

PREM 19/2104

PART 37

SECRET

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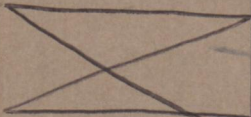
Public Expenditure and Cash Limits

ECONOMIC POLICY

(In folder attached: 1987 Departmental Bids to PESC)

Part 1: May 1979.

Part 37: February 1987.

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
5.2.87		31.7.87					
6.2.87							
9.2.87							
12.2.87		PACT ENDS					
17.2.87							
19.2.87							
23.2.87							
19.3.87							
23.3.87							
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14.4.87							
7.5.87							
8.5.87							
18.5.87							
17.6.87							
18.6.87							
8.7.87							
13.7.87							
14.7.87							
16.7.87							
22.7.87							

PREM 19/2104

PART 37 ends:-

DRW TO HMT 31.7.V7

PART 38 begins:-

SS/ENG TO CST 4.8.V7

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EL3CJT



bc BG.

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

31 July 1987

A NEW PLANNING TOTAL

The Prime Minister has seen the Chancellor's minute of 30 July, and paper, which put forward the case for a new planning total which would concentrate on the expenditure for which Central Government is directly responsible.

The Prime Minister wishes to discuss this proposal with the Chancellor in September and in the meantime she has asked that knowledge of it should not go outside the Treasury. She is herself very dubious about it, fearing that it would be taken as a signal that the Government were giving up the battle to control local authority expenditure.

DAVID NORGROVE

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

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Ref. A087/2202

PRIME MINISTER

Economic Prospects and 1987 Public Expenditure Survey
(C(87) 13 and 14)

CONCLUSIONS

No conclusions need to be reached on the Chancellor's paper, (C(87) 13). The conclusions put forward by the Chief Secretary, which you will want the Cabinet to endorse, are in paragraph 12 of his paper, (C(87) 14).

Public Spending and National Income

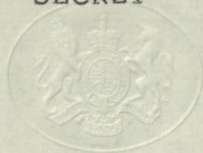
2. The figures in last year's White Paper are as follows:

	£ million		
	Cash	In real terms (1985-86 base year)	As percentage of GDP
1986-87	140.4	136.5	43.25
1987-88	148.6	139.3	42.75
1988-89	154.2	139.7	41.75
1989-90	161.5	142.1	41.25

The trend was therefore for an increase in public expenditure in real terms, but a fall as a percentage of GDP.

3. The Chief Secretary now suggests that:

- The Government should reaffirm the Manifesto policy of ensuring that public expenditure takes a steadily smaller share of national income; and



- the level of public expenditure should be held as close as possible to the existing planning totals.

4. There are two important points about his formulation. First, it does not, as in previous years, propose the target of keeping within the existing planning totals. The Treasury believe that such a target would not be realistic. But spending Ministers and then the outside world will at once notice the change (there has already been press comment), and its presentation will require great care.

5. Secondly, the Chief Secretary's formula, by giving the planned reduction as a share of GDP as a target, would appear to reaffirm last year's figures by a different route. But this is not so. The forecast of GDP growth has increased since last year and therefore the fall in expenditure as a percentage of GDP shown in last year's plans would now be consistent with higher planning totals. They could be higher by £2 billion or more. Other Ministers may not be able to calculate the exact figure but will probably see the general point. Indeed, the Chancellor's own paper says (paragraph 9) that growth for 1987 is likely to be closer to 4 per cent than the 3 per cent predicted at Budget time.

6. The Chief Secretary intends that in calculating public expenditure as a proportion of GDP privatisation receipts should be ignored. Since they are treated as a deduction from public expenditure an increase in them would otherwise justify raising expenditure. The Chancellor or Chief Secretary will probably mention this.

7. Generally you may want to avoid much discussion of the targets. It is only too likely to reveal differences of approach and the scope for an increase in expenditure.

Effect on Bids

8. The Chief Secretary says that to secure the policy objective already described bids will have to be substantially cut back and difficult decisions faced in a number of areas.

9. The Chief Secretary's minute of 17 July to you, copied to other members of the Cabinet, gave a summary of the bids from the main Departments. The biggest were:

	£ million		
	1988-89	1989-90	1990-91
Defence	551	815	954
Overseas Aid	83	158	239
DTI	254	327	266
Employment	207	237	235
Housing	395	562	689
Other Environmental	134	148	144
Home Office	102	155	230
Education	558	688	783
Health	956	1384	2196
Social Security	1201	1545	2996

10. The total bids for 1988-89, allowing for territories, nationalised industries and local authorities amount to more than £7 billion, but this figure cannot easily be deduced from the papers and, especially given the risk of leaks, you may not want to reveal it.

11. The Chief Secretary will mention the main areas where he believes savings must be sought, in particular:

- policy changes on social security;

- savings from the employment programme as unemployment falls;
- re-examination of regional policy, to make it more selective;
- re-examination of territorial expenditure;
- scope for more transfers to private sector;
- scaling down of defence, health and education.

12. The risk of this at this stage is that it may provoke the Ministers concerned to defend their corners. You may therefore want to aim for general endorsement of the Chief Secretary's approach, but to avoid any lengthy discussion now on individual programmes which might prejudice the bilaterals and subsequent negotiations.

Running Costs

13. On running costs the Chief Secretary proposes:

- the general target that their share of public expenditure should not grow - implying an increase of 1 per cent a year in real terms;
- that Departments should propose 3 year management plans, for discussion in the bilaterals.

14. Some spending Ministers may argue that this is unrealistic. As the Chief Secretary says, it will mean scaling down the running cost bids for 1988-89 by more than half and looking for efficiency gains of 1.5 per cent a year when, it will be alleged, the scope for them has been exhausted. Again, you may wish to ensure that the discussion gives the Chief Secretary maximum flexibility for the bilaterals.

Nationalised Industries and Local Authorities

15. The Chief Secretary recommends that the external finance limits of the nationalised industries, except electricity, should be held to baseline and possibly below. This means rejecting bids totalling £0.9 billion in the first year. Again, sponsoring Ministers may argue that this is unrealistic but you may want to strengthen the Chief Secretary's hand in the bilaterals by endorsing his general approach.

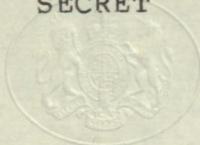
16. E(LA) under the Lord President has agreed on public expenditure and grants for local authorities for 1988-89. There seems no need for further discussion of this, although the Lord President can speak to it if necessary.

Future Discussions

17. The Chief Secretary recommends that he should now conduct bilaterals with his colleagues. This is of course the usual procedure. They should be complete by early October. It is not yet clear whether another Cabinet discussion will then be desirable, before outstanding programmes are referred to a Star Chamber. In case it is not, it would be useful, as last year, to have formal agreement now that a Star Chamber could be set up if necessary. You could therefore say now that you hoped that the Chief Secretary would be able to reach agreement with his colleagues on the basis proposed but that if this proved impossible you would at the appropriate time establish a small group under the Lord President of the Council to consider outstanding issues and make recommendations to the Cabinet.

Handling the Press

18. The press will certainly ask questions about the outcome of the Cabinet and it is usual to agree a form of words which your Press Office could use in briefing them after Cabinet. The



Treasury have suggested the following words which, if you agree, you could read out to Cabinet:

"The Cabinet had its usual July discussion of public expenditure today. It reaffirmed the policy that public expenditure should continue to take a declining share of national income, as set out in the last Public Expenditure White Paper. Within that constraint, the Chief Secretary will hold bilateral discussions in the autumn. In the light of these, the Government will review both the individual spending programmes and the planned totals for spending and will, as usual, announce decisions in the Autumn Statement in November."

You might also emphasise that other members of the Cabinet should adhere to this line, that bilaterals should be carried out in confidence, and that the media should be given no ground on which to base speculative stories of Ministerial disagreements.

HANDLING

19. 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 with a more detailed account of his proposals on public expenditure. All members of the Cabinet may wish to contribute to the subsequent discussion.

REA

ROBERT ARMSTRONG

22 July 1987



Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

22 July 1987

David Norgrove Esq
10 Downing Street
LONDON
SW1

Dear David

PUBLIC EXPENDITURE CABINET: LINE TO TAKE

The Chancellor and the Chief Secretary have been giving some thought to what might be said after the Public Expenditure Cabinet. They suggest the following:-

The Cabinet had its usual July discussion of public expenditure today. It reaffirmed the policy that public expenditure should continue to take a declining share of national income, as set out in the last Public Expenditure White Paper. Within that constraint, the Chief Secretary will hold bilateral discussions in the Autumn. In the light of these, the Government will review both the individual spending programmes and the planned totals for spending, and will, as usual, announce its decisions in the Autumn Statement in November.

The Chancellor would be grateful to know if the Prime Minister is content.

I am copying this letter to Bernard Ingham.

*Yours
Alec*

A C S ALLAN
Principal Private Secretary

QUESTIONS

1. The Manifesto said: "Our aim is to ensure that public expenditure takes a steadily smaller share of our national income". Your statement today reaffirms that policy. It makes no mention of planning totals. Are you still seeking to achieve those planning totals - £154.2bn (1988-89); £161.5bn (1989-90)?
2. Is this not the first time you have not specifically set as the objective for the autumn round the containment of spending within those totals?
3. Does the failure this time to use those planning totals as the basis for the autumnal operation mean that you have abandoned them at the outset of the exercise?
4. If so, why have you abandoned them? Is it because they were set unrealistically low? Or that next year's contingency is unrealistically tight already? Or that you feel that the purse strings can be loosened a bit as we enter the seventh successive year of economic growth?
5. If the last, how do you propose to continue to curb the appetite of wage negotiators?
6. How much are bids over the top? Where are the pressure points - Defence, Health, Social Security, Housing, Education, Local Government, Inner Cities?
7. || If you are not to seek to adhere to planning totals, what || levels of expenditure do you have in mind? ||
8. How are you to exercise discipline, and curb demands, if you don't have cash totals to aim for?
9. || Isn't it a fact that since no one knows what national income || will be in 1988-89 et seq you are swapping a corset for || stretch trousers to accommodate elasticity? ||
10. Is it not a fact that the projected national income includes an allowance for inflation? If so, are you not automatically indexing expenditure before you start to curb demand, and thereby further weakening the control mechanism?
11. Will there be any need for a Star Chamber in view of this relaxation?

12. What effect will all this uncertainty about the future course of expenditure have on confidence? Isn't this the first major economic U-turn of the Prime Minister's Administration?
13. Are any moves to be made to try to tighten up on the efficiency with which Government spends money to try to sugar the pill?
14. What will happen if, as some commentators fear, the economy fails to grow, or fails to grow as rapidly as you forecast? Is the Government then prepared to raise taxes?
15. What, if any, are the prospects for tax cuts in the Spring in view of this manifest setback over spending?
16. Are we not beginning to see the first inklings of the trouble ahead which was forecast by the Opposition during the election - starting with spending out of control, overheating and rapidly deteriorating trade balance?
17. Alternatively, why should we remain optimistic about the future stewardship of the nation's finances and taxes over the coming years?
18. How do you characterise the bilaterals to come in September/October - the toughest yet? Or what?

PRIME MINISTER

PUBLIC EXPENDITURE

Papers below are as follows:

- A - possible opening speaking note
- B - line to take for Bernard after Cabinet
- C - a note by Bernard on presentation

I suggest that at the end of Cabinet you should tell Cabinet your intention to set up the Star Chamber in the Autumn and then read out the words suggested by the Treasury. As Robert Armstrong says, you might also emphasise that other members of the Cabinet should adhere to this line, that bilaterals should be carried out in confidence and that the media should be given no grounds on which to base speculative stories on ministerial disagreements.

Bernard is concerned, as I am, about the effects of not making an announcement that the Government will stick to the existing planning totals. The alternative, which we have discussed with the Treasury, is to say that the Cabinet made no change to the planning totals. I suggest that you should not say this to Cabinet - to do so could open up undesirable discussion. But, subject to the Chancellor's agreement, it would be helpful for Bernard to say this.

DRW

DAVID NORGROVE

22 July 1987

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A

SPEAKING NOTE FOR THE PRIME MINISTER

The Chancellor's paper provides an encouraging picture of the economy, but it is important to draw correct messages from this and to avoid complacency.

i. Although public spending has been coming down as a proportion of national income, its share this year (around 43 per cent) is likely to be about the same level as we inherited in 1978-79.

ii. Although taxes have been cut in each of the last five Budgets, the burden of non-oil taxes is still significantly higher than it was in 1978-79.

iii. The strength of the economy has been built on sound finance and the restraint of public spending. We have achieved a consistency of policy which has given confidence, which in turn has transformed the investment climate in this country.

iv. Although inflation is low by historical standards, at 4 per cent it is still above the average for our major competitors.

2. Looking to the future, we must set spending plans which sustain this confidence. The Chancellor and Chief Secretary seek a continuation of the Manifesto policy of reducing public spending as a proportion of national income. And by this they rightly mean not just any decline, however small, but one at least as fast as we set ourselves in the last White Paper. This is essential if we are to achieve another of our Manifesto pledges - a further reduction of taxation.

3. Restraint of public spending is also the best way to build up our public services. For it is the resulting strength of the economy which will provide the resources we need to carry out our Manifesto programme.

4. Although growth this year looks like being faster than the recent trend, we must not fall into the trap of previous governments of basing our spending plans on over-optimistic projections. We must plan on a cautious assessment of what can be afforded.

5. It is clear that the bids submitted are inconsistent with the policy we are following. The bids will have to be substantially cut back or policy savings found to offset them. As the Chief Secretary's paper points out, this may involve difficult choices. But now, at the start of a Parliament, is the time to face up to them. Across the whole range of spending, I hope there will be a thorough review of the options, not just within bids but within baselines as well.

6. Meanwhile, the pursuit of better value for money must continue. I welcome the Chief Secretary's proposal to establish medium-term efficiency plans for departmental running costs. We must also seek greater effectiveness for departmental programmes.

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CCBG



Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

David Norgrove
No.10 Downing Street
LONDON SW1

22 July 1987

Dear David

BRIEFING FOR PUBLIC EXPENDITURE CABINET

... As agreed, I attach a speaking note for the Prime Minister's use at tomorrow's Cabinet. I understand that the Cabinet Office brief will cover the point that the Prime Minister's summing-up should (as last year) refer to the plan to set up Star Chamber if agreement cannot be reached at the bilateral.

*Yours
Alex*

A C S ALLAN
Principal Private Secretary



file R/S
LOGAL E

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

20 July 1987

PAPERS ON PUBLIC EXPENDITURE: CABINET 23 JULY

The Prime Minister has seen the draft papers by the Chancellor and the Chief Secretary for Cabinet next Thursday attached to your letter to me of 17 July.

The Prime Minister would be content for the Chief Secretary, in discussion, to list the areas where difficult decisions will be needed (paragraph 7 of his paper), but she would not wish this to be circulated as part of the paper.

She is otherwise content for the papers to be circulated tomorrow, Tuesday.

DAVID NORGROVE

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

SECRET

PRIME MINISTER

PAPERS FOR PUBLIC EXPENDITURE CABINET

Here are draft papers by the Chancellor and Chief Secretary for discussion at Thursday's Public Expenditure Cabinet.

They are very much on the lines described to you by the Chancellor. There is one point in particular which you will wish to consider. This is paragraph 7 of the Chief Secretary's paper, which lists a series of areas to which the Chief Secretary will give particular attention in his bilaterals. In effect, this tells colleagues the spending programmes the Treasury will be gunning for.

This will be very sensitive and, at an earlier stage, I discussed with the Treasury whether it was right to include it. They argue that it is needed to give the paper "teeth", particularly in view of the fact that colleagues are not being asked to endorse unchanged planning totals. On balance this seems right, but you will want to come to a view and also to consider whether there are any particular items mentioned on the list which you would prefer not to appear, for example, territorial expenditure.

Content with paragraph 7?

*No - it will be like the CPS
papers - all on gov.*

Content that the papers should be circulated on Tuesday?

*without para 7. The Chancellor
could deal with it orally.*

JW

D.R.N

17 July 1987

PMMADA

CCB/Up

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FROM: CHIEF SECRETARY

DATE: 17th July 1987

For Tuesday's
Cabinet folder.

OGW
20/7.

PRIME MINISTER

1987 PUBLIC EXPENDITURE SURVEY: ADDITIONAL BIDS

I will be putting proposals on our objectives in this year's Survey to Cabinet shortly. As background for our discussion ... I attach summaries of the bids for additional resources for the main departments that colleagues have put to me.

2 The proposals for each department are summarised in the annexes. As in earlier years, proposals for the level of local authority relevant expenditure and nationalised industries external finance are being dealt with separately.

3 As you know departments were asked to submit to the Treasury material on the output and value for money from their existing programmes before the election. This has been the basis for discussions between officials and, in general, useful progress has been made since last year. Colleagues were also asked to support any additional bids by specifying the indicators and targets of output and performance which would be used to evaluate the use of the extra resources. I am grateful to colleagues who have done so, but the response has been patchy and many of the bids I have received have not been supported by a clear statement of objectives or criteria for measuring success and value for money. I will be taking this up bilaterally with colleagues in the coming months.

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

John H.

JOHN MAJOR

MINISTRY OF DEFENCE

£ million

	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>
Survey Baseline	18,980	19,464	19,892

PROPOSED ADDITIONS

(i) Lynx helicopters	21	35	14
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Additions agreed as part of package of additional orders for Westland helicopters.

(ii) Programme addition	300	450	600
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In addition the Secretary of State has requested a further adjustment in the autumn, in the light of the latest inflation assumptions, to cover the impact of any change from the inflation assumptions applying when the future provision for defence was agreed in the 1986 Public Expenditure Survey. On current inflation assumptions such an adjustment would cost:-

	230	330	340
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PROPOSED NET CHANGE IN PROVISION

	+551	+815	+954
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RUNNING COSTS

The Secretary of State has also requested the following increase in his department's running costs provision:-

	198	261	296
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This would be by a switch within the defence budget totals agreed in the 1987 Public Expenditure Survey: the sums are not additional to the proposals above.

CIVILIAN MANPOWER	1.4.87	1.4.88	1.4.89	1.4.90
Proposed	165,000	148,000	147,000	147,000
Change from present plans	-	-	-	-

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FOREIGN AND COMMONWEALTH OFFICE: DIPLOMATIC, INFORMATION AND CULTURE

£ million

	1988-89	1989-90	1990-91
Survey Baseline	730.0	747.0	765.0

PROPOSED ADDITIONS

(i) Refurbishment of the Old Public Offices and running costs consequences	5.9	8.4	7.7
(of which running costs	1.3	3.3	3.7)

resulting from transfer of responsibility for the project from PSA and Cabinet decision to accelerate refurbishment: Targets: savings of 20 staff and overall savings of running costs £350,000 per year by 1994. Accelerate programme by 2¼ years.

(ii) BBC External Services (current expenditure only)	4.5	8.5	12.5
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bid to maintain the existing level of services: funding fixed for 3 year period this is second triennium. Targets: maintain agreed broadcast hours

(iii) Follow up to the Prime Minister's visit to Moscow	0.6	0.9	0.9
(of which running costs	0.2	0.2	0.2)

bid to take advantage of improved diplomatic climate following PM's visit in order to expose Russians to UK culture in particular and Western thinking in general. No targets.

(iv) Notional interest on capital raised from British Phosphate Commissioners Assets	0.8	0.8	0.8
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No targets

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		£ million		
		1988-89	1989-90	1990-91
(v) Asset recycling adjustment		0.6	0.5	-
(of which running costs		0.6	0.5	-)
bid arises from agreed arrangement to rationalise FCO's Overseas Estate. Target £4-£6 million per annum savings by 1995 in Overseas Estate running costs				
TOTAL		12.4	19.1	21.9
(of which running costs		2.1	4.0	3.9)
PROPOSED REDUCTIONS:				
(i) Overseas Price Movements		- 14.5	- 14.5	- 14.5
(of which running costs		- 9.1	- 9.1	- 9.1)
adjustment to take account of movements in sterling and overseas inflation (figures subject to revision in Autumn)				
(ii) Asset recycling adjustment		-	-	- 1.3
(of which running costs		-	-	- 1.3)
adjustment from agreed arrangement to rationalise FCO's Overseas Estate see bid (v)				
TOTAL		- 14.5	- 14.5	- 15.8
PROPOSED NET CHANGE IN PROVISION		- 2.1	+ 4.6	+ 6.1
(of which running costs		- 7.0	- 5.1	- 6.5)
MANPOWER	1.4.88	1.4.89	1.4.90	1.4.91
Proposed	8,222	8,222	8,222	8,222
change from present plans	-	-	-	-

FOREIGN AND COMMONWEALTH OFFICE: OVERSEAS AID

£ million

	1988/89	1989/90	1990/91
SURVEY BASELINE	1275	1315	1348
PROPOSED ADDITIONS			
1. Increase aid programme to restore previous cuts and reverse decline of aid as % of GNP.	75	150	230
Target: to increase aid share of GNP to 0.33% by 1990.			
2. Superannuation Vote.	6	6	6
(of which Running Costs	0	0	0)
To provide war service credit to members of the colonial service.			
Target: identification and payment to eligible pensioners.			
3. Aid Administration	1.8	2.1	2.6
(of which Running Costs	1.4	1.7	2.2)
Mainly information technology, support services, improvements in efficiency, and additions to cover cost of expanded aid programme.			
Casual staff for War Service credit	0.2	-	-
(of which Running Costs	0.2	-	-)
Targets: various			
TOTAL	83	158.1	238.6
PROPOSED REDUCTIONS	-	-	-
PROPOSED NET CHANGE IN PROVISION	83	158.1	238.6
(of which Running Costs	1.65	1.73	2.2)
MANPOWER	1.4.88	1.4.89	1.4.90
Proposed	1623	1623	1623
Changes from present plans	-	-	-

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IBAP AND OTHER CAP

	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>
Survey baseline	1782	1878	1925

PROPOSED ADDITIONS

(i) IBAP Market Support 28.2

Forecasting change to demand determined expenditure on market support. Takes account of rising yields in cereals production and assumes a 2 % per annum increase in CAP prices. No targets /performance measures.

