*

*DS*  
*2/6*

*Dear John,*

*and*

PES

The only bids which I am submitting for a net increase in provision are for my R&D budget. Before I set out the detailed case I would like to draw your attention to the table in Part I of the last Public Expenditure White Paper (copy attached) which shows my Department's provision declining in cash terms by 48 per cent between 1985/86 and 1988/9. This is a larger reduction than any other Department is experiencing. Even if one excludes the Nationalised Industries and ECGD, the decline is 14 per cent which is still more than any other Department. This comes at a time when the Government is acknowledging the need for more industrially relevant R&D expenditure - a point you yourself emphasized in the debate on Public Expenditure on 20 February.

Indeed the work that has been undertaken in MISC 119, and on which I have embarked in E(RD) has shown British industry is doing less R&D than its competitors and that the gap is widening. In my view it should be a major objective of this year's Survey to decide how we can stimulate longer term wealth creation. I believe that the successful application of technology is the key. Other Governments are increasing their financial support and we also need to do more. As it is, the attached graph shows that the Government is planning to spend steadily less on R&D over the next three years. If we were convinced that industry's R&D effort was adequate - and I do not dispute that the major funding responsibility will continue to lie with industry - the decline in Government support would not be of concern. But the evidence is

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not reassuring. Industry and the City still take a very short term view of returns.

Two major new international R&D programmes will begin to build up expenditure in the PES period - EUREKA and the new Community R&D programme. I want to submit bids to cover the cost of these programmes. This will represent a net increase in my Departmental provision. I do not have savings to offer up against the bids from other programmes. If I am unable to persuade you of the case for additional resources, the consequences would be that I would have to impose a substantial cut on my present R&D programme and cut back on our proposed support for EUREKA. In my judgement, industry would see this as a damaging reversal of our policies, particularly since it is only a year since a new tougher policy on R&D was announced by Norman Tebbit.

My bids fall into three categories:

- (a) the Community framework programme;
- (b) EUREKA;
- (c) the proposals put forward by Sir Robin Nicholson and approved in principle by E(RD) for a SERC/DTI programme to "pull-through" new advances in technology into industry.

The additional bid for the Community framework is for EUROPE'S provision to cover increases in Community expenditure on industrial R&D programmes of 300 mecu, 350 mecu and 450 mecu above the DTI's EUROPE'S baseline. This would not affect the overall public expenditure planning totals. The other two bids are for an increase in PES provision. They are as follows:

	<u>1987/8</u>	<u>1988/9</u>	<u>1989/90</u>
£m			
EUREKA	+15	+30	+40
pull-through	+6	+12	+19
Total:	+21	+42	+59

I will deal with each of these in turn.

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### COMMUNITY FRAMEWORK PROGRAMME

The eventual size and composition of this programme is still uncertain. But my EUROPE baseline is inadequate both in relation to the growth in the Community's R&D expenditure to which HMG has increasingly become committed and because existing EUROPE baselines do not reflect the Community's policy, which the UK supports, of giving more priority to industrially relevant research. Whilst a re-allocation of the EUROPE baselines of other Departments, would help with the latter point, an overall increase in EUROPE cover also seems essential. For the reasons set out below I do not believe it is feasible for me to reduce my provision for domestic R&D to accommodate the costs of the Community programme. Although my Department fully endorses the need to contain the size of the new framework programme you will appreciate that any bid has to be in relation to what I judge to be the most likely outcome. I believe that the eventual outcome could well be in the region of 6 becu, even if we can secure initial French and German support for a lower objective. My EUROPE bids are therefore on the following assumptions:

- a 6 becu framework programme of which 60 per cent will be aimed at benefitting industry sponsored by DTI
- a 1.2 becu ESPRIT programme which continues to be treated outside EUROPE.

Should the course of negotiations suggest a different outcome, my bids would need to be revised. If a smaller programme were to emerge, for example, I would be very ready to reduce my bid.

### EUREKA

Although I have agreed to fund the first ten projects from my existing provision, additional funding is needed if we are to continue to play our full part in this important initiative. We shall endeavour to convince UK firms in our dealings with them that participation in a EUREKA project confers benefits through improved market opening and thereby seek to head off applications for financial support. But our firms know that their competitors in Europe are getting help from their Governments. If we are not prepared to support our firms, albeit not up to the levels they allege their European competitors are supported, then they will simply not enter into EUREKA projects. We estimate that some 20 new EUREKA projects are likely to arise each year in which UK firms will not go ahead without Government support. The estimated costs to the Department are of the £15m, £30 and £40m quoted above.

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#### PULL-THROUGH

At E(RD) on 17 April the pull-through programme was approved on the assumption that other Departments would match the financial contributions to be made by Kenneth Baker and myself. My technical bid is therefore for a transfer to match my contribution. No net increase in public funds is involved. The amounts quoted in the E(RD) paper are £6.25m, £12.5m and £18.75m.

I have of course examined very carefully the scope for making a contribution to the costs of the Community framework programme and the additional EUREKA projects from within my domestic provision. I have concluded this is not feasible. You will recall that there was a major review of the Department's R&D expenditure last year in which your officials were fully involved. This looked at the priorities for expenditure within a reducing budget. Expenditure on project support was substantially cut back, both by reducing the support to large companies and targeting support on projects which achieved substantial external benefits. A scheme of around £80m is still regarded as a minimum for a general scheme of this kind, particularly if we are to have the resources to encourage companies to undertake their own R&D projects to apply the results of Alvey and other collaborative programmes. I do not therefore believe there is scope for reducing general project expenditure. For collaborative support we have earmarked a provision of £60m a year. There are substantial commitments to Alvey and other on-going collaborative programmes throughout the PES period. The remaining uncommitted headroom is needed by our contribution to pull-through and to the first ten EUREKA projects. The final category within my domestic R&D provision is non-project support. This is concerned with spreading awareness of existing and new technology to companies whose prospects of competitiveness depend heavily on the successful application of technology. Our forward allocation is about £100m a year. I believe it would be very short-sighted to reduce this expenditure. The enlarged Community programme, the EUREKA initiative and the pull-through programme, need to be backed up by awareness programmes if the UK is to get full benefit. I will cope with this additional pressure to expand awareness but I certainly could not contemplate a cut.

Following a further analysis of our R&D expenditure at Sunningdale this last January and the respective value for money of support for domestic as against international programmes, we have engaged in a detailed survey of British companies views on this issue over the last few months. The results of this exercise have just come to light. Although there are inevitably shades of opinion which in part reflect the particular technologies and industry sectors in

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question, the overwhelming conclusion is that UK firms will only benefit from international programmes if they have strong domestically-based scientific and technological capabilities. If firms, large and small, do not have such indigenous capabilities they are not regarded as credible partners in the first place and are also unable to exploit the results of international programmes effectively. Adequate domestic programmes of support must therefore have priority over international programmes. This is not to say that UK firms will not welcome a shift in Community R&D in those sectors where there is a clear Community dimension. That is certainly a policy we should encourage. But if that were to lead to a diversion of resources away from support for domestic activity, UK industry's view is that this would represent worse value for money. This should certainly influence the negotiating stance we adopt on the size of the new Community R&D programme but it will not be the only factor determining the final outcome and, in any case, decisions are unlikely to have been taken before the PES round is over. What I need to establish with you in the bilaterals is that the provision for domestic expenditure on which last year's review was based will be maintained at present levels and that additional resources will be provided for the new international programmes that have begun to take shape since the review and since last year's Survey baselines were agreed.

Against this background I regard the bids for the pull-through transfers, EUREKA and EUROPES as the minimum with which I can manage. They are also consistent with the discussions we have had in E(A) and E(RD) about the overall shape of the Government's support for civil and military R&D and the overriding priority of our support for R&D going in areas where it can increase industrial competitiveness and hence wealth creation.

As I made clear at the beginning of this letter, I am limiting my additional bids to the R&D area. As you can imagine, a number of other proposals which would have involved a net increase in my Department's provision were presented to me. I have decided not to proceed with these nor with increases in manpower or running costs, apart from the funding needed to cover the responsibilities transferred to my Department from the PSA, as set out below. As you know, I am due to consider a Corporate Plan before the bilateral season dealing with the future size and structure of the Companies Registration Offices. I will be writing to you later about the manpower and running costs implications of this plan.