(ii) Other market support 47.7 9.3 8.0

Forecasting change to demand determined expenditure on market support, by MAFF(including some expenditure in Wales), DAFS and DANI. Mainly cost of the scheme for the temporary suspension of milk quota (1988-89), and the increase in suckler cow premium announced on 12 May. No targets/performance measures.

(iii) IBAP administration agency
payments etc 2.1 2.4 2.2

Estimated cost of implementing the IPCS pay award for Civil service grades for fatstock officers at the Meat and Livestock Commission, plus additional computer hardware for IBAP. Target/performance measures not available.

(iv) IBAP administration
running costs 4.0 4.1 4.7

Estimated cost of staged pay award for restructuring of grades (AA, AO, and EO), and 4 % per annum growth in staff numbers, less

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staff savings from computerisation. Targets/ performance measures not available.

Total	53.7	15.7	43.1
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PROPOSED REDUCTIONS

(i) IBAP Market Support	-180.0	-95.0	
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Forecasting change to demand determined expenditure on market support, mainly arising from lower than expected cereals purchases from the 1986 harvest, lower forecasts of purchases of cereals, butter and beef. Targets/ performance measure: rates for cold storage to undercut inflation by 1% per annum, for dry storage by 2% per annum. Target occupancy for cereals stores -85%.

(ii) Other market support	-2.2	-3.6	-5.3
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Forecasting change to demand determined expenditure on the annual ewe premium in Scotland and Wales. Targets/performance measures not available.

(iii) ALURE	-3.1	-11.2	-19.0
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Estimated savings from the ALURE package announced in February. Targets/performance measures not available.

Total	-185.3	-109.8	-24.3
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PROPOSED NET CHANGE IN

PROVISION	-131.6	-94.0	+18.8
(of which running costs)	(4.0)	(4.1)	(4.7)

MANPOWER	1.4.88	1.4.89	1.4.90	1.4.91
Proposed	870	894	872	915
Change from present plans	86	158	151	194

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DOMESTIC AGRICULTURE, FISHERIES AND FOOD

		£ million		
		1988-89	1989-1990	1990-91
Survey baseline		747	749	768
Proposed Additions				
(i)	Demand determined (including EC funded)	9.0	9.4	4.3
Estimating changes in provision mainly for marketing and processing projects, fisheries projects and capital grants.				
(ii)	ALURE	10.8	11.8	13.3
Package of schemes (farm woodlands, a second tranche of ESA's and diversification) announced last February to encourage uses of land away from traditional agricultural production. Target-reductions in agricultural production and diversification of rural economy.				
(iii)	Running costs - MAFF	13.2	16.2	20.0
Provision to meet pay awards, accommodation costs, information technology and other running costs. Target - to maintain current policies.				
(iv)	External Research and Development	3.4	3.6	3.7
Additional provision to cover costs of pay awards. Target to maintain existing levels of R&D.				
(v)	Central Science Laboratory	0	8.0	8.0
Construction of new laboratory to replace existing buildings on four sites. Costs should be offset by sale of existing sites, but receipts would fall outside the Survey period. Target - increased efficiency and cost reductions.				
(vi)	Scottish Islands Agricultural Development Programme	4.4	3.6	1.2
Greater concentration in early years of resources already approved in 1986 for this five-year programme.				
(vii)	Scottish Advisory and Research Institutes	2.7	2.6	2.0
Additional provision to cover cost of pay awards and rationalisation of sites. Target - To deliver Government policies including securing income targets.				
(viii)	Fisheries protection	0	0	2.0
Replacement of DAFS inshore surveillance aircraft. Target - maintaining agreed fishery protection effort.				

()	Other	0.2	0.9	0.8
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Mainly provision for changes to marketing grants and grants to producer organisations.

	TOTAL:	43.9	56.0	55.3
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PROPOSED REDUCTIONS

(i)	Milk Outgoers	0	0	-3.5
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Reduction following termination of national milk outgoers scheme

(ii)	Demand determined	-6.0	-6.2	-8.8
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Estimating changes

(iii)	Other	-1.2	-0.3	-0.3
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Mainly small savings on fisheries support in Scotland.

	TOTAL:	7.2	6.5	12.6
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PROPOSED NET CHANGE IN PROVISION		36.7	49.5	42.7
(of which running costs		13.2	16.2	20.0)

MANPOWER	1.4.88	1.4.89	1.4.90	1.4.91
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Proposed	10860	10895	10916	10921
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Change from present plans	119	154	175	180
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FORESTRY COMMISSION

£ million

	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>
Survey baseline	54	55	56
PROPOSED ADDITIONS			
i. ALURE grant costs	4.5	7.0	7.2
Expenditure under existing planting grant schemes for increase in target for traditional forestry and provision for new farm woodland grants.			
ii. ALURE administration costs	0.6	0.7	0.7
Costs of administering additional forestry grants.			
iii. Land acquisition	0	1.5	1.5
Purchase of land required to meet target for Forestry Commission planting agreed in ALURE context.			
iv. Other	6.6	6.9	6.8
Increases in staff pension costs and operating expenditure.			
TOTAL	11.7	16.1	16.2
PROPOSED REDUCTIONS			
Receipts from sale of timber	- 4.8	- 4.7	- 5.3
TOTAL	- 4.8	- 4.7	- 5.3
PROPOSED NET CHANGE IN PROVISION	6.9	11.4	10.9

CONFIDENTIAL

DEPARTMENT OF TRADE AND INDUSTRY

	<u>1988-89</u>	<u>1989-90</u>	<u>£ million</u> <u>1990-91</u>
Survey Baseline	983	981	1017
PROPOSED ADDITIONS			
(i) Launch Aid	+ 107.0	+ 144.5	+ 81.0
Agreed net addition in respect of agreed launch aid for the Airbus A330.			
(ii) RDG/RSA Estimating increases	+ 60.1	+ 59.8	+ 60.5
Demand determined Estimating increases on regional assistance reflecting increased levels of investment.			
(iii) Launch Aid/ERGS shipbuilding etc.	+ 28.7	+ 18.1	+ 14.7
Demand determined estimating increases on launch aid, the exchange rate guarantee scheme and the Home Shipbuilding Credit Guarantee Scheme			
(iv) Inner Cities	+ 15.6	+ 20.1	+ 24.5
Various measures designed to deal with the problems of inner cities including additional funds for the City Action Teams and the Inner City Taskforces an increase in the grant to the EIEC and new RSA measures.			
(v) Business Improvement Scheme	+ 8.0	+ 21.0	+ 24.5
Expansion of BIS in assisted areas.			
(vi) Support for innovation (R and D)	+ 25.0	+ 50.0	+ 75.0
Increased support for industrial R and D including technology transfer and key technologies and EUREKA.			
Other proposed additions	+ 21.9	+ 27.1	+ 30.1
TOTAL	+ 266.3	+ 340.6	+ 310.3
PROPOSED REDUCTIONS			
(i) Home Shipbuilding Credit Guarantee Scheme	- 2.0	- 4.0	- 8.4
Estimating savings on demand determined scheme.			
(ii) Other savings - Includes BIS, standards and central and miscellaneous services.	- 10.5	- 9.8	- 35.6
TOTAL	- 12.5	- 13.8	- 44.0

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	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	
PROPOSED NET CHANGE IN PROVISION	+ 253.8	326.8	266.3	
(of which running costs	12.6	14.2	17.9)	
MANPOWER	1.4.88	1.4.89	1.4.90	1.4.91
Proposed	12,596	12,570	12,585	12,585
Change from present plans	+30	+45	+60	+60

EXPORT CREDITS GUARANTEE DEPARTMENT

	£ million		
	1988-89	1989-90	1990-91
Survey baseline	111	47	48

Proposed Additions

i. Interest support costs	15.2	83.4	77.8
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The demand-led increases reflect revised Treasury interest rate assumptions, amended forecasts of the levels of outstanding business and a reestimation of average fixed rates.

ii. Cost Escalation	0.4	0.1	0.5
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The demand-led increases are the result of technical changes relating to the value and timing of payments under existing commitments.

TOTAL	15.6	83.5	78.3
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Proposed Reductions

i. Tender to Contract facility	- 24.1	- 6.4	- 7.7
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The reductions reflect the latest information on the effects of rolling over forward exchange contracts and a reassessment of the outturn on existing commitments.

ii. Mixed Credit Matching Facility	- 0.1	- 0.4	- 0.7
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Progress made in improving international discipline in the use of mixed credits has led to a reduction in potential calls on this facility.

TOTAL	- 24.2	- 6.8	- 8.4
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<u>PROPOSED NET CHANGE IN PROVISION</u>	- 8.6	76.7	69.9
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<u>MANPOWER</u>	1.4.88	1.4.89	1.4.90	1.4.91
Proposed	1736	1721	1670	1670
Change from present plans	-	+ 50	+ 71	+ 71

CONFIDENTIAL

DEPARTMENT OF ENERGY

	£ million		
	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>
Survey Baseline	286	282	289

PROPOSED ADDITIONS

(1) <u>Payments to the UKAEA</u>	13.7	16.0	16.2
a) Increased work on decommissioning and radioactive waste management operations (DRAWMOPS);			
b) more fast reactor funding;			
c) higher contribution to JET.			

Target: (a) Initial operation of Dounreay, construction of storage and treatment facilities at Harwell, decommissioning of Windscale AGR.

(b) Optimise benefits from siting of European Demonstration Reprocessing plant at Dounreay;

(c) Extension of JET programme to 1992.

(II) <u>Non-Nuclear R&D</u>	2.9	5.3	7.2
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Oilfield delineation & safety & renewables

- (a) Mainly expansion of the windpower programme;
- (b) Increased expenditure on transfer of renewable technology to the market;
- (c) expansion of the biofuels programme

Target: (a) Wind power to commercial exploitation late 1990s;

(b) Overcome market barriers;

(c) Identify lower cost technology.

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(III) Energy Efficiency

<u>& Energy R&D</u>	2.6	4.2	4.7
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Contribution to DoE draughtproofing scheme for lower income households; maintain current level of spending on energy efficiency promotions and R&D.

Target: Expand support for energy efficiency demonstration projects; stimulate growth of local projects using MSC's community programme.

(IV) Other central and miscellaneous

<u>and support services</u>	1.0	0.9	0.9
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Increased international subscriptions; increased charges and increased security measures.

(V) Administrative expenditure 7.2 8.1 7.6

Mainly move of HQ premises to New Buckingham Court. (Target: Between April and June 1989).

Also extra 10 staff for electricity privatisation and effects of pay settlement.

TOTAL	27.3	34.6	36.5
PROPOSED REDUCTIONS			
(i) Demand determined	0.3	-	-
estimating change			
PROPOSED NET CHANGE IN PROVISION	27.0	34.6	36.5
(of which running costs	3.2	7.6	7.6)
MANPOWER 1.4.88	1.4.89	1.4.90	1.4.91
Proposed 1037	1045	1043	1043
Change from			
present plan -	10	10	10

Note: Further additions may be proposed following completion of the SoS/Energy's review of departmental programmes expected by the time of Ministerial bilaterals.

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DEPARTMENT OF EMPLOYMENT

	£ million		
	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>
Survey baseline	4,107	4,206	4,311
PROPOSED ADDITIONS			
(i) <u>28 January package</u> (agreed bid)	+157.4	+147.4	+151.2
(of which running costs	+ 30.0	30.0	30.8)
Effect in Survey years of January 1987 package of measures (extension of new JTS, Restart and EAS; guaranteed place on YTS for all unemployed 17 year old school leavers).			
(ii) <u>Withdrawal of SB from 16-17 year olds</u> (agreed bid)	+ 50.0	+ 90.0	+ 84.0
Extra costs of YTS and associated 'waiting allowance' (precise figures under discussion)			
(iii) <u>Tourism</u>	+ 5.0	+ 10.0	+ 15.0
Infrastructure projects and marketing.			
(iv) <u>Publicity</u>	+ 10.0	+ 10.0	+ 10.0
To provide in DE's baseline in future years for 'umbrella' publicity eg Action for Jobs campaign.			
(v) <u>Restart</u>	+ 8.7	+ 8.9	+ 9.2
Extra 500 Jobclubs, bringing total to 1,500 (provision for 1,300 in 1987-88).			
(vi) <u>DE/ACAS running costs</u>	+ 26.6	+ 28.5	+ 28.5
Mainly pay assumptions and UBS administration costs.			
(vii) <u>MSC running costs</u>	+ 15.2	+ 12.9	+ 12.5
Mainly pay assumptions, slippage on a major computer project and support services.			
(viii) <u>HSC/E running costs</u>	+ 7.7	+ 7.9	+ 8.1
Pay increases and manpower needs.			
(ix) <u>Other</u> (non running costs)	+ 21.9	+ 27.3	+ 39.4
TOTAL	+302.5	+342.9	+357.9

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PROPOSED REDUCTIONS

(i) <u>Job Release Scheme</u>		- 33.2	- 66.0	- 78.1
(of which running costs		- 0.1	- 0.2	- 0.2)
Closure of scheme to new entrants from 31.1.88.				
(ii) <u>Youth Training Scheme</u>		- 26.6	- 2.7	- 8.8
To reflect demographic and policy changes.				
(iii) <u>Community programme</u>		- 14.4	- 10.0	- 10.2
Revised assumptions				
(iv) <u>Redundancy Fund payments</u>		- 16.5	- 16.8	- 16.5
Estimating change				
(v) <u>Other</u>		- 4.4	- 10.0	- 9.1
(of which running costs		- 2.7	- 6.6	- 4.5)
Mainly HSC/E, skillcentres				
TOTAL		- 95.1	-105.5	-122.7
PROPOSED NET CHANGE IN PROVISION		+207.4*	+237.4*	+235.2*
(of which running costs		+ 76.7	+ 72.5	+ 75.2)
MANPOWER	1.4.88	1.4.89	1.4.90	1.4.91
Proposed	62,262	61,663	61,775	61,933
28 January package	+1,965	+1,965	+1,965	+1,965
Other changes from present plans	+1,113	+1,118	+ 722	+ 722
Total change proposed	+3,078	+3,083	+2,687	+2,687

* equals sum of agreed bids (proposed additions (i) and (ii) above).

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DEPARTMENT OF TRANSPORT

	£ million		
	1988-89	1989-90	1990-91
Survey Baseline	2166	2214	2264
PROPOSED ADDITIONS			
(i) National roads: new construction	0	9	12
To maintain roads programme at present level in real terms. Target: economic benefits of nearly £2 for every £1 spent.			
(ii) National roads: bridges	40	40	40
Start of 15 year programme of bridge strengthening and structural maintenance. Target: to complete all top priority works and make a start on others where delay would be costly.			
(iii) National roads: current maintenance	5	5	5
Increased expenditure on minor repairs, and routine and winter maintenance.			
(iv) Local authority capital	30	39	17
Provision for Manchester Light Rapid Transit system, expansion of Manchester and Luton airports, and local roads. Objective: to facilitate economically beneficial infrastructure investment.			
(v) Merchant Shipping	6.5	6.5	6.5
Payment of 50% of travel costs of relieving crews on ships away from UK for long periods. Objective: to persuade shipowners to retain UK flag and crews, or to retain crews under Isle of Man or Channel Island registry.			
(vi) Marine - helicopters and research	4.0	4.5	4.8
Provision of Search and Rescue (SAR) helicopters at Stornoway and Lee-on-Solent; further research on ferry safety. Objectives include SAR coverage for whole of UK.			
(vii) Research: inland transport	0.8	1.0	1.2
Increased research into road safety; work on transfer of technology to private sector, and maintenance of Department's general research capability at present levels (non-running costs element only).			

(viii) Running costs	9.3	10.3	12.2
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Increased workload from new initiatives including research; impact of pay increases

TOTAL	95.6	115.3	98.7
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PROPOSED REDUCTIONS

(i) Reduced road safety publicity and other minor savings	-1.2	-1.7	-2.3
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PROPOSED NET CHANGE IN PROVISION (of which running costs	94.4 9.3	113.6 10.3	96.4 12.2)
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MANPOWER	1.4.88	1.4.89	1.4.90	1.4.91
Proposed	12,457	12,462	12,474	12,490
Change from present plans	-	64	76	92

Note: excludes Driver Testing and Training organisation

CONFIDENTIAL

DEPARTMENT OF THE ENVIRONMENT - HOUSING

	1988-89	1989-90	£ million 1990-91
Survey Baseline	2,443	2,503	2,566
PROPOSED ADDITIONS			
i. Transfer to DHSS	10	55	75
Covers housing benefit costs of deregulation of rents for new private sector lettings. Target: to increase flexibility of housing market by encouraging private rented sector and ^{to} increase housing supply without public capital investment.			
ii. Housing Corporation new provision	50	100	120
Provision of additional new rented accommodation. Target: 7,000 new dwellings over three years with conventional funding, more if private finance element included.			
iii. Estate Action	100	100	100
Allows in-year allocations of spending power to targeted local authorities for renovation of housing stock. Target: improved housing conditions and diversification of tenure.			
iv. Local Authority renovation	190	100	15
Covers initial allocations of spending power for local authority renovation. Target: general improvement in local authority stock.			
v. Home improvement grants	50	40	40
Supports improvement of private sector housing stock. Target: encouraging owner-occupiers to maintain property in good repair.			
vi. Local authority authority receipts shortfall	0	151	286
Allows for reduced forecasts of receipts. Target: maintaining planned gross capital spending.			
vii. Housing Action Trusts	20	100	150
Provides for setting up of new public corporations to take ^{over} and improve local authority stock. Target: improved housing conditions and diversification of tenure.			
viii. Demand determined expenditure	0	0	3
Mainly forecast increased requirement for subsidies to housing associations, offset by reduced forecast for local authority subsidy. Target: meeting current expenditure commitments.			
TOTAL	420	646	789

PROPOSED REDUCTIONS

i.	Housing subsidies to local authorities	-25	-34	
ii.	Local authority new-provision for rent		-50	-100
	TOTAL	-25	-84	-100
	PROPOSED NET CHANGE IN PROVISION	395	562	689

Note: further additions may be proposed for a housing benefit transfer to DHSS to cover increases in local authority rents.

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DEPARTMENT OF THE ENVIRONMENT - OTHER ENVIRONMENTAL SERVICES

	1988-89	1989-90	1990-91
Survey Baseline	929	913	936
PROPOSED ADDITIONS			
(i) Local Environmental Services - Capital	45	45	45
To bring provision for Local Authority Environmental Services closer to past expenditure levels to enable increased investment in priority areas such as smoke control, waste disposal, sports and recreation. No targets			
(ii) Urban Development Corporations (UDCs) - Capital Increased provision for urban renewal.	75	95	95
Target: Creation of 4 new UDCs and 4 mini - UDCs			
(iii) Development Commission	2.7	4	5
Initiatives aimed at diversifying rural enterprise. Targets: various			
(iv) Nature Conservancy Council	2.3	3	3
Negotiation and monitoring management agreements for Sites of Special Scientific Interest (SSSIs). Targets: cumulative total of SSSIs renotified to reach 99% by March 1989. 515 new S.15 Management Agreements and renewal of 40 existing ones.			
(v) Countryside Commission	1.5	2	2
Increased provision for recreation in the countryside. Targets: opening up 10,000 miles of obstructed footpaths and completion of South Downs Route and creation of Thames path.			
(vi) Sports Council	1	1	1
Increased recreational provision in inner cities and in rural areas of identified need. Targets: various			
(vii) Broads Authority	0.5	1	1
Cost of financing new Authority being set up in October 1988.			
(viii) Royal Parks and Palaces	3.5	4.4	2.4
Maintenance work on Hampton Court (fire damage), Windsor Castle and Osborne House			
(ix) National Heritage Memorial Fund	4.5	4	2
To enable annual spend of £10m and restoration of Endowment Fund to original 1980 value by 1990/1. Targets: various			

(x) Other Heritage	1	0.6	0.6
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Increased funding for Royal Commission on Historical Monuments, mainly for relocation. Target: saving of £0.1m per annum.

(xi) Environmental Research	3	3	2
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Post Chernobyl Research, water metering trials, Europes and British Standards Institute. Targets: various.

(xii) Administration	9	0	0
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Non running cost current expenditure for consequences of new policy initiatives, water privatisation and Community Charge, and capital expenditure, mainly for computers and post Chernobyl monitoring. Targets: various

TOTAL	149	163	159
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PROPOSED REDUCTIONS

(i) Urban Programme	-10	-10	-10
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(ii) Derelict Land Grant	-5	-5	-5
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TOTAL

PROPOSED NET CHANGE IN PROVISION	134	148	144
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MANPOWER

	1.4.88	1.4.89	1.4.90	1.4.91
Proposed	6641	6576	6576	6576
Changes from present plans	-	-	-	-

CONFIDENTIAL

PROPERTY SERVICES AGENCY

	1988-89	1989-90	£ million 1990-91
Survey Baseline	-99	-101	-104
PROPOSED ADDITIONS			
i. Major new works (Office and General Accommodation)	11.4	10.3	8.1
To meet the cost of top priority projects - health and safety, "out on the street" and urgent operational requirements.			
ii. Major new works - Estate Rationalisation	2.4	4.0	4.2
To fund spend to save estate rationalisation schemes.			
iii. Major new works - fees	3.0	3.0	1.0
To meet anticipated shortfall in fees provision			
iv. Rents (net of receipts)	16.7	15.1	42.2
Rent increases as a result of historically low rental payments under long lease agreements having to be renegotiated at current market levels.			
v. Vacant Accommodation rates	1.8	2.3	2.9
To meet expected increase in rate payments.			
vi. Maintenance - part III works	38.4	60.7	58.0
Increase required to make some inroad into maintenance backlog with objective of eliminating the backlog over 5 year period.			
vii. Landlord service charges	3.7	3.7	3.9
Additional amount required to meet dilapidations payments.			
viii. Vacant and sublet accommodation - Fuel and utilities	0.7	0.7	0.7
TOTAL	78.1	99.9	121.0
PROPOSED REDUCTIONS			
i. Disposals	-17.0	-21.6	-26.1
Increased disposal receipts.			
ii. PRS Receipts	-15.7	-36.3	-46.3
Increased rent receipts arising from departments' payments being uplifted to reflect current market levels.			
TOTAL	-32.7	-57.9	-72.4
PROPOSED NET CHANGE IN PROVISION	45.4	42.0	48.6

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	1988-89	1989-90	1990-91
(of which running costs	+4.2	+4.9	+5.1
Manpower	1.4.88	1.4.89	1.4.91
Proposed	24,581	24,187	24,000
Change from present plans	+190	+90	+103

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HOME OFFICE		1988-89	1989-90	£ million 1990-91
Survey Baseline	Prison	777	818	838
	Non prisons	460	476	488
	Total	1237	1294	1326

PROPOSED ADDITIONS (NB) incomplete)

(i) New prison building	34.6	93.0	152.8
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First stage of programme for 10 more new prisons. Creating approximately 5,000 places by mid-1990s at total cost in the order of £½ billion. Bid allows for design work and purchase of 2 sites. Costed proposals still being considered.