There is one other point I should draw to your attention. I have been searching for a way to avoid having to introduce a moratorium on new regional development grants in March 1987. As you may remember Leon Brittan agreed this with you, George Younger and

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Nicholas Edwards, in the last Survey as a way of meeting higher expected costs on other demand led programmes. In my view it would be most unfortunate in political terms to impose a moratorium on regional spending in 1987/88 and I have managed to find a way of covering the additional costs in England. Savings are now forecast in the demand led programmes which were expected to increase last year and I propose to transfer the resultant savings back to my regional provision for 1987/88. My officials will be writing with the details. Malcolm Rifkind and Nicholas Edwards know of this proposal. It will need to be taken into account in their proposals to you on public expenditure.

There is also a technical bid for new provision following from changes in financial responsibility for Property Repayment Service (PRS) funding. The main element is major works for office accommodation. As you know these costs are to be attributed to Departments as from 1987/88. The costs associated with terminations of lease agreements are ones that would have to have been met under the previous funding arrangements. The bid is therefore a technical one arising from the transfer of responsibility.

The amounts for my Department are:

<u>1987/8</u>	<u>1988/9</u>	<u>£m</u> <u>1989/90</u>
+2	+4	+1

On a similar basis, as regards the transfer of responsibility from the PSA in relation to minor new works and internal decorations, I need an extra £1m in each of the PES years to cover the costs of necessary work.

I understand Leon Brittan pointed out in last year's bilateral that there was no provision in the Department's budget for further expenditure on the Columbus project. That remains the position and collective decisions will be required on the British National Space Centre's Plan, to be submitted in the Summer, which will include the results of the Columbus project definition phase. The same is true of launch aid. We have indicated clearly to British Aerospace (and to Rolls Royce) how difficult it will be for the Department to provide any launch aid for Airbus developments, and we have urged the companies to exploit private sector means of

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financing such developments. No provision exists in our present budget for support of this kind.

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

A handwritten signature consisting of a large, stylized 'P' followed by 'aul' in a cursive script.

PAUL CHANNON

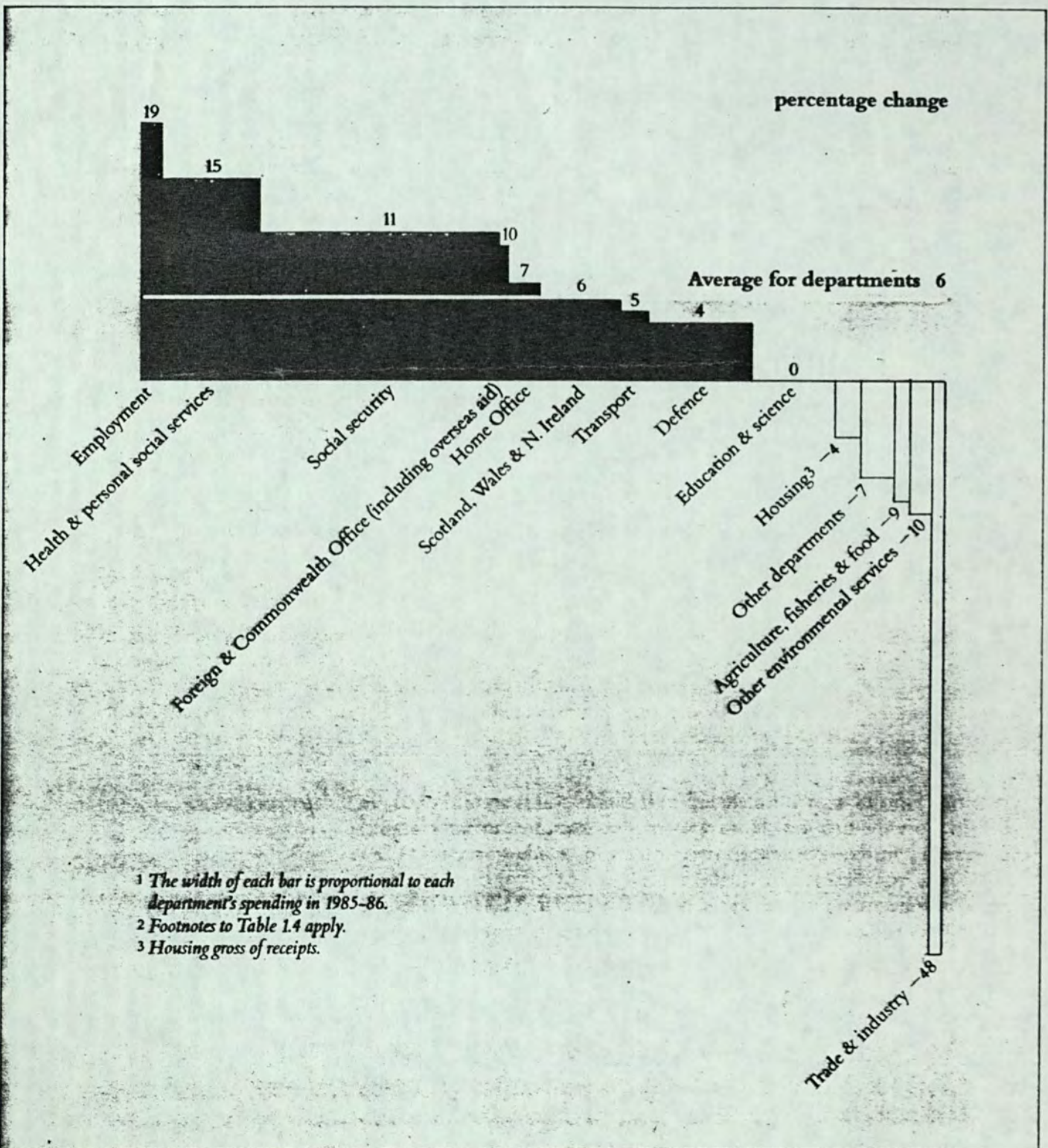
A handwritten signature consisting of a large, stylized 'P' followed by 'aul' in a cursive script.

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Chart 1.7 Percentage changes in departments' cash spending between 1985-86 and 1988-89<sup>1,2</sup>