(ii) Existing prison building	6.5	8.3	13.6
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Higher estimated cost of existing programme of 20 new prisons. Target 11 prisons to open by end 90-91 providing 5100 places.

(iii) Prisons manpower	3.9	5.5	5.7
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To provide for 1987 & 1988 pay settlement for HQ staff not covered by "Fresh Start" reforms. Target to cover growing workload without increase in staff.

(iv) Prisons other	18.3	15.2	20.6
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Miscellaneous: To provide for improved prison education services and various other increases in workload or improvements in service.

(v) Non prisons manpower	10.3	12.8	12.0
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Extra staff for Immigration Service, passport department and for IT; and to provide for 1987 & 1988 pay settlements. Targets - to maintain existing speed of immigration clearance and case work turn-round times; to develop new IT systems.

(vi) Non prisons other	18.1	15.0	22.8
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Miscellaneous: Increase UK contribution to overseas drugs control programme; new accommodation for Peterborough passport office and Immigration detention centre at Harmondsworth; provide more IT equipment; and other increases, improvements or estimating changes in law and order, protective services, voluntary services and sponsored fringe bodies.

(vii) Criminal Justice Bill costs (gross)	11.0	8.0	8.2
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Covers costs of operating confiscation procedures and Crown Court video links for child witnesses. Target - to cover confiscation costs by receipts.

(viii) Local Authority Capital	5.1	5.0	4.3
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Miscellaneous: new day-care facilities for probation service; general maintenance of police buildings; minor works to allow tape recording of evidence; switch to repayment for police radios; new civil defence emergency centres.

TOTAL	107.8	162.8	240.0
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PROPOSED REDUCTIONS

(i) Fines receipts 7.2	-5.0	-7.0	-
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Forecast receipts from confiscation powers in Criminal Justice Bill

(ii) Offsets on non-prisons other	-1.2	-0.5	-2.2
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Miscellaneous minor estimating changes.

TOTAL	-6.2	-7.5	-9.4
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(incomplete)

PROPOSED NET CHANGE IN PROVISION /	101.6	155.3	230.0
(of which running costs	23.7	26.7	33.2)

MANPOWER	1.4.88	1.4.89	1.4.90	1.4.91
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Proposed	39,019	40,404	41,439	41,478
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Change from present plans

LORD CHANCELLOR'S DEPARTMENT

	£ million		
	1988-89	1989-90	1990-91
Survey Baseline	726	781	801
PROPOSED ADDITIONS			
(i) Court Services (Running Costs)	14.3	23.5	35.1
To cover projected increase in workloads, higher cost of maintenance, fuel and utilities, new policies (eg: Criminal Justice Bill) and changing responsibilities for accommodation. The cost of civil business is covered by fees. Target: to stabilise waiting times in the courts.			
(ii) Court Services (other)	6.2	2.2	4.4
Computerisation in the courts, including full study of the Claims Registry Project. Also covers some judicial pay, Crown Supplies and £4.0m in the first year for the giving of evidence by video link.			
(iii) Court Building	19.9	21.5	25.6
To cover costs of existing Court Building programme, including schemes scheduled to start construction during PES years and to commence planning phases and including redefinitions. Target: to complete existing schemes within this cost (providing 50 new courtrooms in Survey years).			
(iv) Legal Aid	-	-	14.1
Revised volume forecasts, revised assumptions for unit cost growth and effect of new policies. Target: to fulfil statutory obligations.			
(v) Legal Aid Admin	1.3	2.3	3.5
To maintain current level of performance.			
(vi) Office and General Accommodation	0.3	0.9	0.1
To cover funding responsibilities passed from PSA to departments in 1986.			
TOTAL	42.0	49.9	82.8

PROPOSED REDUCTIONS

Legal Aid	-5.6	-11.5	-
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Revised volume forecasts, revised assumptions for unit cost growth and effect of new policies.

PROPOSED NET CHANGE IN PROVISION	36.4	38.9	82.8
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(of which running costs)	14.3	23.5	35.1
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MANPOWER	1.4.88	1.4.89	1.4.90	1.4.91
Proposed	10800	10900	10900	11000
Change from present plans	0	0	0	+100

CONFIDENTIAL

DEPARTMENT OF EDUCATION AND SCIENCE

	1988-89	1989-90	1990-91	£ million
Survey Baseline	3,851.0	3,966.0	4,065.0	
PROPOSED ADDITIONS				
(i) Universities	121.0	131.0	146.0	
To provide for a restructuring and rationalisation fund; for medical education; for technological equipment; for new initiatives; and for the Open University.				
(ii) Polytechnics and Colleges Sector	13.0	22.0	21.5	
To provide for transitional costs of transferring polytechnics and colleges from local authority sector and of establishing Polytechnics and Colleges Funding Council and Education Assets Board; and to compensate for polytechnics' and colleges' liability to VAT (PSBR effects offset by VAT receipts).				
(iii) Voluntary and Grant-Aided Colleges	10.9	12.1	12.7	
To enable certain colleges, mainly offering teacher training, to continue to provide courses which meet requirements of validating bodies and criteria set for initial teacher training; and to deal with financial difficulties of a small number of colleges.				
(iv) Student awards	11.5	23.9	28.8	
To cater for expected increase in student numbers; to permit maintenance awards and tuition fees to be increased inline with projected GDP inflation; and to provide compensation for impact of Scottish community charge on English and Welsh students studying in Scotland.				
(v) Science	121.0	160.0	183.0	
To protect level of science funding; to meet requirements of British Antarctic Survey; and to fund strategic reshaping of science base.				
(vi) Special initiatives for inner cities	9.0	13.0	13.0	
To fund schemes to link teacher training establishments with particular schools; to train community youth workers; and to increase support for Adult Literacy Centres and adult retraining.				
(vii) Maintained Sector Capital	180.0	195.0	225.0	
To provide for programme of improvement in condition of school buildings, focusing on inner cities; and to fund improvements in further and higher education buildings and equipment.				

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(viii) National curriculum	12.0	25.0	36.0
To fund new assessment and testing regime; and to meet increased costs on research and development and evaluation.			
(ix) IT in schools	3.0	3.0	3.0
To promote the use of IT in schools.			
(x) Assisted Places Scheme	0.3	0.7	3.6
To provide for expansion of scheme to 35,000 places over the next seven years.			
(xi) Departmental administration: running costs	10.9	13.3	18.1
To meet costs of 125 extra staff above 1 April 1988 manpower ceiling; to provide for non-pay costs of new initiatives, including new accommodation; and to fund future pay costs.			
(xii) Departmental administration: capital	0.5	4.9	5.0
Capital cost of move to new accommodation			
(xiii) University academic pay	56.0	71.0	73.0
Agreed for 1988-89 and 1989-90, subject to commitments by universities.			
(xiv) AIDS research	6.0	8.0	8.0
Agreed for 1988-89 and 1989-90.			
(xv) ERASMUS	2.7	5.0	6.2
To meet costs of EC ERASMUS programme for student exchanges within the Community.			
TOTAL	557.8	687.9	782.9
PROPOSED REDUCTIONS	-	-	-
PROPOSED NET CHANGE IN PROVISION	557.8	687.9	782.9
(of which running costs)	10.3	13.3	18.1)
MANPOWER	1.4.88	1.4.89	1.4.90
Proposed	2572.5	2582.5	2574.5
Change from present plans	+ 122.5	+ 132.5	+ 124.5
Transfers into Vote expenditure	-	870.0	965.0

Not included in total of additional bids; shift of resources out of LA current into Vote programme from 1989-90 in respect of policies for higher education and grant maintained schools.

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OFFICE OF ARTS AND LIBRARIES

	£ million		
	1988-89	1989-90	1990-91
Survey Baseline	367	377	386
PROPOSED ADDITIONS			
(i) Living arts	17.0	19.0	21.0
To maintain activity, to attract new investment and to set up an Arts Exchange Unit to deal with overseas tours.			
(ii) Heritage	4.5	4.0	2.0
To increase the annual National Heritage Memorial Fund grant-in-aid in order to build up the Fund.			
(iii) Museums and galleries	17.0	17.5	17.5
To deal with maintenance backlog, maintain activities, increase purchase grants, improve management, increase touring and educational pump-priming and to provide for new capital projects.			
(iv) Libraries	3.0	4.0	4.5
To maintain British Library services and deal with backlogs, raise value of Public Lending Right Scheme to authors, assist LAs to co-ordinate library services.			
(v) British Library, St Pancras project	8.2	18.3	23.5
(of which, agreed post- 1986 Survey	6.2	9.2	9.4)
Increased costs of Stage 1A, start-up costs of Stage 1B/1C.			
(vi) Running costs	0.3	0.3	0.3
To meet new work from management of St Pancras project and the transfer to OAL of responsibility for the British Museum (Natural History).			
(vii) EC cultural programme	2.3	2.3	2.3
TOTAL	52.3	65.3	71.0
PROPOSED REDUCTIONS			
PROPOSED NET CHANGE IN PROVISION			
(of which, running costs	52.3	65.3	71.0
	0.3	0.3	0.3)
MANPOWER	1.4.88	1.4.89	1.4.90
Proposed	63	63	63
Change from present plans	+ 9	+ 9	+ 9

DEPARTMENT OF HEALTH AND SOCIAL SECURITY: HEALTH AND PERSONAL
SOCIAL SERVICES

	£ million		
	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>
Survey Baseline	16,932	17,743	18,187
PROPOSED ADDITIONS			
<u>Hospital and Community Health Services (HCHS)</u>			
(i) Demographic	342	426	613
To allow continuation of 1987-88 activity levels while taking account of the increasing numbers of elderly people.			
(ii) AIDS treatment	112	200	400
To meet the hospital treatment and drug costs of the increasing numbers of AIDS sufferers.			
(iii) Other HCHS proposals	237	477	683
Various proposals to meet additional cost pressures and to further develop services e.g. increase level of breast cancer screening, continue waiting list initiative.			
(iv) HCHS Capital	28	29	33
To meet costs arising from lifting Crown Immunity, and to provide capital support for certain of the initiatives listed at (iii) above.			
<u>Centrally Financed Services (CFS)</u>			
(v) CFS measures	52	58	60
(of which running costs	5	9	12)
To meet increased demand for welfare foods, additional costs (e.g. EC medical costs), and to meet service developments (e.g. to continue the AIDS public education campaign).			
<u>Family Practitioner Services (FPS)</u>			
(vi) FPS demand	60	105	326
To reflect latest forecasts of demand for services and inflation.			
(vii) Pay and other measures	76	79	81
To meet costs of 1987 pay awards to Doctors and Dentists, improve quality of treatment for diabetics (blood test strips) and general population (new wound dressings).			
<u>Personal Social Services</u>			
(viii) Capital	49	0	0
To allow increased capital expenditure eg on residential accommodation for the elderly.			
TOTAL	956	1384	2196

	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>
PROPOSED REDUCTIONS	0	0	0
PROPOSED NET CHANGE IN PROVISION	956	1384	2196
(of which running costs	5	9	12)

MANPOWER	1.4.87	1.4.88	1.4.89	1.4.90
Proposed	4638	4709	4729	4798
Change from present plans	- 26	0	0	0

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DHSS: SOCIAL SECURITY BENEFITS AND ADMINISTRATION

	<u>1988-9</u>	<u>1989-90</u>	<u>1990-91</u>
			£m
Survey Baseline	47258	49123	50351
PROPOSED ADDITIONS : BENEFITS			
i. Income Support	340	353	364
<p>From April 1988 the Government expects everyone who is liable to pay domestic rates to make a minimum contribution of 20% of rates bill. Income support claimants will receive compensation from April 1988. Announced but details to be settled.</p>			
ii. Severe Disablement Allowance	41	11	9
<p>Bid agreed in 1986 Survey</p>			
iii. Attendance Allowance	16	15	5
<p>European Court in Moran Case widened eligibility. Legislation will be introduced to reduce impact of Judgement.</p>			
iv. Social Fund Start Up Costs	25		
<p>Repayments to Social Fund will be low first year. Bid is to increase payments from Fund.</p>			
v. Mobility Allowance for over 75's		0.5	4.5
<p>At present MA ceases at 75. First beneficiaries reach that age in 1989. Motability will make loan to buy a vehicle only if mobility allowance continues long enough to repay loan. Decision needed in this survey.</p>			
vi. SDA (16-19 year olds)	0.7	0.6	0.5
<p>Recent Commissioner's decision extending eligibility of 16-19 year olds in full time education.</p>			
vii. Reduced earnings allowance	1.8		
<p>Reflects savings foregone from abandonment of measures in earlier PES round due to defective legislation.</p>			
viii. Occupational deafness		1	2
<p>Likely recommendation of Industrial Injuries Advisory Council to extend scope of scheme.</p>			
Total bids on benefits	424.5	381.1	385

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Less Proposed Reductions

i. Alignment of pay periods	-25	-	
ii. Income Support for 16-17 year olds	-50	-90	-84

Forecasting Changes (Provisional)

i. Estimating Changes	614	797	1871
ii. Economic Assumptions	-21	81	433

PROPOSED ADDITIONS : ADMINISTRATION

i. Running costs	186	212	256
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Pay, extra manpower & other services

ii. Capital	60	154	121
-------------	----	-----	-----

Operational Strategy computers & buildings, and other accommodation works, including DE Agency.

iii. Other	13	10	14
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Includes agency payment to DE, grants etc.

PROPOSED NET CHANGE IN PROVISION	1201.5	1545.1	2996
(of which running costs	186	212	256)

**MANPOWER IMPLICATIONS
(HEALTH & SOCIAL SECURITY)**

	1.4.88	1.4.89	1.4.90	1.4.91
Proposed target		99,782	99,887	98,219
Starting point	102,893	96,405*	96,505*	96,505*
Change from present plans -		3,377	3,382	1,714

* including agreed bid from Estimates

SCOTTISH OFFICE

	1988-89	1989-90	1990-91	
Survey Baseline:	4687	4863	4984	
PROPOSED ADDITIONS				
(i) Scottish Development Agency	11.1	21.1	23.5	
To maintain and accelerate SDA programme of land reclamation; improve and modernise SDA industrial estates; and provide support for Glasgow Garden Festival.				
(ii) Highland and Islands Development Board	5.2	5.7	5.7	
To increase private sector involvement in generating economic activity in HIDB's areas.				
TOTAL	16.3	26.8	29.2	
PROPOSED REDUCTIONS	----	----	----	
PROPOSED NET CHANGE IN PROVISION	16.3	26.8	29.2	
Proposed change in gross running costs	25.4	30.8	39.5	
<u>Manpower</u>	<u>1.4.88</u>	<u>1.4.89</u>	<u>1.4.90</u>	<u>1.4.91</u>
Proposed	12148	12667	12820	13028
Proposed change from current plan	82	737	919	1214

Note: 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.

WELSH OFFICE

	1988-89	1989-90	1990-91
Survey Baseline:			
	1933	1995	2045

PROPOSED ADDITIONS

(i) Regional Development Grants I 8.8 ---- ----
 The higher than expected level of claims under the old Regional Development Grant scheme, first experienced in 1986-87, are forecast to continue into the first year of the Survey period.

(ii) Regional Development Grants II 24.7 31.9 35.5
 Forecast of higher than expected demand for the new job-related Regional Development Grants.

(iii) Welsh Development Agency 14.0 15.0 15.0
 To encourage further private sector interest in provision of factories, land clearance and help for small businesses. Also to accelerate land reclamation programme.

(iv) Careers Service 0.1 0.2 0.2
 To maintain the current staffing levels provided by the Careers Service Strengthening Scheme.

TOTAL	47.6	47.1	50.7
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PROPOSED REDUCTIONS

(i) Regional Development Grants I ---- -6.4 -8.0
 Reduced requirement resulting from claims being presented early in scheme that is ending.

TOTAL	----	-6.4	-8.0
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PROPOSED NET CHANGE IN PROVISION	47.6	40.7	42.7
----------------------------------	------	------	------

Proposed change in gross running costs	1.8	2.3	3.2
--	-----	-----	-----

<u>Manpower</u>	1.4.87	1.4.88	1.4.89	1.4.90	1.4.91
Proposed		2285	2250	2245	2245
Proposed change from current plan		+25	+25	+25	+25

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.

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NORTHERN IRELAND

	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>
SURVEY BASELINE	5048*	5217*	5348*
PROPOSED ADDITIONS			
(i) Formula Consequentials	4.0	3.2	3.3
Final outcome of 1986 Survey. Consequentials of agreements in GB. (This is the last time that such post-PEWP adjustments will be made)			
(ii) Social Security Benefits	6.0	21.1	47.8
Effect on Northern Ireland of Treasury's revised economic assumptions. These figures may change when economic assumptions revised later in the year.			
(iii) Job Training Programme	2.6	2.6	2.7
(iv) Availability Testing	0.5	0.5	0.5
Both of these schemes parallel those recently set up by Department of Employment. It is proposed that they be financed from the consequent savings on social security benefit payments.			
(v) University Academics' Pay	1.5	2.0	2.0
Northern Ireland's consequential of extra resources provided to DES in settlement of university academics' pay. NI will only get this <u>if</u> bid by DES successful.			
(vi) Others	4.5	4.2	4.2
These mainly relate to additional expenditure financed by extra receipts (ESF,ERDF) and extra costs of the Calf Premium Scheme.			
TOTAL	19.1	33.6	60.5
PROPOSED REDUCTIONS			
HOUSING LOAN CHARGES	-0.6	-1.1	0.0
Effect on the NI Housing Executive's HLC's of Treasury's revised economic assumptions. These may change if assumptions were to be revised later.			
TOTAL	-0.6	-1.1	0.0
PROPOSED NET INCREASE (of which running costs)	18.5** 0.5	32.5** 0.5	60.5** 0.5

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MANPOWER***	1.4.88	1.4.89	1.4.90	1.4.91
Proposed	4726	4786	4853	4853
Change from present plan	+50	+110	+177	+177

Notes

* These figures include national agriculture schemes which are non-block.

** In addition provision for Northern Ireland will also be increased to reflect the territorial consequences of increases in comparable GB programmes.

*** Northern Ireland Office only.

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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>1988-98</u>	<u>1989-90</u>	<u>1990-91</u>
Survey baseline	2,304	2,411	2,472
PROPOSED ADDITIONS			
CUSTOMS AND EXCISE			
(i) Additional staff	5.1	13.6	24.1
(of which running costs	5.1	13.6	24.1)
Increase in passengers (freight traffic, drug control enhancement. Target: increase drugs seizures by 15 per cent in 1988-89 and 10 per cent in 1989-90 and 1990-91.			
(ii) Pay costs	16.7	17.3	18.9
(of which running costs	16.7	17.3	18.9)
Effects of 1987 pay settlement and predicted outcome of 1988 pay settlement. Targets: various.			
(iii) VAT skills	7.0	8.0	9.0
(of which running costs	7.0	8.0	9.0)
Programme to improve skills of VAT control officials by better training etc. Target: secure increase in VAT underdeclarations detected at least seven times greater than cost of programme.			
(iv) Accommodation	7.9	15.2	19.3
(of which running costs	2.9	6.7	7.5)
Increased PRS charges and estimated costs of building works; building works to reorder London estate and provide accommodation for new facilities (eg expansion at Stanstead and Luton).			

Target: reduce average occupancy to 15.0 sq.m.per head by 1990.

(v) Other	4.0	10.1	15.9
(of which running costs	0.9	8.3	13.4)

Mainly for IT expenditure and legal expenses. Targets various

TOTAL	40.7	64.2	87.2
(of which running costs	32.6	54.0	72.9)

MANPOWER	1.4.88	1.4.89	1.4.90	1.4.91
Proposed	26,647	27,178	27,608	28,138
Change from plans	-	+410	+653	+1,183

INLAND REVENUE

(i) Additional staff	10.1	23.9	30.7
(of which running costs	10.1	23.9	30.7)

New and increased workloads, increased training and supervisory requirements, offset by reduced requirements. Target: 10 per cent more Schedule D assessments by 1990, 3 per cent more Schedule E cases and collection of arrears.

(ii) Pay costs	53.2	67.3	85.9
(of which running costs	53.2	67.3	85.9)

Excess costs of 1986 and 1987 pay settlements and predicted costs of 1988 award. Targets: various.

(iii) Casuals and overtime	10.1	7.0	1.0
(of which running costs	10.1	7.0	1.0)

Mostly for implementation of new computer system. Targets: various, including delivery of computerisation savings identified in 1986 PES.

iv) Accommodation, current	7.7	12.1	17.5
(of which running costs	7.7	12.1	17.5)

Target: reduce average accommodation costs by transfer of computer division outside London, and reduce space per head by 1 per cent a year.

(v) Automatic Data Processing, current	-	6.4	3.8
(of which running costs	-	6.4	3.8)

Targets: various, including reduction on expenditure on outside consultancy support.