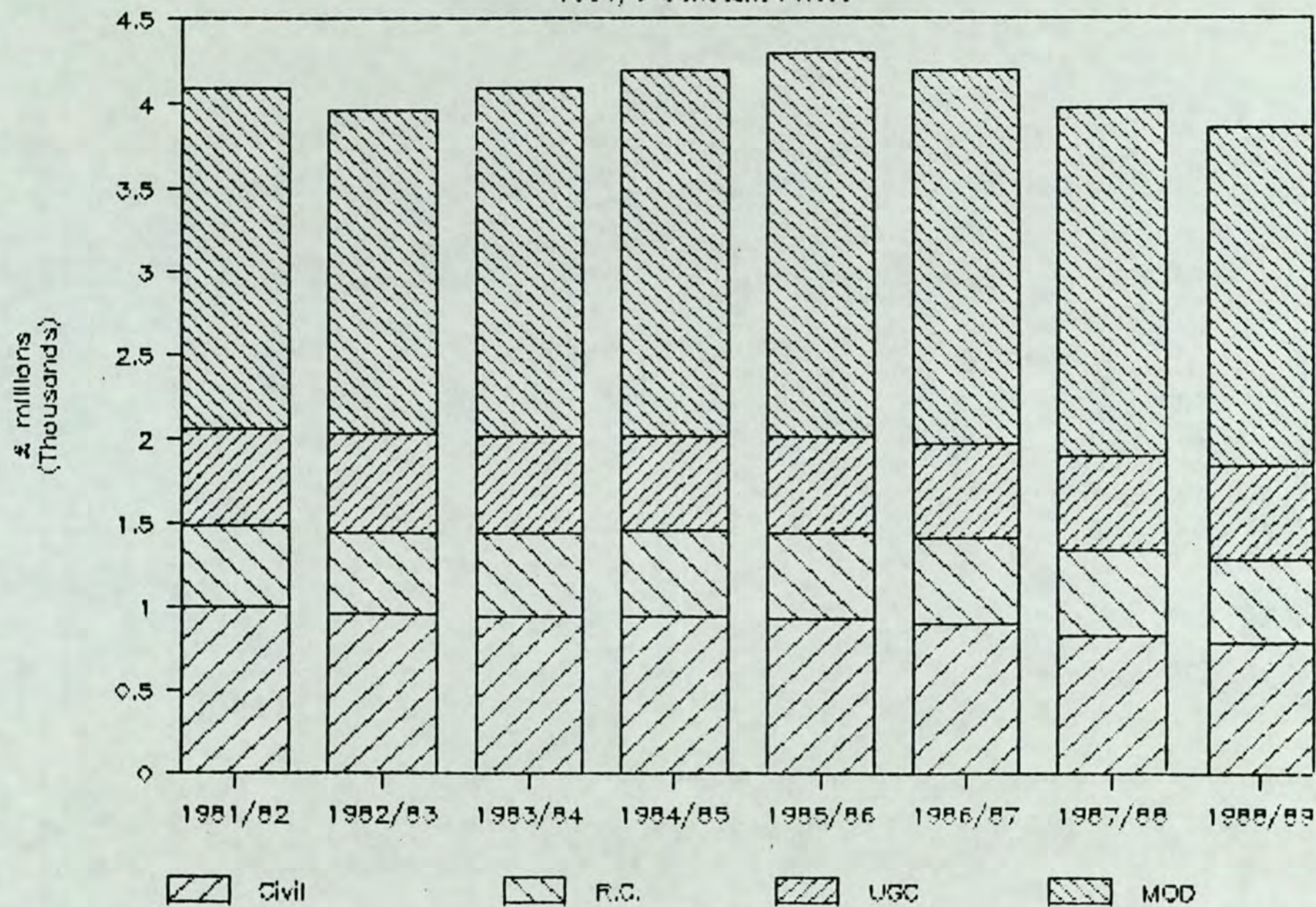




# Total R&D Expenditure

Chart 1

1984/5 Constant Prices











Cabinet Office

MANAGEMENT AND PERSONNEL OFFICE

*ms*  
From the Minister of State  
Privy Council Office  
The Rt. Hon. Richard Luce MP

Great George Street  
London SW1P 3AL  
Telephone 01-233 8610

The Rt Hon John MacGregor OBE MP  
Chief Secretary to the Treasury  
Treasury Chambers  
Parliament Street  
LONDON SW1P 3AG

1. *SW*  
2. *NBPN*  
2 June 1986

*Dear John*  
**1986 PUBLIC EXPENDITURE SURVEY (PES): CLASS XX, VOTE 1 (CENTRAL  
MANAGEMENT OF THE CIVIL SERVICE, ETC - MANAGEMENT AND PERSONNEL  
OFFICE (CABINET OFFICE))**

I am writing to let you have my proposals for additional resources for the Management and Personnel Office (MPO) in the period covered by the 1986 Survey. We require net additional resources of £1,029,000 in 1987-88, £956,000 in 1988-89 and £1,697,000 in 1989-90. Included in the bid are additional gross running costs of £564,000 in 1987-88, £551,000 in 1988-89 and £568,000 in 1989-90 and an increase of 9 in the MPO's manpower ceiling for each of the three PES years.

I would like to preface my detailed proposals with one or two general comments. We have once again taken the opportunity in the MPO to involve our senior managers throughout the PES process. They have been encouraged to re-order their own priorities as far as possible to meet new pressures for higher spending. My Accounting Officer and I have also taken the opportunity to re-order priorities across the MPO as a whole. In particular, we have been able to divert some additional resource to the Civil Service Commission to enable it to cope with a significant anticipated increase in the volume of its business. You will recall that we corresponded earlier this year about the problems being experienced by the Civil Service Commission in having to meet for the first time VAT payments on its press advertising.