(vi) Other general administrative expenditure	11.4	13.1	13.4
(of which running costs	11.4	13.1	13.4)
Targets: various			
(vii) Automatic Data Processing, capital	-	4.4	6.7
(of which running costs	-	-	-)
Enhancement of BROCS and OCTA IT systems for more efficient system.			Targets: various.
(viii) Accommodation, capital	5.6	4.5	3.0
(of which running costs	-	-	-)
Targets: various			
(ix) Life Assurance Premium Relief and Mortgage Interest Relief	40	40	61
(of which running costs	-	-	-)
Increase in number of non-taxpayers receiving relief for LAPR and MIRAS			
TOTAL	138.1	178.7	223.0
(of which running costs	93.3	129.8	152.3)
PROPOSED REDUCTIONS			
(i) Cancellation of Transferable Allowance	6.3	11.1	-
(of which running costs	4.9	9.3	-)
(ii) Other	9.5	8.8	9.1
(of which running costs	2.0	2.1	2.2)
Includes automatic data processing, VAT refunds and additional appropriations in aid.			
TOTAL	15.8	19.9	9.1
(of which running costs	6.9	11.4	2.2)
PROPOSED NET CHANGE IN PROVISION	122.3	158.8	214.0
(of which running costs	85.6	118.4	150.1
MANPOWER	1.4.88	1.4.89	1.4.90
Proposed	67,974	68,970	68,943
Change from plans	-	+1,798	+1,967
			+2,683

PROPOSED ADDITIONS

REGISTRY OF FRIENDLY SOCIETIES

	2.2	0.4	0.4
--	-----	-----	-----

(of which running costs

	0.3	0.3	0.3)
--	-----	-----	------

Running cost bid, offset by increased charges mainly to cover use of accountants on inspections of building societies. Bid on accommodation charges to cover possible forced relocation.

MANPOWER	1.4.88	1.4.89	1.4.90	1.4.91
Proposed	140	136	136	136
Change from present plans	-	-	-	-

H M TREASURY

	-1.6	2.9	-23.2
(of which running costs	0.8	2.0	3.8)

Various small bids. Reduced requirements reflect non-carry-forward of 1989-90 provision for European Election expenses.

MANPOWER	1.4.88	1.4.89	1.4.90	1.4.91
Proposed	3,227	3,187	3,151	3,151
Change from present plans	-	-	-	-

RATING OF GOVERNMENT

PROPERTY DEPARTMENT

	6.7	3.5	2.8
(of which running costs	-	-	-)

Increases in local authority poundage rates.

HMSO

	6.7	6.7	5.7
(of which running costs	-	-	-)

New long term borrowing for trading activities.



lite

PM

CCBG

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

17 July 1987

Dear Max,

CASH LIMITS FOR 1986/87

I am sure the Prime Minister would be content for the Chief Secretary to publish the annual White Paper on cash limits for 1986/87 as proposed.

I am copying this letter to the Private Secretaries to other members of the Cabinet and to Michael Stark.

Yours,

David

D R Norgrove

Max Felstead, Esq.,
H. M. Treasury.

81



Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

17 July 1987

David Norgrove Esq
Private Secretary to the Prime Minister
10 Downing Street
LONDON SW1

Dear David

PAPERS FOR PUBLIC EXPENDITURE CABINET: 23 JULY

... I attach drafts of the papers for Cabinet next Thursday. These are:

- (i) a paper by the Chancellor on Economic Prospects; and
- (ii) a paper by the Chief Secretary on the Public Expenditure Survey with an Annex on Running Costs.

I should be most grateful if you could pass on to me any comments the Prime Minister has, so that we can circulate the papers to Cabinet on Tuesday.

Yours

Allec

A C S ALLAN

ECONOMIC PROSPECTS

The economy has been steadily growing at a satisfactory rate for the past six years. With industry competing successfully both at home and abroad the prospect this year is for faster GDP growth than in recent years, and more than I forecast at the time of the Budget. Unemployment has continued to fall while inflation has remained close to the expected path. So far this year, the current account of the balance of payments has been in modest surplus.

2. The growth rate this year is likely to be significantly above the average of recent years, and we clearly cannot count on it being sustained at this level over the Public Expenditure Survey period. There are also evident dangers. Abroad, the world economy could be more depressed than now envisaged. At home, pay settlements badly need to fall, not least in the public sector. Above all it is essential that the Government demonstrates its firm commitment to the financial policies that have brought our present success and which alone can deliver declining inflation and the continuation of steady growth in the years ahead. We are also seeing, especially in the rapid growth of manufacturing productivity, some effects from the measures taken over the past seven years to improve supply performance. M.P.?

3. Our prudent monetary and fiscal policies have stabilised financial conditions, enabled us to avoid lurches of policy, and increased confidence in the UK as a base for investment. The reduction of public expenditure as a share of GDP over the past four years has been especially important. It has enabled us to reduce the PSBR despite having to adjust to the sharp loss of North Sea revenues. But we have failed to make much progress in reducing the burden of non-North Sea taxation as a share of GDP.

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WORLD ECONOMY

4. The most obvious threat to continued steady UK growth comes from a weakening of demand and output in other major developed countries. Since the fall in oil prices at the beginning of 1986, output growth in the G7 economies has been disappointing. Last year weak world demand originated in the developing countries who, as a group, cut back their imports. More recently many of the strains seem to reflect slowness in adjusting to the sharp realignment of exchange rates. Domestic demand in the US is understandably weakening; while in Germany and Japan it is not rising fast enough to offset the adverse effects of currency appreciation on their exports. Their loss of export markets has been made more acute by the increasing shares taken by the newly industrialised countries, notably in South-East Asia, who with the recent exception of Taiwan have held their currencies steady against the dollar.

5. Inflation rates in the major economies have been reduced, much as expected. And there are now signs of some progress in correcting the large current account imbalances in the US, Japan and Germany. The risk of further turmoil in foreign exchange markets has been reduced - although not eliminated - by successful co-operation between the G7 countries. Following the agreement at the Louvre in February, the G7 countries have succeeded in stabilising their currencies by a combination of intervention and a greater willingness to adapt their monetary policies. And there have been some further steps in Germany and even more in Japan to support domestic demand and open markets. It is vital that these measures are sustained and strengthened. Further reductions in the US Budget deficit are also needed.

THE BRITISH ECONOMY

6. A summary of the most recent Treasury assessment is shown in ... the attached annex. ✓

7. At home we have seen a continuation of what has by now become a familiar pattern of strong and steady growth coupled with low inflation.

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8. A year ago there was concern in some quarters at the mild pause in growth between mid-1985 and mid-1986. In the event, despite disappointing growth abroad, performance at home has exceeded expectations. In the first quarter of this year GDP was just over 4 per cent higher than a year earlier.

9. The prospect is for continuing strong growth in 1987, with the outcome in the year as a whole likely to be closer to 4 per cent than the 3 per cent predicted at Budget time. Domestic demand growth is balanced, with fixed investment rising in line with the growth of consumers' expenditure. With growth in 1987 above the trend of recent years, it would not be surprising if the growth rate fell back a little next year.

10. The recent strong performance of output has contributed to a further rise in employment and in turn to the fastest recorded fall in unemployment since the War. This welcome fall in unemployment to below the three million mark has occurred at the same time as productivity growth in manufacturing has been exceptionally high by historical standards. Indeed increased industrial efficiency has been an essential factor in the greatly improved unemployment prospect. If overall growth continues at a steady and sustainable rate, even if somewhat lower than this year, there is every likelihood that the fall in unemployment will also continue.

11. We have always known that the UK, as a major oil producer, would not benefit as much from the fall in oil prices as the other major economies. The necessary fall in sterling during 1986 largely offset the beneficial impact on inflation of the lower oil prices. However, we are still on course to achieve the Budget forecast of 4 per cent inflation in the fourth quarter of this year, and the outcome could well be a little lower. Nonetheless, this remains uncomfortably above the average rate in other major economies. It is essential that inflation is kept firmly on a downward path over the medium term.

12. So far, lower inflation has not been adequately reflected in lower pay settlements. The deceleration of private sector pay settlements in 1986 appears to have ended: indeed if anything they

may have begun to edge up. Some public sector settlements - notably by local authorities - could also set an unfortunate precedent for the private sector and will make it more difficult to control public finances. Pay increases need to be lower if the hard-won fall in unemployment is to continue.

13. The prospects for the current account of the balance of payments now look a little better than they did at the time of the Budget, and the estimate of last year's deficit has been revised down almost to zero. Over the past year British companies have competed successfully in the home and international markets. In spite of subdued prospects for world trade and buoyant activity at home it now looks as if the current account this year will show a smaller deficit than the Budget forecast of £2½ billion, or half of one per cent of GDP.

14. Since the Louvre agreement towards the end of February, sterling has generally been very steady. Indeed, during April and May there was a pronounced tendency for the pound to strengthen. This was contained by reducing interest rates and intervening in the foreign exchange markets on a massive scale. As a result, the exchange rate has stayed within a very narrow range over the past 4-5 months. This in turn has strengthened confidence within industry.

15. Nevertheless, financial markets are closely watching the behaviour of the economy, and in particular the outlook for inflation. They will also be on the look-out for any signs of a loosening of the firm financial policies that have brought our current success. It is vital that we maintain the firm control of public expenditure the Chief Secretary proposes.

DRAFT PAPER FOR CABINET (No 4)

THIS DOCUMENT IS THE PROPERTY OF HER MAJESTY'S GOVERNMENT

C(87)
July 1987

Copy No

1987 PUBLIC EXPENDITURE SURVEY

Memorandum by the Chief Secretary, HM Treasury

Introduction

Our policy is to bring public spending down progressively as a proportion of national income. Over the past four years we have succeeded in achieving this. Even excluding privatisation proceeds, general government expenditure (the combined spending of central and local government) has fallen from 47 per cent of GDP in 1982-83 to 44 per cent in 1986-87, and there will be a further fall in 1987-88 - though it will still be higher than it ~~was~~^{is} in 1978-79. Our progress over the last few years has enabled us to combine a steady but controlled growth of public expenditure in real terms with a reduction in borrowing and, in each of the last five Budgets, a reduction in taxes. This restraint in public spending has made possible the strong performance of the economy which the Chancellor has described in his Memorandum (C(87)).

2. In our Election Manifesto we pledged ourselves to continue the policy of ensuring that public spending takes a steadily smaller share of our national income. This is essential if we are both to maintain the momentum of our economic performance and to deliver of our Manifesto pledge to reduce the burden of taxation.

3. For this year's Survey we have set baseline totals for spending of £154.2 billion in 1988-89, £161.5 billion in 1989-90 and £165.5 billion in 1990-91. For the first two years this was done by retaining the planning totals set out in last year's Public Expenditure White Paper and for the third year we have used an uplift factor of 2½ per cent.

4. Departments were then asked to review their programmes within their baseline figures and to put proposals to me where they felt, after a review of priorities, that additional resources were required. In my minute of 17 July to the Prime Minister, I summarised the bids received from departments.

Objectives for the Survey

5. I have to make it clear to colleagues that bids on this scale are far beyond what can be afforded. If anything like this were accepted, we could make no further progress in reducing public spending as a proportion of GDP, as set out in the White Paper. This would not only make our objectives for taxation unattainable, it would also trigger a complete reappraisal of the Government's financial standing in the markets, and provide a severe setback to the economic progress we have made.

6. With the time lost as a result of the election, it has not been possible to analyse the bids as thoroughly as normal. There are major uncertainties in a number of areas which I will want to probe further, eg the large estimating changes for social security and the projections of our contributions to the European Community.

7. But it is clear that to hold to our policy on public spending we will have to face up to difficult decisions in a number of areas, in particular:

i. for programmes such as defence, health and education which are seeking very large increases, the bids will have to be significantly scaled back and, to the greatest extent possible, policy savings found to offset them;

ii. for social security we must look at policy changes to help offset the enormous estimating changes;

iii. we need to take a hard look at the employment programmes where, with the greatly improved trend on unemployment, substantial savings can be found;

iv. we need to re-examine the basis of our regional policies. The buoyancy of the economy and in particular of investment, reflecting the increased strength of the corporate sector,

is both increasing the cost of the present system of regional incentives and reducing the need for them. We should look for savings here partly to release resources for cost effective inner city spending;

v. we must look very carefully at the expenditure of the territories;

vi. we should seek every opportunity to transfer to the private sector the responsibility for providing services hitherto provided by the public sector.

Departmental running costs

8. Colleagues have sought increases in their departments' running costs implying overall cash increases of 8 per cent for 1988-89 over 1987-88 with further increases in later years. The associated manpower projections reverse the downward trend we have achieved, implying a 15,000 increase over published plans for 1988-89. Increases on this scale are clearly unacceptable.

9. In the last few years, the increases in spending on departmental costs agreed for each first Survey year have exceeded our aims. In many cases the figures for the later years have not been set at realistic levels and as a result have had to be increased further in later Surveys. We need to agree a realistic method for planning provision over the Survey period so that departments have a reasonably reliable basis for making medium-term plans to improve efficiency.

10. My proposals, set out more fully in the annex, are that:

i. the running costs share of total public spending should not rise over the Survey period. This implies that running costs would grow on average in line with our plans for public expenditure generally, ie by about 1 per cent a year in real terms, though individual departments would have not entitlement to such an increase;

ii. cost and other pressures will need to be met to a large extent by efficiency gains of at least 1½ per cent a year in the use of all resources including manpower. These will need to be planned well in advance and departments should have contingency plans for larger improvements in case they are necessary;

iii. departments should prepare management plans to deliver these gains over the full Survey period. In any case where the plans are not suitably ambitious, or are unrealistic, I would hold over agreement on the later Survey years until the next Survey;

iv. for 1988-89, the aim should be to reduce the overall increase in provision sought by at least half.

Nationalised industries

11. In the 1987 Investment and Financing Review, the nationalised industries' own initial and unamended bids, made in May, exceed the baseline by £0.9 billion in the first year and £1.2 billion in the two subsequent years. These bids are clearly unrealistic and cannot be afforded. 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. Apart from the electricity industries in England and Wales and in Scotland, I propose that our aim should be to reduce the provision at least to baseline and, where we can in the case of individual industries, below it. Failure to achieve this would mean greater pressure on departmental programmes. There are particular problems relating to the electricity industry this year, notably the need to set new financial targets, the implications of privatisation and assessment of a new power station programme. Notwithstanding these uncertainties, the pressure on public expenditure means that it is essential to appraise the industry's bids critically and to set challenging financial targets.

Local authority relevant public expenditure

12. It has been agreed in E(LA) that provision for relevant public expenditure in England should be set at £27,969 million (£27,538 million for relevant current expenditure and £431 million

for Rate Fund Contributions to Housing Revenue Accounts). This is an increase of £819 million above the White Paper baseline. Aggregate Exchequer Grant in England is to be set at £13,775 million, an increase of £750 million (5½ per cent) on the 1987-88 settlement figure including teachers' pay. [Reference to Scotland and Wales to come.] These are substantial additions and we must recognise that they will severely limit what can be made available for other programmes.

Conclusions

14. I ask Cabinet:

- i. to reaffirm the Manifesto policy of ensuring that public spending takes a steadily smaller share of our national income and, after excluding privatisation proceeds, does not exceed the path in last year's White Paper;
- ii. to note that bids will have to be substantially cut back to secure the policy objective at (i);
- iii. to agree that in order to cut back or offset the bids, we explore a range of policy changes including those listed in paragraph 7;
- iv. to agree that we should aim to hold the EFLs of the nationalised industries other than electricity at least to baseline and possibly below; and that we should seek to keep the electricity industries' external finance as low as possible;
- v. for running costs, to agree the proposals set out in paragraph 11 and in the Annex;
- vi. to agree that I should now conduct bilaterals with colleagues on their spending programmes.

TREASURY CHAMBERS

July 1987

[JM]

1987 PUBLIC EXPENDITURE SURVEY: DEPARTMENTAL RUNNING COSTS

Departmental Ministers have sought increased provision for running costs totalling £761 million for 1988-89, £956 million for 1989-90 and £1,203 million for 1990-91.

2. We cannot accept increases of this size. They would mean that overall expenditure on running costs would rise by 8 per cent in cash and 4 per cent in real terms between 1987-88 and 1988-89, with further real increases in the later years. They would also imply an increase in Civil Service manpower of nearly 15,000 over the manpower plan of 583,000 for 1 April 1989 published in this year's public expenditure White Paper and further increases in later years, though some 5,000 of this rise stems from increases agreed after the last Survey.

3. There are undoubted pressures on running costs. In spite of large manpower reductions (135,000 since 1979 and 50,000 since 1983) and, in most years, Civil Service pay settlements at or below general inflation, running costs have continued to rise in real terms as a result of increases in non-manpower costs (eg more buying-in of services rather than providing them internally) and changes in grading mix. Tight pay settlements will continue to be the aim. But if departments are to recruit and retain the staff they need and the Government's objective of making the Civil Service pay structure more conducive to an efficient service and more responsive to labour market conditions is to be met, future pay offers cannot be expected to be immune from pay movements in the economy generally.

4. It is thus realistic to provide for some rise in overall spending on running costs; but the Manifesto pledge to press ahead with management reforms to improve public services and reduce their cost, as well as the aim of ensuring that public expenditure takes a steadily smaller share of national income, mean that the rise must be contained to well below the levels sought.

5. I propose we resolve that the share of running costs in total public spending should not rise over the Survey period. This implies that running costs would grow on average in line with public expenditure generally, ie by about 1 per cent a year in real terms. It means that if increases in the volume of activity are to be met in some parts of the Civil Service, reductions or lower rates of growth will be necessary in others where demand is less or of lower priority.

6. To achieve this overall objective, colleagues' running costs bids will need to be substantially scaled down, to less than half the additions to baseline that have been sought for 1988-89; and all departments will need firm plans to offset pay bill and other cost pressures through sustained and incremental efficiency gains. The improved budgetary and management systems stemming from the financial management drive of recent years, the Government's large and continuing investment in new technology, and further improvements in purchasing as well as the continuing processes of scrutiny and inspection must be used to deliver further improvement in performance, benefiting both input costs and outputs. On the input side, further improvements in the use of manpower and better control of non-manpower costs will be essential.

7. These efficiency gains will be easier to make on the necessary scale if they are planned well in advance; and if the plans are ambitious there will be greater scope for flexibility in future years. I propose that all departments should now prepare or revise management plans committing them, over the Survey period, to the delivery of defined and wherever possible measured improvements in outputs, and progressive overall efficiency gains of at least 1½ per cent a year, with contingency plans for larger improvements in case they are necessary. This is a reasonable minimum target for well managed service organisations. These plans will be especially important for departments with large executive operations.

8. Departments' plans, and their implications for restraining growth in running costs would be discussed in the bilaterals.

Agreement to increases over baseline, particularly for the later years, would be withheld until plans for efficiency gains of at least 1½ per cent a year were demonstrated in a departmental management plan. Departments would be expected to deliver these plans.

Civil Service manpower

9. Earlier this year it was announced that manpower targets would not be set after 1 April 1988, and pressure on Civil Service numbers would be maintained through running costs. The proposed approach to running costs will mean large reductions in the manpower projections of some departments. It is important to show that the running costs regime is an effective control on all Civil Service resources, including manpower. There will otherwise be pressure to reintroduce manpower targets.

Conclusions

10. I invite Cabinet to agree that:

i. the objective should be to restrain running costs over the Survey period to their present share in total public spending by offsetting so far as possible any real rises in pay and other costs through efficiency gains;

ii. departments should prepare or revise three-year management plans for sustained output and cost improvement, for discussion in the bilaterals;

iii. for 1988-89 the aim should be a reduction by at least half of the £761 million additional provision sought in order to keep the overall increase in running costs in line with the medium-term objective in (i) above.



Daird.

Sorry, omitted
from Cabinet paper
on economic progress.

Alex
—

MAJOR ECONOMIC INDICATORS

	UK				G7 excl UK
	1984	1985	1986	1987††	1987
A. Demand & Activity					
GDP	3	3½	3	4	2½
Domestic demand					
of which					
- consumers' expenditure	2	3½	5	3½	2½
- fixed investment	9	2	1	4	2¼
Exports of Goods & Services	7	6	3	4	2½***
Imports of goods & Services	9	3	6	3	4***
B. Inflation (Q4 on year earlier)					
RPI	4¾	5½	3½	3¾	3
Average earnings	6½	7	8	7½	3½†
B. Other items					
(levels)					
Current balance (£bn)	1½	3½	0	-½	-12
Unemployment (per cent, narrow definition)	11	11½	11½	10½	7½
3 month interest rate	10	½	11	9.2*	6.3*
Sterling index (1980=100)	79	78	73	72.9*	-
Oil price (Brent, \$barrel)	29	27	14	19.8**	

- * close Friday 10 July
- ** delivery in July 87, as of 10 July
- *** goods only
- † manufacturing earnings

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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon John Moore MP
 Secretary of State for Social Services
 Department of Health and Social Security
 Alexander Fleming House
 Elephant and Castle
 London
 SE1 6BY

NBPM.

16 July 1987

Dear John,

PUBLIC EXPENDITURE

Thank you for sending me a copy of your minute of 11 July to the Prime Minister. I have now seen a copy of her reply. *at trap*

The commitment to deliver savings of £87 million/£128 million/£128 million on the Family Practitioner Services programme stands in full. It was not conditional upon colleagues agreeing that you should change exemptions from prescription charges to deliver part of the savings. The commitment is built in to your baseline provision. The first call on the savings you have identified must therefore be your inherited commitments. The second call on any balance must be the PES bids you have submitted. I note that you have bid for sums of £136 million/£184 million/£407 million for the Family Practitioner Services programme. It would be unfair to colleagues if you were to be given discretion to apply any part of the savings you propose to yet further additions to the health programme - additions which you have yet to specify and which would in due course need to be considered, along with other Ministers' priorities, in the Public Expenditure Survey.

On the social security side, you have already outlined your proposals in your letter of 2 July about the Survey. Our officials will need to discuss those proposals, particularly those in connection with the anti-fraud drive. As you say, further measures

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will be needed to meet the balance of the savings commitments from last year's survey. This sum will be greater in view of the Prime Minister's preference for not abolishing the 25p addition for the over 80s. I very much hope that you will be able to bring forward the remaining proposals for this purpose very soon, so that this does not overhang this year's Survey discussions. I need hardly say that I will be looking for substantial savings in both health and social security discussions, especially in view of the very large bids you have made. But I will go into this in more detail after the Public Expenditure Cabinet.

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

Yours Faithfully,
John
JOHN MAJOR





Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

16 July 1987

David Norgrove Esq
10 Downing Street
LONDON
SW1

Dear David

pa

PUBLIC EXPENDITURE CABINET

We shall be sending you over tomorrow the final drafts of the Cabinet papers for the Prime Minister's approval over the weekend. But I thought it might be helpful for you to see the latest drafts today; the Chancellor will be considering them over night. I therefore enclose:

- (i) the main paper on Public Expenditure;
- (ii) the annex on departmental running costs;
- (iii) the paper on Economic Prospects.

I am also attaching a note which sets out the arguments for the approach we have adopted, and the outcome we are seeking; and the draft briefing line for Mr Ingham after Cabinet (which should not, of course, be shown to Mr Ingham at this stage). If there are any points about which you are not clear, I or Andrew Turnbull will be glad to help.

If you think it would be helpful, we stand ready, as last year, to provide a speaking note for the Prime Minister to use at Cabinet.

*Yours
Alex*

A C S ALLAN
Principal Private Secretary

DRAFT PAPER FOR CABINET (No 3)

THIS DOCUMENT IS THE PROPERTY OF HER MAJESTY'S GOVERNMENT

C(87)

July 1987

Copy No

1987 PUBLIC EXPENDITURE SURVEY

Memorandum by the Chief Secretary, HM Treasury

*But still higher than 1978-79.*Introduction

Our policy is to bring public spending down progressively as a proportion of national income. Over the past four years we have succeeded in achieving this. Even excluding privatisation proceeds, general government expenditure (the combined spending of central and local government) has fallen from 47 per cent of GDP in 1982-83 to 44 per cent in 1986-87, and there will be a further fall in 1987-88. This has made it possible to combine a steady growth of public expenditure in real terms with a reduction in borrowing and, in each of the last five Budgets, a reduction in taxes. This restraint in public spending has made possible the strong performance of the economy which the Chancellor has described in his Memorandum (C(87)).

2. In our Election Manifesto we pledged ourselves to continue the policy of ensuring that public spending takes a steadily smaller share of our national income. This is essential if we are both to maintain the momentum of our economic performance and to deliver another of our Manifesto pledges, a reduction in the burden of taxation.

3. For this year's Survey we have established baseline totals for spending of £154.2 billion in 1988-89, £161.5 billion in 1989-90 and £165.5 billion in 1990-91. For the first two years this was done by retaining the planning totals set out in last year's Public Expenditure White Paper and for the third year we have used an uplift factor of 2½ per cent.

4. Departments were then asked to review their programmes within their baseline figures and to put proposals to me where they

felt, after a review of priorities, that additional resources were required. In my minute of July to the Prime Minister, I summarised the bids received from departments.

Objectives for the Survey

5. I have to make it clear to colleagues that bids on this scale are far beyond what can be afforded. If anything like this were accepted, we could make no further progress in reducing public spending as a proportion of GDP, as set out in the White Paper. This would not only trigger a complete reappraisal of the Government's financial standing in the markets, and stop our economic progress in its tracks; it would make our objectives for taxation unattainable.

surely the wrong way round.

6. With the time lost as a result of the election, it has not been possible to analyse the bids as thoroughly as normal. There are major uncertainties in a number of areas which I will want to probe further, eg the large estimating changes for social security and the projections of our contributions to the European Community.

7. But it is clear that to hold to our policy on public spending we will have to face up to difficult decisions in a number of areas, in particular:

Do we want to spell these out now?

i. for programmes such as defence, health and education which are seeking very large increases, the bids will have to be significantly scaled back and, to the greatest extent possible, policy savings found to offset them;

ii. for social security we must look at policy changes to help offset the enormous estimating changes;

iii. we need to take a hard look at the employment programmes where, with the better prospects for unemployment, substantial savings can be found;

iv. we need to re-examine the basis of our regional policies. The buoyancy of the economy and in particular of investment, reflecting the increased strength of the corporate sector,

is both increasing the cost of the present system of incentives and reducing the need for them. We should look for savings here partly to release resources for cost effective inner city spending;

v. we must look very carefully at the expenditure of the territories;

vi. we should go as far as we can in transferring to the private sector the responsibility for providing services hitherto provided by the public sector.

Reserves

8. In the last Survey we provided for Reserves of £3.5 billion in the first year rising to £7.5 billion in the third year. The experience of recent years shows that we need to keep a larger margin than this, especially in the later years, if we are to cope with the pressures both in-year and in successive Surveys. In particular we need to take account of the fact that the grant agreed in E(LA) may not succeed in holding local authority current spending to the figures agreed for provision. Keeping larger reserves will reduce the scope for making additions to programmes.

Departmental running costs

9. Colleagues have sought increases in their departments' running costs implying overall cash increases of 8 per cent for 1988-89 over 1987-88 with further increases in later years. The associated manpower projections reverse the downward trend we have achieved, implying a 15,000 increase over published plans for 1988-89.

10. In the last few years, the increases in spending on departmental costs agreed for each first Survey year have exceeded our aims. The figures for the later years have not been treated realistically and as a result have had to be increased substantially in later Surveys. We need to agree a realistic method for planning provision over the Survey period so that departments have a reasonably reliable basis for making medium-term plans to improve efficiency.

11. My proposals, set out more fully in the annex, are that:

i. the running costs share of total public spending should not rise over the Survey period. This implies that running costs would grow on average in line with public expenditure generally, ie by about 1 per cent a year in real terms;

ii. cost and other pressures will need to be met to a large extent by efficiency gains of at least $1\frac{1}{2}$ per cent a year in the use of all resources including manpower. These will need to be planned well in advance and departments should have contingency plans for larger improvements in case they are necessary;

iii. departments should prepare management plans to deliver these gains over the full Survey period. In any case where the plans are not suitably ambitious, or are unrealistic, I should hold over agreement on the later Survey years until the next Survey;

iv. for 1988-89, the aim should be to reduce the overall increase in provision sought by at least half.

Nationalised industries

12. In the 1987 Investment and Financing Review, the nationalised industries' own initial and unamended bids, made in May, exceed the baseline by £0.9 billion in the first year and £1.2 billion in the two subsequent years. These bids are clearly unrealistic and cannot be afforded. 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. Apart from the electricity industry in England and Wales, and Scotland, where separate considerations apply, I propose that our aim should be to reduce the provision at least to baseline and, where we can in the case of individual industries, below it. Failure to achieve this would mean greater pressure on departmental programmes. There are particular problems relating to the electricity industry this year, notably the need to set new financial targets, the implications of privatisation and assessment of a new power station programme. Notwithstanding these

But the figures of the White Paper don't show 1% a year. (They do.)

uncertainties, the pressure on public expenditure means that it is essential to appraise the industry's bids critically and to set challenging financial targets.

Local authority relevant public expenditure

13. We have agreed in E(LA) to set provision for relevant public expenditure in England at £27,969 million (£27,538 million for relevant current expenditure and £431 million for Rate Fund Contributions to Housing Revenue Accounts). This is an increase of £819 million above the ^{Paper}White/baseline. Aggregate Exchequer Grant in England is set at £13,775 million, an increase of £750 million (5½ per cent) on the 1987-88 settlement figure including teachers' pay. [Reference to Scotland and Wales to come.] These are substantial additions and we must recognise that they will severely limit what can be made available for other programmes.

Conclusions

14. I ask Cabinet:

- i. to reaffirm the Manifesto policy of ensuring that public spending takes a steadily smaller share of our national income as set out in last year's White Paper;
- ii. to note that bids will have to be substantially cut back to secure the policy objective at (i);
- iii. to agree that we explore a wide range of policy changes including those listed in paragraph 7;
- iv. to agree that we should aim to hold the EFLs of the nationalised industries other than electricity at least to baseline and possibly below; and that we should seek to keep the electricity industries' external finance as low as possible;
- v. for running costs, to agree the proposals set out in paragraph 11 and in the Annex;
- vi. to agree that I should now conduct bilaterals with colleagues on their spending programmes.

1987 PUBLIC EXPENDITURE SURVEY: DEPARTMENTAL RUNNING COSTS

Departmental Ministers have sought increased provision for running costs totalling £761 million for 1988-89, £956 million for 1989-90 and £1,203 million for 1990-91.

2. If increases on this scale we agreed, overall expenditure on running costs would rise by 8 per cent in cash and 4 per cent in real terms between 1987-88 and 1988-89, with further real increases in the later years. They also imply an increase in Civil Service manpower of nearly 15,000 over the manpower plan of 583,000 for 1 April 1989 published in this year's public expenditure White Paper and further increases in later years, though some 5,000 of this rise stems from increases agreed after the last Survey.

3. In spite of large manpower reductions (135,000 since 1979 and 50,000 since 1983) and, in most years, Civil Service pay settlements at or below general inflation, running costs have continued to rise in real terms as a result of increases in non-manpower costs (eg more buying-in of services rather than providing them internally) and changes in grading mix. Tight pay settlements will continue to be the aim. But if departments are to recruit and retain the staff they need and the Government's objective of making the Civil Service pay structure more conducive to an efficient service and more responsive to labour market conditions is to be met, future pay offers cannot be expected to be immune from pay movements in the economy generally.

4. It is thus realistic to provide for some rise in overall spending on running costs; but the Manifesto pledge to press ahead with management reforms to improve public services and reduce their cost, as well as the aim of ensuring that public expenditure takes a steadily smaller share of national income, mean that the rise must be contained to well below the levels sought.

5. It is proposed as a firm objective that the running costs, share in total public spending should not rise over the Survey period. This implies that running costs would grow approximately on average in line with public expenditure generally, ie by about 1 per cent a year in real terms. It means that if increases in the volume of activity are to be met in some parts of the Civil Service, reductions or lower rates of growth will be necessary in others where demand is less or of lower priority.

6. To achieve this general objective, the bids will need to be substantially scaled down eg to less than half the additions to baseline that have been sought for 1988-89; and all departments will need firm plans to offset pay bill and other cost pressures through sustained and incremental efficiency gains. The improved budgetary and management systems stemming from the financial management drive of recent years, the Government's large and continuing investment in new technology, and further improvements in purchasing as well as the continuing processes of scrutiny and inspection must be used to deliver further improvement in performance, benefiting both input costs and outputs. On the input side, further improvements in the use of manpower and better control of non-manpower costs will be essential.

7. These efficiency gains will be easier to make on the necessary scale if they are planned for well in advance; and if the plans are ambitious there will be greater scope for flexibility in future years. It is proposed that all departments should now prepare or revise management plans committing them, over the Survey period, to the delivery of defined and wherever possible measured improvements in outputs, and progressive overall efficiency gains of at least 1½ per cent a year, with contingency plans for larger improvements in case they are necessary. This is a fair minimum target for well managed service organisations. These plans will be especially important for departments with large executive operations.

8. Departments' plans, and their implications for restraining growth in running costs would be discussed in the bilaterals. Agreement to increases over baseline, particularly for the last two years of the Survey, would be withheld until it was clear

that ambitious but realistic plans for efficiency gains over the medium-term had been made. In some cases this might mean that the final levels of provision for 1989-90 and 1990-91 would have to be held over until the next Survey.

Civil Service manpower

9. Earlier this year it was announced that manpower targets would not be set after 1 April 1988, and pressure on Civil Service numbers would be maintained through running costs. The proposed approach to running costs will mean large reductions in the manpower projections of some departments. It is important to show that the running costs regime is an effective control on all Civil Service resources, including manpower. There will otherwise be pressure to reintroduce manpower targets.

Conclusions

10. The Cabinet is invited to agree that:

i. the aim should be to restrain running costs over the Survey period to their present share in total public spending by offsetting so far as possible any real rises in pay and other costs through efficiency gains;

ii. departments should prepare or revise three-year management plans for sustained output and cost improvement, for discussion in the bilaterals;

iii. for 1988-89 the aim should be a reduction by at least half of the £761 million additional provision sought in order to keep the overall increase in running costs in line with the medium-term objective in (i) above.

ECONOMIC PROSPECTS

The economy has been growing steadily at a satisfactory rate for the past six years. With industry competing successfully in the home and international markets the prospect this year is for faster GDP growth than in recent years - more than expected at Budget time. The principal factors behind the more buoyant growth rate are strong export performance and successful competition with imports. Unemployment has continued to fall while inflation has remained close to the expected path. So far this year, the current account of the balance of payments has been in surplus.

subject to the paper on Thursday Wednesday. One may need to change

2. Our prudent monetary and fiscal policies lie behind this successful performance. They have stabilised financial conditions, enabled us to avoid lurches of policy, and increased confidence in the UK as a base for investment. The reduction of public expenditure as a share of GDP over the past four years has been especially important. It has provided room for lowering the PSBR and adjusting to the loss of North Sea revenues, but we have made little progress in reducing the burden of non-North Sea taxation. We are also seeing, especially in rapidly growing manufacturing productivity, some effects from the measures taken over the past seven years to improve supply performance.

3. The growth rate this year is likely to be significantly above the average level of recent years, and we cannot count on it being sustained. There are definite risks. Abroad, the world economy could be more depressed than now envisaged. At home, pay settlements badly need to fall, not least in the public sector. Above all it is essential that the Government demonstrates its firm commitment to the financial policies that have brought this success and which alone can deliver declining inflation and the continuation of steady growth in the years ahead.

WORLD ECONOMY

4. The most obvious threat to continued steady UK growth comes from a weakening of demand and output in other major developed countries. Since the fall in oil prices at the beginning of 1986, output growth in the G7 economies has been disappointing. Last year weak world demand originated in the developing countries who, as a group, cut back their imports. More recently many of the strains seem to reflect slowness in adjusting to the sharp realignment of exchange rates. Domestic demand in the US is understandably weakening; while in Germany and Japan it is not rising fast enough to offset the adverse effects of currency appreciation on their exports. Their loss of export markets has been made more acute by the increasing shares taken by the newly industrialised countries, notably in South-East Asia, who with the exception of Taiwan have held their currencies steady against the dollar.

5. Inflation rates in the major economies have been reduced, much as expected. And there are now signs of some progress in correcting the large current account imbalances in the US, Japan and Germany. The risk of further turmoil in foreign exchange markets has been reduced - although not eliminated - by successful co-operation between the G7 countries. Following the agreement at the Louvre in February, the G7 countries have succeeded in stabilising their currencies by a combination of intervention and a greater willingness to adapt their monetary policies. And there have been some further steps in Germany and even more in Japan to support domestic demand and open markets. It is vital that these measures are sustained and strengthened. Further reductions in the US Budget deficit are also needed.

THE BRITISH ECONOMY

6. A summary of the most recent Treasury assessment is shown in ... the attached annex.

7. At home we have seen a continuation of what has by now become a familiar pattern of strong and steady growth coupled with low inflation.

8. A year ago there was concern in some quarters at the mild pause in growth between mid-1985 and mid-1986. In the event, despite disappointing growth abroad, performance at home has exceeded expectations. In the first quarter of this year GDP was just over 4 per cent higher than a year earlier.

9. The prospect is for continuing strong growth in 1987, with the outcome in the year as a whole likely to be closer to 4 per cent than the 3 per cent predicted at Budget time. Domestic demand growth is balanced, with fixed investment rising in line with the growth of consumers' expenditure. With growth in 1987 above the trend of recent years, it would not be surprising if the growth rate fell back a little next year.

10. This recent performance of output has contributed to a further rise in employment and in turn to the fastest recorded fall in unemployment since the War. This welcome fall in unemployment to below the three million mark has occurred at the same time as productivity growth in manufacturing has been exceptionally high by historical standards. Indeed increased industrial efficiency has been an essential factor in the greatly improved unemployment prospect. If overall growth continues at a steady and sustainable rate, even if somewhat lower than this year, there is every likelihood that the fall in unemployment will also continue.

11. We have always known that the UK, as a major oil producer, would not benefit as much from the fall in oil prices as the other major economies. The necessary fall in sterling during 1986 largely offset the beneficial impact on inflation of the lower oil prices. However, we are still on course to achieve the Budget forecast of 4 per cent inflation in the fourth quarter of this year, and the outcome could well be a littler lower. Nonetheless, this remains uncomfortably above the average rate in other major economies. It is essential that inflation is kept firmly on a downward path over the medium term.

12. So far, lower inflation has not been adequately reflected in lower pay settlements. The deceleration of private sector pay settlements in 1986 appears to have ended: indeed if anything they

may have begun to edge up. Some public sector settlements - notably by local authorities - could also set an unfortunate precedent for the private sector and will make it more difficult to control public finances. Pay increases need to be lower if the hard-won fall in unemployment is to continue.

X 13. The prospects for the current account of the balance of payments now look a little better than they did at the time of the Budget. Over the past year British companies have competed successfully in the home and international markets. In spite of subdued prospects for world trade and buoyant activity at home it now looks as if the current account this year will show a smaller deficit than the Budget forecast of £2½ billion (half a per cent of GDP).

14. Since the Louvre agreement towards the end of February, sterling has generally been very steady. Indeed, during April and May there was a pronounced tendency for the pound to strengthen. This was contained by reducing interest rates and intervening in the foreign exchange markets on a massive scale. As a result, the exchange rate has stayed within a very narrow range over the past 4-5 months. This in turn has strengthened confidence within industry.]

gratuitous.

15. Nevertheless, financial markets are closely watching the behaviour of the economy, and in particular the outlook for inflation. They will also be alert to any signs of a loosening of the firm financial policies that have brought our current success.

DRAFT CABINET PAPER ON PUBLIC EXPENDITURE

(i) As last year, do not believe an increase in planning total can be avoided.

(ii) Do not believe that can repeat last year's tactic of "working within existing planning totals" and then announcing an increase at the end. After last year, colleagues will be seeking some indication of Treasury's thinking.

(iii) But do not want to name new planning totals in July:

- no economic context in which to place them;

- would require Parliamentary statement;

- uncertainties make it difficult to name figure which we can be sure of holding to;

- to announce figures we think can be held would whet departmental appetites.

(iv) Therefore propose that no decision be taken on planning totals but that policy of reducing public expenditure as a proportion of GDP, as set out in the PEWP, be reaffirmed.

(v) Thus, while likelihood of some increase is implicitly acknowledged, aim is to keep as small as possible and in any case subject to constraint of GGE/GDP ratio. Reference to "as set out in the White Paper" means must keep to White Paper percentages or better. Any decline, however small, is not acceptable. Survey is not open-ended.

(vi) Necessary to deflate expectations. Two devices for this:

a. paper deliberately maintains a number of areas where difficult policy savings should be explored;

b. paper stresses extent of prior claims eg agreed decisions, local authority current expenditure, social security estimating changes, need to hold back more for larger Reserves.

(vii) Some colleagues may argue that their programmes cannot contribute savings/scale back bids. Paper does not seek decisions, but seeks to keep open areas for further investigation. Attempts to gain exemption should be resisted. Meeting should not attempt to discuss substance of individual issues.

(viii) On nationalised industries, recommendation is straightforward. Important to leave open option of "challenging financial targets" for electricity.

(ix) On running costs, a modified approach is suggested. Running costs limits have proved an effective way of controlling departmental operating costs for the year immediately ahead; they avoid many of the distortions of manpower control and they fit better with the delegating budgeting being developed in departments. But there is evidence that for years 2 and 3 they provide departments with a less clear signal than the old manpower targets and that the figures agreed for in the future years have become pretty unrealistic.

(x) The paper proposes that departments should commit themselves to medium-term plans to improve productivity by, say, 1½ per cent a year. But where departments fail to come up with medium-term efficiency plans, it might be necessary to hold over agreement on the final levels of provision in 1989-90 over 1990-91, until the next Survey. At the same time the Government would adopt a more realistic objective for running costs, ie that they should rise in line with public expenditure as a whole or about 1 per cent a year in real terms. Previously the objective has been to keep running costs constant in real terms, while the outcome has been growth of 1½ per cent. This represents a convergence of setting a more realistic target with an effort to secure improvement on what has been achieved in the past.

(xi) As on previous occasions, Cabinet would be asked to agree a line to be issued to the Lobby (and to be used by the Prime Minister if necessary at Questions). A draft is attached, together with suggested responses to immediate questions.

BRIEFING FOR NO 10Line

The Cabinet had its usual July discussion of public expenditure today. It reaffirmed the policy that public expenditure should continue to take a declining share of national income, as set out in the last Public Expenditure White Paper. [Within that constraint,] the Chief Secretary will hold bilateral discussions in the Autumn. In the light of these, the Government will review both the individual spending programmes [and the planned totals for spending] and will, as usual, announce decisions in the Autumn Statement in November.

Text

"My Government ... will maintain firm control of public expenditure so that it continues to fall as a proportion of national income and permits further reductions in the burden of taxation." - Queen's Speech.

Will the planning totals be increased?

I cannot tell you whether the totals will be changed, or if so by how much, or where the money will go. None of that is decided.

There may be some change in the totals, but if so - and I stress that it is not decided - the Government will keep as close to them as possible and will in any case not exceed the White Paper percentages of GDP.

The policy that public expenditure declines as a proportion of GDP is not just an aspiration. It is what we have achieved since 1982-83.

Why might you allow an increase?

I am not saying we will. It is restraint which has brought success. There will ~~be~~ no let-up in the Government's rigorous approach. And we will continue to plan expenditure on a cautious view of what we can afford.

But the strength of the economy is there for all to see, though it would be unwise to plan public expenditure on the basis that it will continue to grow at this year's growth rate.

Why no decision?

Cabinet has decided to stick firmly to the policy.

Final decisions will be taken, as always, when:

- there has been further assessment of the needs of particular programmes;
- we have further information on the prospects for the economy and so on what we can afford.

ice BG.



Treasury Chambers, Parliament Street, SW1P 3AG

David Norgrove Esq
Private Secretary
10 Downing Street
London
SW1

15 July 1987

Dear David,

CASH LIMITS FOR 1986-87

We are now ready to publish the annual White Paper showing provisional outturn of expenditure against cash limits and running costs limits for 1986-87. The Chief Secretary proposes to publish it on 23 July at 2.30pm.