My proposals for extra gross running costs are additional to the adjustment to the MPO's running costs targets needed to reflect your approval of a revised limit for 1986-87. I would also be grateful if you could now reconsider the case for excluding the Civil Service College from gross running costs control. We raised that issue at official level in October 1985 in anticipation of the College's move to full repayment with effect from 1 April 1986. We were told that gross running costs control had to apply for the 1986-87 financial year and that the Treasury would reconsider the general question in the context of the 1986 Survey.

I now set out my proposals for net additional resources in a broad order of priority.

**(1) Civil Service College: Accommodation Enhancement at Sunningdale.**

The Civil Service College, as part of its business strategy to meet full repayment, is planning to provide its 250 bedrooms at Sunningdale Park with en suite bathroom facilities over a 7 year period. The plan is to build a new residential block of 84 bedrooms in the 1988-89 and 1989-90 financial years, followed by conversion of the existing accommodation over the following 5 years. The overall cost of the project at 1985-86 prices has been estimated at £4.05 million. The project shows a positive Net Present Value (NPV) being reached by Year 15 and a cumulative positive NPV of £916,000 at 1985-86 prices by Year 20.

We need your agreement to provide additional funding for the entire project. In the context of the 1986 Survey, we require:

	1987-88	1988-89	£'000 1989-90
Total Cost	137	286	1,475
Offsetting savings	-	-	375
<b>TOTAL</b>	<b>137</b>	<b>286</b>	<b>1,100</b>

The proposal does not affect gross running costs during the 1986 PES period. The 1989-90 figure is a net figure - the full capital cost in that year will be offset by additional College earnings to be secured via a 5% increase in charges. Your officials have already accepted in principle the financial case for the project, including an investment appraisal. We shall be submitting a revised investment appraisal at official level to take account of the recent decision that departments should pay for the Property Services Agency's own resource costs on such projects with effect from 1 April 1987.

**(2) Civil Service Commission**

New Telephone Exchange. Our 1985 PES bid included a sum of £158,000 for the purchase in 1987-88 of a new telephone exchange at Alencon Link in Basingstoke. The bid was supported by an



investment appraisal which showed a positive NPV of nearly £200,000 over a 10-year period. Nevertheless, your predecessor was unable to grant us the extra funds for the purchase. Consequently, we sought the agreement of Treasury officials to a deferred purchase arrangement that we would have been able to finance from our own resources. This alternative approach was supported by a further investment appraisal which showed a positive NPV of about £145,000 over a 10 year period. Your officials refused to agree to a deferred purchase arrangement but agreed in principle to an outright purchase. I now have no alternative but to re-instate the PES bid for 1987-88. The cost of the new telephone exchange has risen to £206,000, but we have assumed offsetting savings of £21,000 in the first year since we shall no longer have to pay rental for the existing exchange. If you are unable to accept the bid, we shall have to persevere with the existing exchange and forgo the potential savings and benefits.

Schools Liaison Work. We need additional resources to implement a recent decision by Permanent Secretaries that the Civil Service Commission should step-up its schools liaison activities. We require £87,000 in 1987-88, £63,000 in 1988-89 and £64,000 in 1989-90 and 4 additional posts throughout the PES period. If you are unable to agree the proposal, we shall have to ask Permanent Secretaries to reconsider the position. We could only implement the initiative at the expense of a further erosion in the standard of service provided to departments by the Civil Service Commission.

In summary, the proposals for the Civil Service Commission are as follows:

	1987-88	1988-89	£'000 1989-90
New Telephone Exchange	206	-	-
Schools Liaison Work	87	63	64
	---	--	--
	293	63	64
Offsetting Savings	21	-	-
	---	--	--
<b>TOTAL</b>	<b>272</b>	<b>63</b>	<b>64</b>

Our gross running costs targets will need to be increased by £46,000 in 1987-88, £47,000 in 1988-89 and £48,000 in 1989-90. We shall also require an increase of 4 in our manpower ceiling throughout the PES period.