... 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.

Thank you for your letter
of 18 July

Yours sincerely
M C Felstead

M C FELSTEAD
Private Secretary



Cash Limits
1986–87
Provisional
Outturn

(AND 1985–86 OUTTURN)

*Presented to Parliament by the Chief Secretary to the Treasury
by command of Her Majesty
July 1987*

HER MAJESTY'S STATIONERY OFFICE LONDON

CASH LIMITS 1986-87 PROVISIONAL
OUTTURN (AND 1985-86 OUTTURN)

1. This White Paper gives provisional outturn figures for cash limited expenditure, including external financing limits (EFLs) of nationalised industries, in 1986-87 and revised figures for 1985-86. It also gives provisional outturn figures for 1986-87 departmental running costs limits.

Original cash limits

2. The original cash limits for 1986-87 on central government voted expenditure were published in the Supply Estimates and listed in the Summary and Guide to Estimates 1986-87 (Cmnd 9742). The original cash limits relating to local authorities' capital expenditure and certain other expenditure were announced by written PQ on 18 March 1986.

Original running
costs limits

3. Departmental running costs limits were introduced for 1986-87 for the first time. The original running costs limits were published in the Summary and Guide to Estimates 1986-87 (Cmnd 9742).

Provisional outturn
on cash limits

4. Total cash limited central government voted expenditure was £58,730m - an underspend of £903m compared with final cash limits. Total cash limited non-voted expenditure was £7,684m - an underspend of £113m compared with final cash limits. Tables 1 and 2 give detailed provisional outturn figures for 1986-87 compared with final cash limits. These figures may be subject to some adjustment when the final accounts are available, particularly in the case of the local authority capital cash limits.

Provisional outturn on
running costs limits

5. Total running costs expenditure was £13,071m an underspend of £100m compared with final running costs. Table 3 gives detailed provisional outturn figures compared with final running costs limits. These figures may also be subject to some final adjustment.

Changes to original cash
limits

6. Table 4 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. It is normal for some cash limits to be increased during the year to cover certain unexpected developments of policy or other contingencies: there is an unallocated Reserve in the public expenditure plans against which increases in public expenditure are charged.

Cash limit breaches

7. On the current figures there were five breaches of cash limits.

- i) The Department of Employment overspent on their administration cash limit (Class VII vote 3) by £1.769 million (2.4 per cent);
- ii) the Department of Health and Social Security overspent the hospital and community health service limit (Class XIV vote 1) by £3.418 million (0.04 per cent). This cash limit overspend should not lead to a public expenditure overspend because it is expected that the breach will be more than matched by increased receipts being surrendered to the Consolidated Fund.

- iii) The DHSS also overspent their social security administration cash limit (Class XV vote 5) by £4.92 million (0.4 per cent).
- iv) Local authorities in England breached the cash limit for capital expenditure (Department of the Environment/LA1) by £18.5 million (0.8 per cent).
- v) Similarly, Welsh local authorities breached Welsh Office/LA1 by £46 million (14.6 per cent).

The usual corrective procedures in the case of cash limit breaches are being implemented.

Changes to running costs limits

8. Table 5 shows changes to the original running costs limits. None of these changes are attributable to Civil Service pay settlements.

Running costs limit breaches

9. On the current figures there were four breaches of running costs limits.

- i) The Department of Employment overspent by £2.337 million (0.6 per cent).
- ii) the Department of Health and Social Security overspent by £0.674 million (0.04 per cent).
- iii) the Scottish Office overspent by £1.768 million (1.1 per cent).
- iv) the Inland Revenue overspent by £2.934 million (0.3 per cent).

Appropriate corrective action is being implemented.

Nationalised industries

10. Table 6 shows the original external financing limits (EFLs) for nationalised industries in 1986-87, revised EFLs and provisional outturn figures for each industry.

1985-86 Revised outturn

11. Table 7 gives final outturn figures for central government cash limited expenditure in 1985-86. Table 8 shows revised figures for the same year for the capital expenditure of local authorities and for certain other bodies. These may still be subject to some revision. Provisional outturn figures for 1985-86 were published in July 1986 in the White Paper "Cash Limits 1985-86 Provisional Outturn" (Cmd 9851).

Table Final cash limits 1986-87: Provisional outturn for central government votes

Class and vote	Accounting department	Description of expenditure	Cash Limit £ thousand	Provisional outturn £ thousand	Overspend (+) or Underspend (-) £ thousand	Underspend (-) %	
I	1	Ministry of Defence	Personnel costs etc of the armed forces and civilians, stores, supplies and miscellaneous services	7,076,965	7,080,306	-560,815	-3.2 (a)
	2	Ministry of Defence	Defence procurement	8,762,399	8,197,016		
	4	Property Services Agency	Defence accommodation services	1,488,831	1,521,284		
	5	Ministry of Defence	Dockyard services	415,345	384,119		
II	1	Foreign and Commonwealth Office	Overseas representation	399,570	393,977	-5,593	-1.4
	2	Foreign and Commonwealth Office	Other external relations	103,618	101,954	-1,664	-1.6
	3	Foreign and Commonwealth Office	British Broadcasting Corporation external services	109,877	100,553	-9,324	-8.5
	4	Foreign and Commonwealth Office	British Council	52,754	52,754	0	0.0
	5	Overseas Development Administration	Overseas aid	1,064,998	1,064,000	-998	-0.1
	6	Overseas Development Administration	Overseas aid administration	27,312	27,163	-149	-0.5
IV	2	Intervention Board for Agricultural Produce	Central administration	27,376	26,021	-1,355	-4.9
	4	Ministry of Agriculture, Fisheries and Food	Other agricultural and food services and support for the fishing industry	139,870	134,983 133,757	-4,887 -6,113	-3.5 -4
	5	Ministry of Agriculture, Fisheries and Food	Departmental research, advisory services and administration	215,754	213,233	-2,521	-1.2
	6	Forestry Commission	Forestry	53,008	52,500	-508	-1.0
V	2	Department of Trade and Industry	Support for industry	446,392	440,628	-5,764	-1.3
	3	Department of Trade and Industry	Regulation of trading practices, consumer protection and central and miscellaneous services	147,135	143,339	-3,796	-2.6
	5	Export Credit Guarantee Department	International trade central services	43,154	35,502	-7,652	-17.7
	8	Department of Trade and Industry	Sale of shares in British Telecommunications plc	2	0	-2	-100.0

Table 1 (Contd)

Class and vote	Accounting department	Description of expenditure	Cash Limit £ thousand	Provisional outturn £ thousand	Overspend (+) or Underspend (-) £ thousand	Underspend (-) %
V	9	Department of Trade and Industry	4,000	981	-3,019	-75.5
	10	Department of Trade and Industry	1	0	-1	-100.0
	11	Department of Trade and Industry	680,000	680,000	0	0.0
VI	2	Department of Energy	266,102	262,571	-3,531	-1.3
	3	Department of Energy	22,472	22,057	-415	-1.8
	6	Department of Energy	2	0	-2	-100.0
VII	1	Department of Employment	1,293,123	1,264,404	-28,719	-2.2
	3	Department of Employment	72,505	74,277 ⁴	+1,772 ⁶⁹	+2.4
	4	Department of Employment	14,934	14,887	-47	-0.3
	5	Department of Employment	94,334	94,320	-14	-0.0
	6	Department of Employment	1,645,186	1,617,007	-28,179	-1.7
VIII	1	Department of Transport	890,197	852,452	-37,745	-4.2
	2	Department of Transport	180,371	174,807 ⁴ 173,846	-5,564 ⁶⁹ -6,525	-3.1 -3.6
	4	Department of Transport	111,415	107,798	-3,617	-3.2
	5	Department of Transport	196,722	193,915	-2,807	-1.4
	6	Department of Transport	2	0	-2	-100.0
	7	Department of Transport	1,000	564	-436	-43.6
	8	Department of Transport	2	0	-2	-100.0
IX	2	Department of the Environment	41,254	39,721	-1,533	-3.7
X	2	Department of the Environment	179,641	168,957	-10,684	-5.9
	4	Department of the Environment	82,001	80,906	-1,095	-1.3
	5	Department of the Environment	142,079	139,817	-2,262	-1.6
	6	Department of the Environment	9,277,500	9,255,417	-22,083	-0.2

Table (Contd) Final cash limits 1986-87: Provisional outturn for central government votes

Class and vote	Accounting department	Description of expenditure	Cash Limit £ thousand	Provisional outturn £ thousand	Overspend (+) or Underspend (-) £ thousand	Underspend (%)
X	7	Department of the Environment National parks supplementary grants, England	6,430	6,430	0	0.0
	9	Department of the Environment Sale of shares in Water Services plcs	1,500	1,112	-388	-25.9
XI	2	Home Office Prisons, England and Wales	642,027	629,500 626,699	-12,527 -5,328	-2.0 -2.4
	3	Home Office Central, administrative, miscellaneous and community services and civil defence, England and Wales	363,238	351,425	-11,813	-3.3
	5	Lord Chancellor's Department Administration of justice, England and Wales	89,212	86,844	-2,368	-2.7
XII	1	Department of Education and Science Schools, further education and other educational services	210,964	202,464	-8,500	-4.0
	3	Department of Education and Science Universities, etc	1,561,548	1,561,453	-95	-0.0
	4	Department of Education and Science Central administration	54,636	54,588	-48	-0.1
	5	Department of Education and Science Research councils, etc: Agricultural and Food Research Council	57,149	57,149	0	0.0
	6	Department of Education and Science Research councils, etc: Medical Research Council	128,340	128,340	0	0.0
	7	Department of Education and Science Research councils, etc: Natural Environment Research Council	70,325	70,325	0	0.0
	8	Department of Education and Science Research councils, etc: Science and Engineering Research Council	316,187	316,187	0	0.0
	9	Department of Education and Science Research councils, etc: Economic and Social Research Council	23,820	23,820	0	0.0
	10	Trustees of the British Museum (Natural History) Research councils, etc: British Museum (Natural History)	11,787	11,787	0	0.0
	11	Department of Education and Science Research councils, etc: Other science	6,953	6,913	-40	-0.6
XIII	1	Office of Arts and Libraries British Museum	13,345	13,345	0	0.0
	2	Office of Arts and Libraries Imperial War Museum	4,497	4,497	0	0.0
	3	Office of Arts and Libraries National Gallery	6,771	6,771	0	0.0
	4	Office of Arts and Libraries National Maritime Museum	4,462	4,462	0	0.0

Table 1 (Contd)

Class and vote	Accounting department	Description of expenditure	Cash Limit £ thousand	Provisional outturn £ thousand	Overspend (+) or Underspend (-) £ thousand	%	
XIII	5	Office of Arts and Libraries	National Portrait Gallery	1,814	1,814	0	0.0
	6	Office of Arts and Libraries	Science Museum	9,171	9,171	0	0.0
	7	Office of Arts and Libraries	Tate Gallery	5,782	5,782	0	0.0
	8	Office of Arts and Libraries	Victoria and Albert Museum	11,023	11,023	0	0.0
	9	Office of Arts and Libraries	Wallace Collection	906	906	0	0.0
	10	Office of Arts and Libraries	Arts, the Arts Council and other institutions, the national heritage and the government's art collection	173,877	173,663	-214	-0.1
	11	Office of Arts and Libraries	Libraries, England	53,144	53,144	0	0.0
	12	Office of Arts and Libraries	Central administration	1,200	1,158	-42	-3.5
XIV	1	Department of Health and Social Security	Hospital, community health and other services, England	9,670,214	9,673,632	+3,418	+0.0
	3	Department of Health and Social Security	Miscellaneous health services and personal social services, England	390,586	388,553	-2,033	-0.5
XV	5	Department of Health and Social Security	Administration and miscellaneous services	1,174,414	1,179,072 ³³⁸	+4,924 ^{+4,924} +4,658	+0.4
XVI	2	Department of Agriculture and Fisheries for Scotland	Agricultural services and fisheries, Scotland	76,843	73,159	-3,684	-4.8
	3	Industry Department for Scotland	Regional and general industrial support, Scotland	124,768	124,915 ³	-853	-0.7
	4	Industry Department for Scotland	Manpower Services Commission, Scotland	164,077	162,077	-2,000	-1.2
	6	Scottish Development Department	Roads, transport and environmental services, Scotland	150,658	144,264	-6,394	-4.2
	11	Scottish Courts Administration	Administration of justice, Scotland	10,976	10,957	-19	-0.2
	14	Scottish Home and Health Department	Prisons, hospitals and community health services, etc, Scotland	1,606,372	1,594,200	-12,172	-0.8
	15	Scottish Education Department	Education, arts, libraries and social work, Scotland	169,271	167,680	-1,591	-0.9
	18	Scottish Record Office	Scottish Record Office	1,782	1,760	-22	-1.2

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Table 1 (Contd) Final cash limits 1986-87: Provisional outturn for central government votes

Class and vote	Accounting department	Description of expenditure	Cash Limit £ thousand	Provisional outturn £ thousand	Overspend (+) or underspend (-) £ thousand	Underspend (-) %
XVI 19	The Registrar General, Scotland	General Register Office for Scotland	3,201	3,196	-5	-0.2
20	Department of the Registers of Scotland	Department of the Registers of Scotland	1	0	-1	-100.0
21	Scottish Office	Scottish Office: administration	106,548	106,359	-189	-0.2
22	Scottish Office	Rate support grants to local revenues, Scotland	1,761,350	1,712,983	-48,367	-2.7
XVII 2	Welsh Office	Agricultural services, support for the fishing industry, regional and industrial development, Wales	44,048	42,845	-1,203	-2.7
4	Welsh Office	Manpower Services Commission, Wales	100,788	100,788	0	0.0
5	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	180,602	177,836	-2,766	-1.5
8	Welsh Office	Hospital and community health services, etc, Wales	657,687	656,618	-1,069	-0.2
9	Welsh Office	Other services: Welsh Office	36,951	36,677	-274	-0.7
10	Welsh Office	Rate support grants to local revenues, Wales	880,807	878,086	-2,721	-0.3
11	Welsh Office	National parks supplementary grants, Wales	2,214	2,213	-1	-0.0
13	Welsh Office	Transport supplementary grants, Wales	19,596	19,596	0	0.0
XVIII 1	Northern Ireland Office	Law, order, protective and miscellaneous services, Northern Ireland	481,777	480,256	-1,521	-0.3
XIX 1	Central Office of Information	Publicity	152,000	150,211	-1,789	-1.2
2	Customs and Excise	Economic and financial administration	395,739	395,739	0	0.0
3	Registry of Friendly Societies	Registry of Friendly Societies	2,368	2,221	-147	-6.2
4	Government Actuary	Other common services	1,413	1,348	-65	-4.6
5	Her Majesty's Stationery Office	Stationery and printing: payments to Her Majesty's Stationery Office	3,975	3,975	0	0.0
7	Inland Revenue	Economic and financial administration	963,317	962,403	-914	-0.1
10	National Investment and Loans Office	Economic and financial administration	1	0	-1	-100.0
11	Department for National Savings	Economic and financial administration	156,919	156,031	-888	-0.6
12	Her Majesty's Treasury	Economic and financial administration	45,240	44,722	-518	-1.1
14	Her Majesty's Treasury	Central management of the civil service: computers and telecommunications	17,959	16,064	-1,895	-10.6

Table 1 (Contd)

Class and vote	Accounting department	Description of expenditure	Cash Limit £ thousand	Provisional outturn £ thousand	Overspend (+) or Underspend (-) £ thousand	%
XIX 15	Her Majesty's Treasury	Central management of the civil service: civil service catering services	3	0	-3	-100.0
XX 1	Cabinet Office	Central management of the civil service: Management and Personal Office	32,161	31,896	-265	-0.8
2	Cabinet Office	Other services	15,027	14,663	-364	-2.4
3	Cabinet Office	Other public services: secret service	92,000	91,833	-167	-0.2
4	Charity Commission	Records, registrations and surveys	5,311	5,282	-29	-0.5
7	Crown Estate Office	Crown Estate Office	642	623	-19	-3.0
10	Land Registry	Records, registrations and surveys	2	0	-2	-100.0
11	Ordnance Survey	Records, registrations and surveys	19,159	16,585	-2,574	-13.4
12	Office of the Parliamentary Commissioner and Health Service Commissioners	Other services	1,885	1,831	-54	-2.9
13	Paymaster General's Office	Other common services	13,064	12,978	-86	-0.7
14	Privy Council Office	Parliament and Privy Council	1,110	1,087	-23	-2.1
15	Public Records Office	Records, registrations and surveys	10,171	10,027	-144	-1.4
16	Office of Fair Trading	Office of Fair Trading	8,655	8,133	-522	-6.0
17	Office of Telecommunications	Office of Telecommunications	1	1	0	0.0
18	PSA of the Department of the Environment	Civil accommodation, administration, and miscellaneous services	150,929	143,194 148,602	-7,735 -2,327	-5.1 -1.5
19	Office of Population Censuses and Surveys	Records, registrations and surveys	29,726	27,577	-2,149	-7.2
20	The Crown Agent	Law charges, Scotland	15,979	15,848	-131	-0.8
22	Northern Ireland Court Service	Administration of justice, Northern Ireland	9,765	9,744	-21	-0.2
24	Treasury Solicitor's Department	Law charges, England and Wales	9,442	9,354	-88	-0.9
26	Director of Public Prosecutions	Other legal fees, England and Wales	64,714	49,139	-15,575	-24.1
28	Office of Gas Supply	Gas Supply	1	1	0	0.0
TOTAL CASH-LIMITED VOTES			<u>59,633,520</u>	<u>58,730,365</u>	<u>-903,155</u>	<u>-1.5</u>

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

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Table 2 Final cash limits 1986-87: Provisional outturn for local authorities' capital expenditure blocks and certain other expenditure

Department	Cash block	Description of expenditure	Cash Limit £ million	Provisional outturn £ million	Overpend (+) or Underpend (-) £ million	%
Bank of England	BOE1	Bank of England administration costs in respect of note issue, exchange equalisation account and debt management	82.7	82.7	0	0.0
Department of the Environment	DOE/LA1	Capital expenditure in England by local authorities on roads and transport, housing, schools, further education and teacher training, personal social services and other environmental services	2,368.6	2,387.1 2,381.6	+18.5 +15.0	+0.8 +0.5
Department of the Environment	DOE/NT1	Capital expenditure in England by new towns on housing, roads, sewerage, and commercial and industrial investment	-99.7	-141.7 -118.6	-42.0 -18.9	-42.1 -14
Department of the Environment	DOE/HC1	Capital expenditure in England on housing financed through the Housing Corporation	587.4	6.1 587.4	-1.3 -0.1	-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	366.9	358.8 358.9	-8.1 -0.1	-
Home Office	HO/LA1	Capital expenditure by local authorities on police, courts and probation	126.6	88.5	-38.1	-30.1
Home Office	HO/MP1	Expenditure by the Metropolitan Police on manpower, pay, pensions, premises, transport and other running costs	851.8	834.3	-17.5	-2.1
NORTHERN IRELAND						
Northern Ireland Departments	NID 1	Services broadly analogous to Great Britain services covered by cash limits	2,293.0	2,245.4	-47.6	-2.1
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	419.5	410.6	-8.9	-2.1
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	485.4	471.8	-13.6	-2.8
WALES						
Welsh Office	WO/LA1	Capital expenditure in Wales by local authorities, new towns and the Housing Corporation on roads and transport, housing, schools, further education and teacher training, personal social services and other environmental services and by the Land Authority for Wales	314.8	360.8	+46.0	+14.6
TOTAL			7,797.0	7,684.4 7,678.9	-112.6 -118.1	-1.4 -1.5

Running costs

Final

Table 3 ~~Final cash~~ limits 1986-87: Provisional outturn

Class	Department	Running costs limit £ thousand	Provisional outturn £ thousand	Overspend (+) or Underspend (-) £ thousand	%
I	Defence (a)	5,194,761	5,172,024	-22,737	-0.4
II	Foreign and Commonwealth Office				
	Foreign and Commonwealth Office	375,525	375,000	-525	-0.1
	Overseas Development Administration	36,904	36,515	-389	-1.1
IV	Intervention Board for Agricultural Produce	11,314	10,385	-929	-8.2
	Ministry of Agriculture, Fisheries and Food	209,820	205,893	-3,927	-1.9
V	Trade and Industry	268,317	259,082	-9,235	-3.4
VI	Energy	25,877	25,470	-407	-1.6
VII	Employment Group				
	Department of Employment	390,538	392,280	+1,742	+0.4
	Advisory, Conciliation and Arbitration Service	14,797	14,766	-31	-0.2
	Health and Safety Commission/Executive	86,503	86,291	-212	-0.2
	Manpower Services Commission	399,360	388,700	-10,660	-2.7
	Total Employment Group	891,198	881,987	-9,211	-1.0
VIII	Transport	286,343	285,289	-1,054	-0.4
IX	DOE—Housing	137,721	134,710	-3,011	-2.2
X	DOE—Other environmental services				
XI	Home Office	722,389	706,882	-15,507	-2.1
	Lord Chancellor's Department	192,919	192,869	-50	-0.0
XII	Education and Science	54,961	54,381	-580	-1.1
XIII	Arts and Libraries	1,200	1,158	-42	-3.5
XIV	DHSS—Health and personal social services	1,819,946	1,820,314	+418	+0.0
XV	DHSS—Social security				
XVI	Scotland				
	Scottish Office	159,580	161,348	+1,768	+1.1
	Scottish Courts Administration	16,899	16,872	-27	-0.2
	Scottish Records Office	2,143	2,120	-23	-1.1
	General Registrar's Office, Scotland	3,665	3,649	-16	-0.4
	Department of the Registers of Scotland	10,269	10,208	-61	-0.6
	Total Scotland	192,556	194,197	+1,641	+0.9
XVII	Wales	36,336	36,160	-176	-0.5
XVIII	Northern Ireland (b)	446,901	443,221	-3,680	-0.8
XIX	Chancellor's Department				
	Central Office of Information	18,064	18,023	-41	-0.2
	Customs and Excise	384,607	384,607	0	0.0
	Registry of Friendly Societies	3,440	3,346	-94	-2.7
	Government Actuary	1,948	1,872	-76	-3.9
	Inland Revenue	921,450	924,384	+2,934	+0.3
	National Investment and Loans Office	1,154	1,120	-34	-2.9
	Department for National Savings	153,765	151,611	-2,154	-1.4
	HM Treasury	61,802	60,410	-1,392	-2.3
	Total Chancellor's Department	1,546,230	1,545,373	-857	-0.1
XX	Other Departments				
	Management and Personnel Office	39,023	38,943	-80	-0.2
	Cabinet Office	17,820	17,586	-234	-1.3
	Charity Commission	5,279	5,215	-64	-1.2
	Land Registry	84,675	84,583	-92	-0.1
	Ordnance Survey	49,193	48,887	-306	-0.6
	Paymaster General's Office	13,251	13,059	-192	-1.4
	Privy Council Office	1,130	1,107	-23	-2.0
	Public Records Office	10,948	10,804	-144	-1.3
	Office of Fair Trading	8,280	7,931	-349	-4.2
	Office of Gas Supply	1,056	506	-550	-52.1
	Office of Telecommunications	3,445	3,277	-168	-4.9

Running cost

Final

Table 3 (Contd) ~~Final cost~~ limits 1986-87: Provisional outturn

Class	Department	Running costs limit £ thousand	Provisional outturn £ thousand	Overspend (+) or Underspend (-) £ thousand	%
XX	Property Services Agency	355,106	341,090	-14,016	-3.9
	Office of Population Censuses and Surveys	32,678	32,382	-296	-0.9
	Crown Office	15,159	15,032	-127	-0.8
	Northern Ireland Court Services	10,771	10,762	-9	-0.1
	Director of Public Prosecutions and Crown Prosecution Service	61,523	46,797	-14,726	-23.9
	Treasury Solicitor's Department	10,798	10,730	-68	-0.6
	Total Other Departments	720,135	688,691	-31,444	-4.4
	GROSS RUNNING COSTS TOTAL	13,171,353	13,071,158	-100,195	-0.8
	Export Credits Guarantee Department (c)	33,387	32,885	-502	-1.5
	Crown Estate Office (c)	642	623	-19	-3.0

(a) For 1986-87, running costs provision was treated as a target rather than a limit. This target includes the pay of Armed Forces personnel only where they are engaged in headquarters and support activities (some 58,000).

(b) Northern Ireland has a block running costs limit which includes both Northern Ireland Office running costs, shown in the summary and Guide to Estimates, and running costs of the Northern Ireland Departments. The block limit was announced on 1 May 1986 by the Secretary of State for Northern Ireland.

(c) Running costs for these departments are not included in the public expenditure planning total.

TOTAL

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Table 4 Changes to 1986-87 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	Ministry of Defence	242,218	-6,009	236,209	Reduction mainly reflects savings in Falkland costs. Announced 9 February 1987.
II	1	Foreign and Commonwealth Office	5,120	6,310	11,430	Increase covers the cost of introducing visa regime for certain Asian and African countries, the effects of overseas inflation and exchange rate movements, and a revision of planned expenditure on the Folios project. Announced 3 February 1987.
	2	Foreign and Commonwealth Office		4,061	4,061	Increase covers the effects of exchange rate movements, various tax and duty reimbursements to Foreign and Commonwealth Governments, and anticipated expenditure on the administration of claims on the Russian Fund. Announced 3 February 1987.
	3	Foreign and Commonwealth Office	1,643	-3,403	-1,760	Reduction covers the surrender of the cash limit increase announced under the end year flexibility scheme and a declared underspend of £1.76 million. Announced 3 February 1987.
	4	Foreign and Commonwealth Office		2,060	2,060	Increase takes account of the effects of overseas price movements and extra security measures. Announced 3 February 1987.
	5	Overseas Development Administration	7,508		7,508	
	6	Overseas Development Administration		50	50	Increase covers necessary capital expenditure on a computerised management information system less savings required to repay 1985-86 cash limit breach. Announced 30 January 1987.
IV	4	Ministry of Agriculture, Fisheries and Food		477	477	Increase covers payments to assessors as part of the administration of the Sheep Compensation Scheme, and the purchase of milk quota in England and Wales for redistribution to producers in Northern Ireland. Announced 31 October 1986.
	5	Ministry of Agriculture, Fisheries and Food		4,388	4,388	Increase covers redundancy payments resulting from reductions in advisory services, research and development, and the settlement of legal action in the case of Bourgoir SA and others. Announced 31 October 1986.
V	2	Department of Trade and Industry	459		459	
	11	Department of Trade and Industry		680,000	680,000	New cash limit. Announced 19 February 1987.
VI	2	Department of Energy		-11,000	-11,000	Reduction reflects savings of £10 million to partly offset an increase in BCC's EFL, and a £1 million transfer to the Department of Environment towards additional costs of the home insulation scheme. Announced 25 March 1987.
VII	1	Department of Employment	90	66,027	66,117	Increase of £82.4 million to provide for the expansion of the Community Programme and an associated increase in the average wage limit, and for the introduction of the New Workers Scheme. Announced 18 March 1986. Reductions of £9.373 million and £7.0 million reflect lower than forecast take-up on these schemes. Announced 28 October 1986 and 30 January 1987 respectively.

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Table 4 (Contd) Changes to 1986-87 cash limits excluding token increases £ thousand

Class and vote	Accounting department	End year flexibility	Other changes	Total	Reason for "other" changes
VII	3 Department of Employment		12,000	12,000	Increase of £1.5 million to provide for the cost of administering various employment measures announced in the Budget Announced 18 March 1986. Increase of £5.0 million reflects transfer of claimant advisory work from the DHSS and increased expenditure on other claimant services. Announced 28 October 1986. Further increase of £5.5 million, announced 30 January 1987, to cover publicity services for the unemployed and to reactivate the unemployment benefit office expansion programme.
	6 Department of Employment		78,354	78,354	Increase to provide for nationwide expansion of pilot initiatives for long term unemployed, increased expenditure on the Enterprise Allowance Scheme and additional administrative costs of the expanded Community Programme. Announced 18 March 1986.
VIII	1 Department of Transport	680	-4,000	-3,320	Reduction made to partly offset additional expenditure on Class VIII vote 2. Announced 2 February 1987.
	2 Department of Transport	681	5,129	5,810	Increase of £6.129 million to cover transfer of running costs from Class VIII vote 4, increased requirement for capital expenditure and for international subscriptions and to cover the cost of removing contaminated soil from the former Channel Tunnel site. Announced 2 February 1987. Reduction of £1 million, announced 24 March 1987, offsets Government's contribution to Channel Ferry Disaster Fund.
	4 Department of Transport	600	-2,290	-1,690	Reduction reflects transfer of running costs to Class VIII vote 2. Announced 2 February 1987.
	5 Department of Transport		2,711	2,711	Increase to cover payments to the Passenger Transport Executives and certain district councils in lieu of Department of Employment rebates for redundancy payments. Announced 2 February 1987.
X	2 Department of the Environment	805	-1,005	-200	Increase of £0.445 million to cover increased grants to voluntary bodies and to the Keep Britain Tidy Group to implement the "UK 2000" initiative. Announced 30 October 1986. Reduction of £1.45 million made to offset extra receipts to the Development Commission and to reflect a lower than anticipated payment to the Zoological Society in London. Announced 5 February 1987.
	4 Department of the Environment	65	100	165	Increase of £1.1 million to cover shortfall in receipts from royal palaces and emergency expenditure following Hampton Court fire. Announced 6 November 1986. Reduction of £1.0 million to reflect an expected shortfall in the Historic Buildings and Monuments Commission expenditure programme. Announced 5 February 1987.
	6 Department of the Environment		31,500	31,500	Increase to cover refund to ILEA in respect of education pooling. Announced 30 October 1986.
	9 Department of the Environment		-1,000	-1,000	Reduction reflects revision in timetable for water authority privatisation. Announced 24 February 1987.
XI	2 Home Office	2,916		2,916	
XII	1 Department of Education and Science	2,000	-130	1,870	Reduction to reflect estimated outturn. Announced 5 February 1987.

Table 4 (Contd)

£ thousand

Class and vote	Accounting department	End year flexibility	Other changes	Total	Reason for "other" changes
XII	3 Department of Education and Science		-2,726	-2,726	Reduction of £2 million to cover transfer to Class XII vote 8 of contribution to the funding of the SERC's Advance Research Computing project. Announced 12 June 1986. Reduction of £1.507 million to reflect estimated outturn. Announced 5 February 1987. Increase of £0.781 million to cover the extra cost of implementing the clinical academic staff's pay award. Announced 10 March 1987.
	4 Department of Education and Science		1,032	1,032	Increase reflects part-year costs of an increase in the Department's manpower ceiling and other increases in the level of activity. Announced 5 February 1987.
	5 Department of Education and Science		4,470	4,470	Increase to assist with staff redundancy costs following the contraction of commissioned research and development work. Announced 5 February 1987.
	8 Department of Education and Science		2,658	2,658	Increase of £2.0 million to cover the purchase of advanced computers for research programmes in the higher and further education sector. Announced 12 June 1986. Further increase of £0.658 million reflects contributions to the European Space Agency on behalf of Department of Environment and Department of Transport. Announced 5 February 1987.
	9 Department of Education and Science		186	186	Increase to cover costs arising from higher than expected transfers out of the councils superannuation scheme and financing of new studentships. Announced 5 February 1987.
XIII	1 Office of Arts and Libraries		-80	-80	Reduction to cover implementation of the Education Committee's recommendations on revised financing arrangements for national museums and galleries. Announced 16 June 1986.
	2 Office of Arts and Libraries		53	53	Increase to cover implementation of the Education Committee's recommendations on revised financing arrangements for national museums and galleries. Announced 16 June 1986.
	3 Office of Arts and Libraries		85	85	Increase to cover implementation of the Education Committee's recommendations on revised financing arrangements for national museums and galleries. Announced 16 June 1986.
	4 Office of Arts and Libraries		-311	-311	Reduction to cover implementation of the Education Committee's recommendations on revised financing arrangements for national museums and galleries. Announced 16 June 1986.
	5 Office of Arts and Libraries		-5	-5	Reduction to cover implementation of the Education Committee's recommendations on revised financing arrangements for national museums and galleries. Announced 16 June 1986.
	6 Office of Arts and Libraries		38	38	Increase to cover implementation of the Education Committee's recommendations on revised financing arrangements for national museums and galleries. Announced 16 June 1986.
	7 Office of Arts and Libraries		133	133	Increase to cover implementation of the Education Committee's recommendations on revised financing arrangements for national museums and galleries. Announced 16 June 1986.
	8 Office of Arts and Libraries		88	88	Increase to cover implementation of the Education Committee's recommendations on revised financing arrangements for national museums and galleries. Announced 16 June 1986.

Table 4 (Contd) Changes to 1986-87 cash limits excluding token increases £ thousand

Class and vote	Accounting department	End Year flexibility	Other changes	Total	Reason for "other" changes
XIII	9 Office of Arts and Libraries		-1	-1	Reduction to cover implementation of the Education committee's recommendations on revised financing arrangements for national museums and galleries. Announced 16 June 1986.
	10 Office of Arts and Libraries		2,565	2,565	Increase to cover contribution towards the cost of completing the Merseyside Maritime Museum main contract and for additional items to be accepted in lieu of tax. Announced 6 February 1987.
XIV	1 Department of Health and Social Security		49,640	49,640	Increase to enable services to be maintained following the decision to implement the Review Body pay settlement. Announced 13 June 1986.
	3 Department of Health and Social Security	1,164	360	1,524	Increase to enable services to be maintained following the decision to implement the Review Body pay settlement. Announced 13 June 1986.
XV	5 Department of Health and Social Security	2,540	8,586	11,126	Increase of £5.36 million to reflect an increase on the cost of administration of the Unemployment Benefit Service (UBS) as a consequence of announced employment measures. Announced 13 June 1986. Increase of £2.68 million, announced 6 November 1986, covers additional costs resulting from Jobstart. Further increase of £0.546 million to cover increased agency payments to Department of Employment in connection with administration of UBS, announced 3 February 1987.
XVI	2 Department of Agriculture and Fisheries for Scotland		1,677	1,677	Increase of £2.677 million to cover additional costs of Voluntary Premature Retirement and redundancy schemes in agricultural colleges and institutes, and the purchase of milk quota in Scotland for redistribution to producers in Northern Ireland. Announced 31 October 1986. Reduction of £1.0 million to partly offset increased expenditure on Class XVI vote 1. Announced 16 February 1987.
	3 Industry Department for Scotland		-3,500	-3,500	Reduction to partly offset increased provision on the non-cash limited Class XVI vote 5. Announced 17 March 1987 in paragraph 4 of introduction to Class XVI vote 3 in Supply/Estimates 1987-88, Class XVI
	4 Industry Department for Scotland		9,008	9,008	Increase to reflect nationwide expansion of the pilot initiatives for long-term unemployed and other announced employment measures. Announced 3 June 1986.
	6 Scottish Development Department	1,783		1,783	
	14 Scottish Home and Health Department	2,220	5,882	8,102	Increase to enable services to be maintained following the decision to implement the Review Body pay settlements. Announced 13 June 1986.
	21 Scottish Office	56		56	
XVII	2 Welsh Office		-1,452	-1,452	Reduction to reflect lower requirements for public dividend capital by the Welsh Development Agency and agricultural marketing grants. Announced 17 March 1987.
	4 Welsh Office		5,712	5,712	Increase to cover the Welsh component of the MSC increase in expenditure arising from the nationwide expansion of pilot initiatives for long term unemployed, increased expenditure on the Enterprise Allowance Scheme, and additional administrative costs of the expanded Community Programme. Announced 18 March 1986.

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Table 4 (Contd)

£ thousand

Class and vote	Accounting department	End year flexibility	Other changes	Total	Reason for "other" changes
XVII	5	Welsh Office	-5,660	-5,660	Reduction to reflect lower than forecast expenditure on construction in the truck road programme. Announced 17 March 1987.
	8	Welsh Office	2,941	2,941	Increase to enable services to be maintained following the decision to implement the Review body pay settlements. Announced 13 June 1986.
	10	Welsh Office	5,000	5,000	Increase to reflect adjustments to the holdback of rate support grants to Welsh local authorities in respect of outturn expenditure information for 1984-85 and 1985-86. Announced 31 October 1986.
XVIII	1	Northern Ireland Office	260	7,411	Increase mainly reflects higher than anticipated levels of prison officers' and police overtime working and takes into account the surrender of the cash limit increase announced under the end year flexibility scheme. Announced 9 February 1987.
XIX	1	Central Office of Information		81,023	Increase of £27.0 million and £54.023 million to be offset by reimbursements by the clients of the Central Office of Information. Announced 6 November 1986 and 12 February 1987 respectively.
	2	Customs and Excise		1,971	Increase to mainly cover extra legal expenses, additional costs of drug investigation work and prosecution witness expenses. Increase also covers a transfer of funds from the Department of Transport for work on an origins and destinations survey and payments for expenses incurred in conducting cases in the Scottish Courts. Announced 5 February 1987.
	7	Inland Revenue		2,900	Reduction of £1.6 million reflects transfer of expenditure to PSA for rationalisation of local Inland Revenue offices. Announced 22 October 1986. Increase of £4.5 million, announced 11 February 1987, to cover additional expenditure on professional assistance, computer projects, accommodation and training.
	12	Her Majesty's Treasury		-745	Reduction results from a transfer of responsibility for the Review Board for Government contracts to the Secretary of State for Defence and from offsetting savings against an increase in Class XIX vote 13. Announced 13 February 1987.
	14	Her Majesty's Treasury	624	624	
XX	2	Cabinet Office		260	Increase to cover essential new works concerned with security. Announced 16 February 1987.
	4	Charity Commission		187	Increase in running costs. Announced 6 November 1986.
	11	Ordnance Survey	450	450	
	18	PSA of the Department of the Environment	2,626	3,426	Increase to meet expenditure on restoration work at Hampton Court. Announced 5 February 1987.
	20	The Crown Agent		180	Increase to cover staff regrading and restructuring costs and increases in the remuneration of Advocates Depute. Announced 6 February 1987.

Table 4 (Contd) Changes to 1986-87 cash limits excluding token increases £ thousand

Class and vote	Accounting department	End year flexibility	Other changes	Total	Reason for "other" changes
XX 22	Northern Ireland Court Service		34	34	Increase reflects transfer of responsibility for undertakers' charges in coroners' courts from the Northern Ireland Office. Announced 2 February 1987.
24	Treasury Solicitor's Department		495	495	Increase to cover additional accommodation costs and costs associated with a higher volume of work. Announced 6 February 1987.
TOTAL CHANGES IN VOTED CASH LIMITS		<u>276,508</u>	<u>1,044,965</u>	<u>1,321,473</u>	
Non-Voted Cash Limits					
DOE/LA1	Department of the Environment		7.4	7.4	Increase of £5.4 million reflects transfer of responsibility for the fire and civil defence authorities in Greater Manchester, South Yorkshire and Tyne and Wear from the HO/LA1 cash limit. Announced 13 November 1986. Increase of £1.5 million to cover additional spending on the homes insulation scheme. Announced 5 February 1987. Further increase of £0.5 million, announced 7 April 1987, reflects transfer of funds from the Department of Energy towards additional costs of the home insulation scheme.
DOE/NT1	Department of the Environment		-17.6	-17.6	Reduction of £3.7 million. Further reductions of £10 million and £3.94 million reflects increases in receipts due to higher than forecast disposals of property. Announced 6 November 1986 and 5 February 1987 respectively.
DOE/HC1	Department of the Environment	1.5	0.9	2.4	Increase reflects transfer of funds from DOE/NT1 for the purchase of flats formally owned by the Commission for the New Towns. Announced 5 February 1987.
DOE/UA1	Department of the Environment	18.8	-1.4	17.4	Reduction reflects transfer to Office of Arts and Libraries towards a grant-in-aid to the national museums and art galleries on Merseyside Trust. Announced 19 March 1987.
HO/LA1	Home Office	5.0	-5.4	-0.4	Reduction reflects transfer of responsibility for the fire and civil defence authorities in Greater Manchester, South Yorkshire and Tyne and Wear to the DOE/LA1 cash limit. Announced 13 November 1986.
NID1	Northern Ireland Departments	3.6	0.8	4.4	Increase of £7.9 million reflects net changes to the Northern Ireland programme detailed in the 1985 public expenditure survey; expenditure on Northern Ireland enterprise and employment measures; and expenditure to enable hospital and community health services to be maintained following implementation of the NHS pay review. Announced 13 November 1986. Reduction of £7.1 million to offset increased expenditure on Class XVIII vote 1. Announced 9 February 1987.
SO/LA1	Scottish Office	0.2		0.2	
SO/LA2	Scottish Office		-1.9	-1.9	Reduction to partly offset increased provision on the non-cash limited Class XVI vote 5.
TOTAL CHANGES IN NON-VOTED CASH LIMITS		<u>29.1</u>	<u>-17.2</u>	<u>11.9</u>	

Handwritten: Table 5 Changes to 1986-87 running costs limits £ thousand

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Class	Department	Change	Reason for change
I	Ministry of Defence	95,000	Increase to cover the extra cost of exchange rate variations. Announced 17 February 1987 in paragraph 4 of the introduction to class I <i>vote</i> 1's entry in Supply Estimates 1986-87, Spring Supplementary Estimates.
II	Foreign and Commonwealth Office	6,225	Increase to cover the introduction of a visa regime for certain Asian and African countries and the effects of overseas inflation and exchange rates. Announced 3 February 1987.
IV	Ministry of Agriculture, Fisheries and Food	871	Increase to cover redundancy payments arising from reduced expenditure on advisory services, research and development. Announced 31 October 1986.
VII	Department of Employment	16,250	Increase of £10.3 million to meet expenditure arising from employment measures announced in the Budget. Announced 3 June 1986. Further increase of £6.65 million to cover additional expenditure on the Unemployment Benefit Service (UBS) announced 28 October 1986. Reduction of £0.7 million reflects contribution towards UBS expansion programme expenditure on Class VII vote 3.
	Manpower Services Commission	28,485	Increase to cover expenditure arising from the employment measures announced in the Budget. Announced 3 June 1986.
VIII	Transport	-161	Reduction reflects a transfer to the Customs and Excise running cost limit to cover the cost of an origins and destinations survey. Announced 2 February 1987.
IX	DOE - Housing	1,511	Increase reflects provision agreed for Main Estimates net of a reduction resulting from higher than agreed VAT receipts. Announced 13 June 1986.
X	DOE - Other environmental services		
XI	Lord Chancellor's Department		
XII	Education and Science	1,000	Increase to meet part-year costs of an increase in the Department's manpower ceiling. Announced 5 February 1987.
XIV	DHSS - Health and Personal Social Services	11,208	Increase of £6.8 million to cover the costs of administering the UBS as a consequence of the special employment measures announced 18 March 1986. Increase of £0.3 million to enable hospital and community health services to be maintained following the implementation of the health service Pay Review recommendations. Announced 13 June 1986. Further increase of £4.202 million reflects an increase in agency payments to the Department of Employment to cover increased expenditure on the UBS and additional costs resulting from Jobstart. Announced 6 November 1986. Reduction of £0.094 million, announced 3 February 1987, reflects a transfer of work to OPCS.
XV	DHSS - Social Security		
XVIII	Northern Ireland	950	Increase reflects increase in manpower targets. Announced 3 November 1986.
XIX	Central Office of Information	-1,439	Reduction reflects improved efficiency and a change in the pattern of business. Announced 12 February 1986.
	Customs and Excise	1,971	Increase to mainly cover extra legal expenses, additional costs of drug investigation work and prosecution witness expenses. Increase also covers a transfer of funds from the Department of Transport for work on origins and destinations survey and payments for expenses occurred in conducting cases in the Scottish courts. Announced 5 February 1987.
	Inland Revenue	6,500	Increase to cover additional expenditure on professional assistance, current computer costs, accommodation and training. Announced 11 February 1987.
XX	Charity Commission	247	Increase in operational requirements. Announced 6 November 1986.
	Land Registry	1,835	Increase to meet staff costs arising from higher than forecast numbers of applications for registration. Announced 4 November 1986.
	Office of Gas Supply	1,056	New running cost limit following the establishment of the Office of Gas Supply. Announced 13 June 1986.
	Office of Population Censuses and Surveys	94	Increase to meet service carried out by OPCS on behalf of DHSS. Announced 3 February 1987.