**(3) Accommodation: Richmond Terrace and 85 Whitehall/54 Parliament Street.**

Sir Robert Armstrong wrote to the Property Services Agency in November 1984 about the difficulties being experienced in accommodating all the staff paid for from the MPO Vote in our



Our gross running costs targets will need to be increased by £70,000 in 1987-88, £45,000 in 1988-89 and £48,000 in 1989-90. We cannot finance the project from within our existing resources, nor can we identify any offsetting savings at this stage. If you reject the proposal, it will mean that the printing costs that we hope to transfer to "sponsoring" departments with effect from 1 April 1987 will be significantly higher than they might otherwise be. My officials are providing yours with a detailed estimate of the cost of the new system and they will follow-up with a full investment appraisal at a later stage.

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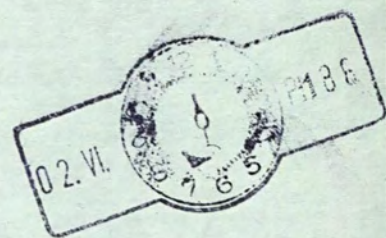
The value for money that we expect to receive from all the above proposals will be carefully assessed and monitored via our Top Management System and budgetary processes. In common with other departments, we shall be putting a considerable amount of effort this year into improving our techniques for quantifying output and measuring performance.

I am copying this letter to the Prime Minister, the Lord President of the Council, Sir George Young and Sir Robert Armstrong.

*W*  
*hul*

RICHARD LUCE







cebg



Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY  
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2 June 1986

The Rt Hon John MacGregor OBE MP  
Chief Secretary to the Treasury  
Parliament Street  
LONDON  
SW1P 3AG

NBN

*Dear John,*

**ECGD: 1986 PUBLIC EXPENDITURE SURVEY**

1. In accordance with the agreed guidelines for the 1986 Public Expenditure Survey, I am writing to seek your agreement to an additional bid in respect of ECGD's Cost Escalation Scheme but also, and more importantly, to the creation of a new public expenditure programme for the Tender to Contract (TTC) scheme.

2. There may also be a need for us to consider an increase in ECGD's running costs but I should prefer to delay my approach to you on this until I have had an opportunity to consider the Department's 1986 Business Plan which is on the point of completion. I shall, therefore, write to you again as soon as Alan Clark and I have had a chance to see and approve the Plan.

**COST ESCALATION SCHEME**

3. Purely as a result of technical changes relating to the value and timing of payments under existing commitments - the scheme having been discontinued from 1 April 1984 - there is a need for an additional £614,000 in 1987/88. The figures are as follows:-

DW1BKF

**1786**  
1986  
BOARD OF TRADE  
BICENTENARY





£ 000s

	<u>1987/8</u>	<u>1988/9</u>	<u>1989/90</u>
Baseline	133	1929	1978
Reduced Requirements	-	1875	1614
Additional Bids	<u>614</u>	<u>-</u>	<u>-</u>
New Baseline Proposed	747	54	364

I hope you will agree that the additional bid is both uncontroversial and unavoidable. ECGD will be writing at official level to confirm its reduced requirements under other existing public expenditure programmes.

#### **TENDER TO CONTRACT SCHEME**

4. I propose a new TTC public expenditure programme with the following provision:

<u>1987/8</u>	<u>1988/9</u>	<u>1989/90</u>
£2m	£2m	£2m

5. The TTC scheme has been operated since 1977, as one of ECGD's trading activities. It provides exporters tendering in foreign currencies for major export contracts with protection against exchange rate movements which occur in the period between submission of tender and award of contract. As such, it provides a valuable form of support for major UK exporters bidding against overseas competition for high value projects. There is no effective commercial alternative to the official scheme at present, although the market is developing.

6. ECGD has lost £67m (£100m if interest and administrative costs are included) on a scheme which it took on in 1977 as a trading activity only with reluctance. The risks are unpredictable and have proved unmanageable, and the TTC facility is, therefore, out of keeping with the Department's other trading activities which encompass its normal insurance business. Although experience has improved since December 1984 when modifications to cover were introduced, the risks remain capricious and no modifications - either those introduced earlier or any which might result from the review now under way - will alter this fact.





7. There has been a measure of agreement between our Departments in the past that TTC/FES is not an appropriate trading activity for ECGD. I think it unlikely that the present review will conclude that the facility should be discontinued in the current state of development of the commercial market and without it, capital goods exporters' competitiveness could be seriously affected. I am satisfied, therefore, that the only practicable alternative is to transfer accountability for the scheme to a new public expenditure programme; hence my modest proposals.

8. I should stress that, in taking ECGD's public expenditure programmes as a whole, the provision which I have requested is more than compensated for by reduced requirements elsewhere, particularly on the interest support programme where savings of £16m in 1987/88, £8m in 1988/89 and £66m in 1989/90 are envisaged. This offers us the opportunity of removing TTC from ECGD's Trading Account where its cumulative loss is distorting ECGD's financial outturn and undermining the achievement of its financial objective.


9. I am copying this letter to the Prime Minister.

PAUL CHANNON







 PART 34 ends:-

HMT to DN 30/5

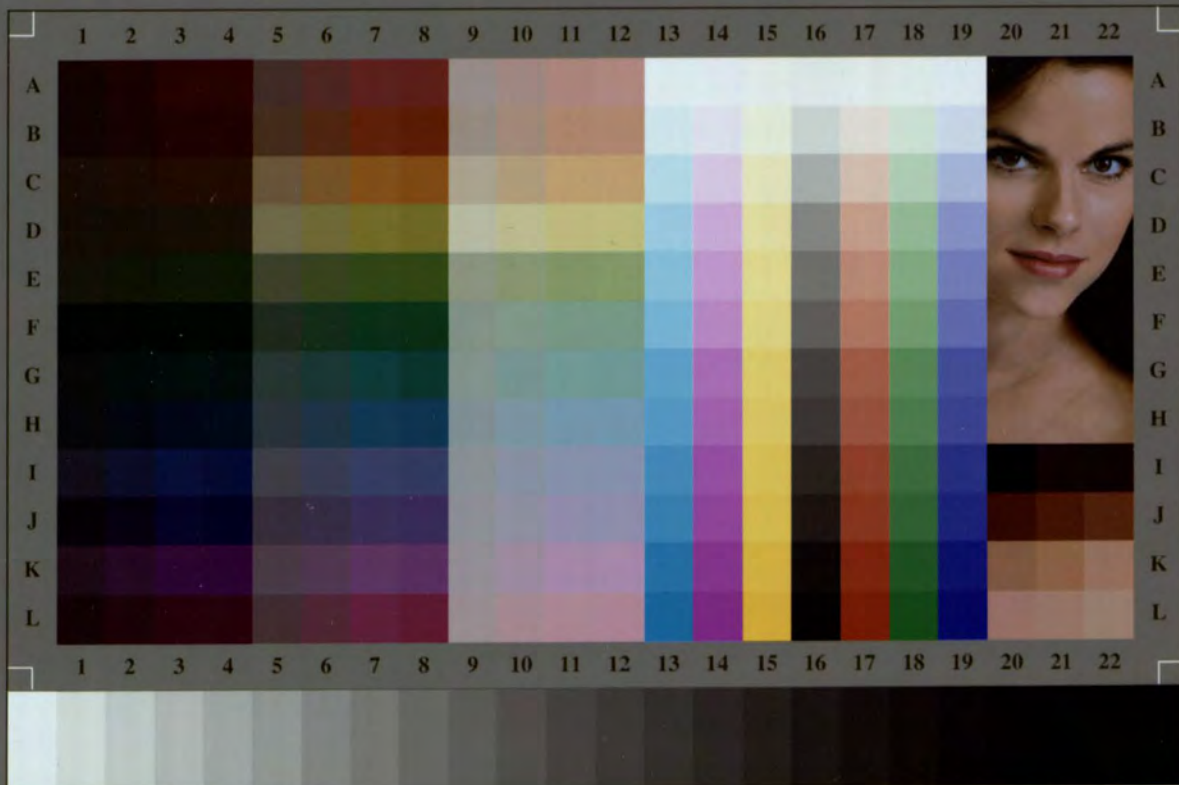
PART 35 begins:-

DN to PM. 3/6



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