Table 5 (Contd) Changes to 1986—87 running cost limits

Class	Department	Change	Reason for change
XX	Crown Office	402	Increase to meet staff regrading and restructuring costs and increases in the remuneration of Advocates Depute. Announced 6 February 1987
	Northern Ireland Court Service	34	Increase to cover transfer of responsibility for undertaker's charges in coroners' courts from Class XVIII vote 1. Announced 2 February 1987.
	Treasury Solicitor's Department	861	Increase to meet additional accommodation costs and higher workloads. Announced 6 February 1987.

TOTAL RUNNING COSTS LIMIT CHANGES 174,900

Table 6 Nationalised Industries External Financing Limits 1986-87: Provisional Outturns
£ million

	EFL for 1986-87		Latest estimated outturn
	As in Cmd 9702	Final	
British Coal	730	825	902
Electricity (England and Wales)	-1,416	-1,416	-1,325
North of Scotland Hydro-Electric Board	-4	-4	-12
South of Scotland Electricity Board	236	236	236
British Steel Corporation	146	26	22
Post Office	-93	-93	-93
National Girobank	-6	-6	-7
BAA	15	15	17
British Railways Board	771	784	777
British Waterways Board	45	45	45
National Bus Company	-13	-13	-19
Scottish Transport Group	4	4	8
British Shipbuilders	73	244	241
Civil Aviation Authority	14	9	7
Water (England and Wales)	123	124	104
London Regional Transport	304	304	279
Subtotal	929	1,084	1,182
British Gas Corporation (2)	-400)	—	-684
British Airways (2))	-57	-113
Total Industries	529	—	385

Notes

1. All figures to nearest £ million.
2. Cmd 9702 plans for 1986-87 contained a combined allowance of -£400 million for the external financing of British Gas Corporation and British Airways, which were privatised during the year. Separate EFLs were not published. Latest estimated outturn shows external financing up to the point of privatisation.

Table 7 Final cash limits 1985-86: Final outturn for central government votes

Class and vote	Accounting department	Description of expenditure	Cash Limit £ thousand	Outturn £ thousand	Overpend (+) or Underspend (-) £ thousand	%	
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		
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	1,048,859	-29,841	-2.8(b)
8		Overseas Development Administration	Overseas aid administration	26,568	26,678	110	+0.4
III		2	Intervention Board for Agricultural Produce	Central administration	22,499	21,698	-801
	4	Ministry of Agriculture, Fisheries and Food	Other agricultural and food services and support for the fishing industry	144,083	140,680	-3,403	-2.4
	5	Ministry of Agriculture, Fisheries and Food	Departmental research, advisory services and administration	206,748	204,318	-2,430	-1.2
	6	Forestry Commission	Forestry	53,416	52,929	-487	-0.9
	IV	2	Department of Industry	Miscellaneous support services	80,677	79,462	-1,215
4		Department of Trade and Industry	Export promotion, trade co-operation, corporate and consumer affairs	61,682	58,786	-2,896	-4.7
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	362,461	-16,938	-4.5
8		Export Credit Guarantee Department	International trade: export credit services and insurance of investment overseas	29,138	28,640	-498	-1.7

Table 7 (Contd)

Class and vote	Accounting department	Description of expenditure	Cash Limit £ thousand	Outturn £ thousand	Overspend (+) or Underspend (-) £ thousand	Underspend (%)
IV 10	Registry of Friendly Societies	Pay and general administrative expenses	2,299	2,287	-12	-0.5
11	Office of Fair Trading	Pay and general administrative expenses	8,279	7,395	-884	-10.7
12	Department of Employment	Labour market services	837,950	824,458	-13,492	-1.6
14	Department of Employment	Advisory Conciliation and Arbitration Service	14,314	13,993	-321	-2.2
15	Department of Employment	Manpower Services Commission	1,363,908	1,363,905	-3	-0.0
16	Department of Employment	Administration	251,012	250,980	-32	-0.0
17	Department of Trade and Industry	Central and miscellaneous services	147,909	140,618	-7,291	-4.9
18	Department of Energy	Administrative and miscellaneous services	22,711	22,423	-288	-1.3
20	Department of Employment	Health and Safety Commission	93,283	92,386	-897	-1.0
22	Department of Trade and Industry	Sale of shares in British Telecom plc	2	0	-2	-100.0
23	Office of Telecommunications	Office of Telecommunications	1	0	-1	-100.0
24	Department of Trade and Industry	Sale of government shares in British Aerospace plc	1	0	-1	-100.0
25	Department of Energy	Sale of shares in British Gas Corporation	1,500	1,401	-99	-6.6
26	Her Majesty's Treasury	Sale of shares in Britoil	1	0	-1	-100.0
27	Department of Trade and Industry	Sale of government shares in Rolls Royce plc	100	100	0	0.0
28	Her Majesty's Treasury	Sale of shares in Cable and Wireless plc	1	0	-1	-100.0
V 1	Trustees of British Museum	British Museum	13,097	13,096	-1	-0.0
2	Trustees of Imperial War Museum	Imperial War Museum	4,445	4,445	0	0.0
3	Trustees of National Gallery	National Gallery	6,639	6,571	-68	-1.0
4	Trustees of National Maritime Museum	National Maritime Museum	4,336	4,218	-118	-2.7
5	Trustees of National Portrait Gallery	National Portrait Gallery	1,777	1,777	0	0.0
6	Trustees of Science Museum	Science Museum	8,954	8,954	0	0.0

Final

Table 7 (Contd) ~~Final~~ cash limits 1985-86: Final outturn for central government votes

Class and vote	Accounting department	Description of expenditure	Cash Limit £ thousand	Outturn £ thousand	Overspend (+) or Underspend (-) £ thousand	%
V	7	Trustees of Tate Gallery	5,645	5,644	-1	-0.0
	8	Trustees of Victoria and Albert Museum	10,698	10,670	-28	-0.3
	9	Trustees of Wallace Collection	877	876	-1	-0.1
	10	Office of Arts and Libraries	130,197	129,869	-328	-0.3
	11	Office of Arts and Libraries	48,720	48,719	-1	-0.0
	12	Office of Arts and Libraries	1,251	1,185	-66	-5.3
VI	1	Department of Transport	821,009	819,412	-1,597	-0.2
	2	Department of Transport	149,460	148,741	-719	-0.5
	4	Department of Transport	104,945	101,751	-3,194	-3.0
	5	Department of Transport	750	674	-76	-10.1
VII	2	Department of Environment	35,038	33,453	-1,585	-4.5
VIII	2	Department of Environment	147,725	147,173	-552	-0.4
	4	Department of Environment	79,920	79,521	-399	-0.5
	5	Department of Environment	143,413	141,361	-2,052	-1.4
IX	1	Lord Chancellor's Department	90,360	90,068	-292	-0.3
	2	Northern Ireland Court Service	7,758	7,738	-20	-0.3
	7	Home Office	297,352	290,800	-6,552	-2.2
	8	Home Office	614,258	608,854	-5,404	-0.9
	9	Treasury Solicitor's Department	17,157	15,835	-1,322	-7.7
	10	Crown Agent	14,031	13,988	-43	-0.3
X	1	Department of Education and Science	211,118	200,235	-10,883	-5.2

Table 7 (Contd)

Class and vote	Accounting department	Description of expenditure	Cash Limit £ thousand	Outturn £ thousand	Overpend (+) or Underspend (-) £ thousand		
X	3	Department of Education and Science	Universities, etc.	1,514,432	1,508,045	-6,387	-0.4
	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 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	8,978,827	-10,269	-0.1
	3	Department of Health and Social Security	Miscellaneous health services and personal social services, England	365,798	361,301	-4,497	-1.2
XII	5	Department of Health and Social Security	Administration and miscellaneous services	771,634	765,016	-6,618	-0.9
XIII	3	Privy Council Office	Pay and general administrative expenses	1,160	1,114	-46	-4.0
	4	Her Majesty's Treasury	Economic and financial administration	45,437	44,911	-526	-1.2
	5	Customs and Excise	Economic and financial administration	356,832	356,790	-42	-0.0
	6	Inland Revenue	Economic and financial administration	880,615	880,562	-53	-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	152,238	-862	-0.6
	11	Management and Personnel Office	Central management of the civil service	34,375	34,332	-43	-0.1
	12	Her Majesty's Treasury Office	Computer and telecommunications	16,957	15,897	-1,060	-6.3

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Final
Table 7 (Contd) Final cash limits 1985-86: Final outturn for central government votes

Class and vote	Accounting department	Description of expenditure	Cash Limit £ thousand	Outturn £ thousand	Overspend (+) or underspend (-) £ thousand	%	
XIII	13	Public Record Office	Pay and general administrative expenses	10,487	10,091	-396	-3.8
	14	Office of Population Censuses and Surveys	Pay and general administrative expenses	26,521	25,450	-1,071	-4.0
	15	Land Registry	Pay and general administrative expenses	79,244	79,028	-216	-0.3
	16	Charity Commission	Pay and general administrative expenses	5,229	5,154	-75	-1.4
	17	Cabinet Office	Pay and general administrative expenses	14,838	14,737	-101	-0.7
	18	Office of Parliamentary and Health Service Commissioners	Pay and general administrative expenses	1,873	1,837	-36	-1.9
	19	Her Majesty's Stationery Office	Payments to the trading fund	4,308	4,308	0	0.0
	21	Ordnance Survey	Pay and general administrative expenses	17,445	14,497	-2,948	-16.9
	22	Her Majesty's Treasury	Civil service catering services	3	0	-3	-100.0
	23	Cabinet Office	Secret Service	81,000	80,818	-182	-0.2
XIV	1	Property Services Agency	Civil accommodation services	594,294	593,668	-626	-0.1
	2	Property Services Agency	Administration and miscellaneous services	302,368	297,843	-4,525	-1.5
	3	Central Office of Information	Publicity	67,200	67,191	-9	-0.0
	6	Government Actuary's Department	Pay and general administrative expenses	1,167	1,141	-26	-2.2
	7	Paymaster General's Office	Pay and general administrative expenses	12,013	11,695	-318	-2.6
XV	2	Department of Agriculture and Fisheries Scotland	Agricultural services and fisheries, Scotland	66,053	63,967	-2,086	-3.2
	3	Industry Department for Scotland	Regional and general industrial support, Scotland	131,200	131,159	-41	-0.0
	4	Industry Department for Scotland	Manpower Services Commission, Scotland	133,896	133,896	0	0.0
	6	Scottish Development Department	Roads, transport and environmental services, Scotland	150,501	147,785	-2,716	-1.8
	11	Scottish Courts Administration	Administration of justice, Scotland	8,681	8,432	-249	-2.9
	14	Scottish Home and Health Department	Prisons, hospitals and community health services etc, Scotland	1,523,278	1,517,844	-5,434	-0.4

Table 7 (Contd)

Class and vote	Accounting department	Description of expenditure	Cash Limit £ thousand	Outturn £ thousand	Overspend (+) or Underspend (-) £ thousand	%
XV 15	Scottish Education Department	Education, arts, libraries and social work, Scotland	149,176	147,967	-1,209	-0.8
17	Trustees of National Library of Scotland	National Library of Scotland	3,444	3,431	-13	-0.4
18	Board of Trustees National Galleries of Scotland	National Galleries of Scotland	3,043	3,042	-1	-0.03
19	Board of Trustees National Museum of Antiquities Scotland	National Museum of Antiquities, Scotland	644	643	-1	-0.2
21	Scottish Record Office	Pay and general administrative expenses	1,808	1,739	-69	-3.8
22	General Register Office for Scotland	Pay and general administrative expenses	3,079	2,727	-352	-11.4
23	Department For Registers Scotland	Pay and general administrative expenses	2	0	-2	-100
24	Scottish Office	Pay and general administrative expenses	101,251	101,169	-82	-0.08
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	168,935	-2,734	-1.6
4	Welsh Office	Manpower Service 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	38,969	-414	-1.0
7	Welsh Office	Administration	32,531	32,280	-251	-0.8
9	Welsh Office	Hospital and community health services, Wales	603,538	603,443	-95	-0.02
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	-0.06
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 grants 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

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Table (Contd) ~~Final~~ cash limits 1985-86: Final outturn for central government votes

Class and vote	Accounting department	Description of expenditure	Cash Limit £ thousand	Outturn £ thousand	Overspend (+) or Underspend (-) £ thousand	Underspend (-) %
XVIII 17	Crown Estate Office	Pay and general administrative expenses	574	520	-54	-9.4
TOTAL CASH-LIMITED VOTES			<u>55,789,250</u>	<u>55,297,295</u>	<u>-491,955</u>	<u>-0.9</u>

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- (a) The five cash-limited votes are each separate cash limits, but by agreement with the Treasury they are managed as a ~~single~~ ^{single} global cash ~~limit~~ ^{block}.
- (b) Most of the underspend on the cash limit is necessitated and offset by higher European Community budget spending on overseas aid, the UK share of which is attributed to the public expenditure allocation for aid programme.

Table 8 Final cash limits 1985-86: Revised outturn for local authorities' capital expenditure blocks and certain other expenditure

Department	Cash block	Description of expenditure	Cash Limit £ million	Outturn £ million	Overspend (+) or Underspend (-) £ million	%
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
Department of the Environment	DOE/LA1	Capital expenditure in England by local authorities on roads and housing, schools, further education and teacher training, personal social services and other environmental services	1,911.3	2,904.4 ^{7.5}	+993.0 ^{6.2}	+52.7 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	-122.8	+3.7	+2.9
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	352.6	-24.1	-6.4
Home Office	HO/LA1	Capital expenditure by local authorities on police, courts and probation	129.5	70.9	-58.6	-45.3
Home Office	HO/MP1	Expenditure by the Metropolitan police on manpower, pay, pensions, premises, transport and other running costs	771.2	770.8	-0.4	-0.1
NORTHERN IRELAND						
Northern Ireland Departments	NID 1	Services analogous to Great Britain services covered by cash limits	2,189.2	2,162.4	-26.8	-1.2
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	414.4	+4.0	+1.0
Scottish Office	SO/LA2	Capital expenditure in Scotland on housing by local authorities, new towns, the Scottish Special Housing Association and on schemes financed by the housing corporation, and industrial and commercial investment by new towns	424.8	415.7	-9.1	-2.1
WALES						
Welsh Office	WO/LA1	Capital expenditure in Wales by local authorities, new towns and the Housing Corporation on roads and transport, housing, schools, further education and teacher training, personal services and other environmental services and by the Land Authority for Wales	275.8	292.7	+16.9	+6.1
TOTAL			7,143.0	8,044.4^{3.3}	901.4^{0.3}	+12.6



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10 DOWNING STREET
LONDON SW1A 2AA

14 July 1987

From the Private Secretary

PUBLIC EXPENDITURE

The Prime Minister has seen your Secretary of State's minute of 11 July about possible savings on the health and social security programmes.

As you know, the Prime Minister feels that it would not be right to raise the possibility of abolishing the 25p addition for the over eighties. She understands that an extra £2.25 per week will be payable from April to those aged over eighty in receipt of Income Support. But she believes that to seek to abolish the 25p addition would be highly controversial, with the Government's own supporters among others, and that indeed it could be counter-productive, leading to still greater pressures for increases in the basic pension and in provision for the very old. She would not wish the proposal to be discussed in H committee.

The Prime Minister agrees with your Secretary of State that it would not be acceptable to seek to impose prescription charges on the elderly.

The Prime Minister is otherwise content that the proposals should be discussed with colleagues in H Committee.

I am copying this letter to Jill Rutter (Chief Secretary's Office).

David Norgrove

Geoffrey Podger, Esq.,
Department of Health and Social Security.

PRIME MINISTER

① who is entitled to NHS
— spectacles vouchers?

② I do not believe the 25p for
the over 80's can be abolished

PUBLIC EXPENDITURE *Especially in view of the
election reaction of many members.*

John Moore has now started to tackle some of his very nasty *It is best*
legacy. He lists in his minute below some of the savings both *left alone.*
on health and social security which he will need to find over *— —*
the next year or so. *Wouldn't it
— were not*

The particular reason for writing to you now is that he needs *dismissed*
to take to H next week the proposed savings on health. Two of *MS*
the savings on social security - a tightening of contribution
conditions for unemployment, sickness and invalidity benefit,
and abolition of the 25p addition for the over-80s - will be
mentioned at the same meeting.

He is not asking you to agree these savings now, but he wants
to make sure that you are not so horrified by them that you
would not wish them even to be discussed at H Committee. The
savings on health will need to be included in the Primary
Health Care Bill in this session, and those on social security
will appear in the Social Security Bill.

These changes are bound to be highly controversial. The
changes in the NHS in particular will revive Opposition
stories that the government is fundamentally opposed to state
health care. (This may be particularly true of the proposal
that those who do not receive NHS vouchers will have to pay
for sight testing privately.) The abolition of the age
addition is another highly controversial proposal, but it
saves around £25 million a year.

You will note that even with these savings (on which the
Treasury questions the principles and the arithmetic), John
Moore is still £139 million short of the saving promised on
social security in 1989/90 and £124 million in 1990/91. It is

SECRET

- 2 -

not a comfortable position to be expected to take decisions on some savings, without knowing where the rest of the money is to come from.

You will obviously not want to endorse these proposals in advance of H. But are you content for them to be discussed?

Ly. Stevens
DUTY CLERK

pp DN

13 July, 1987.

JD3BAE

SECRET



PRIME MINISTER

PUBLIC EXPENDITURE

As you will have seen from my letter to John Major of 2 July, I inherited from my predecessor a number of commitments to produce cash savings over the PES period. The means of delivering these savings were either not agreed or subject to agreements with colleagues that might not be forthcoming. I attach a list of these commitments.

will request if required.

As I have told John Major, I accept all of the commitments in the terms in which they were made; but a number of difficult decisions will be needed if I am to meet them. The first commitment, arising from the 1985 PES to achieve savings of £75 million from 1988/89 from changes to exemptions from prescription charges, has always been subject to the agreement of colleagues, but I do not believe that they will endorse proposals to impose prescription charges on the elderly. I am corresponding with John Major on this.

Non do l.

To meet my commitments to the remainder, I am seeking to make proposals which in my view are politically right and which fit within our philosophical framework. But this is not easy and all of the alternatives are in one way or another unpalatable. I thought you should be aware of what I am proposing.

On health there was an assumption that the review of primary health care would lead to a saving. In fact, as the consultations on the Government's Discussion Document showed, there is a need to invest more resources in some parts of the primary care services. What is more, Norman Fowler agreed with the Treasury in the last PES round that he would find £80 million in 1988/89 from the sale of

E.R.

the loan portfolio of the General Practice Finance Corporation. I believe it to be right to sell the loans but this requires the agreement of the general practitioners. Hence we will have to be responsive to meeting legitimate needs in primary health care if we are to achieve the savings due.

Against that background, I have been looking at various ways of reordering the priorities in the primary care field. I have had to discard a number of options as inconsistent with our policies, but I do believe that the improvements in the dental health of the nation have been such that we should now reduce the burden on the State of providing General Dental Services, and I propose to increase the income from dental charges by about £70 million by introducing a charge for dental examination and by increasing the charges for treatment. The poor, children and other exempted categories would continue to receive free advice and treatment. I also believe that it would be right to discontinue free sight tests for all on the NHS. Those who are entitled to NHS vouchers for their spectacles should continue to receive free sight tests, but I propose that others should now pay for sight testing privately. This would yield a further £70 million.

By these means I would be able to deliver the £53 million a year which Norman Fowler agreed to save from the Primary Care Review and I will be able to inject the additional resources where they are needed in the primary care field.

Obviously the presentation of this will need very great care but the changes I propose to make will be much easier to defend if we are able to demonstrate that they are effectively a redistribution of resources into primary care services of higher priority. That would indeed be the case: the reason I did not make a PES bid for the improvements in primary care that the consultation exercise showed to be needed was that I felt it right to achieve improvements by a re-targeting of existing resources.

Who are entitled to NHS vouchers

On social security I intend to meet the unspecified savings in 1988/89 and a contribution to those in the subsequent two years by increased fraud effort, extending the period of voluntary unemployment disqualification, tightening the contribution conditions for unemployment, sickness and invalidity benefit and abolishing the 25p addition for the over-80s - totals of £92 million, £111 million and £126 million over the three years. I shall not uprate child benefit in April 1988. But I have yet to decide upon the savings measures to secure the balance of the savings in 1989/90.

I believe that this is the right way forward. But before I discuss it with my territorial colleagues, I should like to know that you are content.

I am looking forward to our meeting later this month when I shall be outlining to you my longer term plans.

I am, of course, copying this minute to John Major.

// July 1987

J M

SAVINGS COMMITMENTS

	£m		
	<u>1988/89</u>	<u>1989/90</u>	<u>1990/91</u>
<u>Health & Personal Social Services</u>			
<u>Family Practitioner Services</u>			
1. PES 1985: Savings from changes to exemptions from prescription charges	75	75	75
2. PES 1986:			
a. Savings from review of primary health care	-	53	53
b. 50% of the proceeds of the sale of the loan portfolio of the General Practice Finance Corporation	40	-	-
c. Unspecified savings	<u>12</u>	<u>-</u>	<u>-</u>
	<u>127</u>	<u>128</u>	<u>128</u>
<u>Social Security</u>			
3. PES 1985: Child benefit not to be uprated in April 1988	140	145	150
4. PES 1986: Unspecified	<u>100</u>	<u>250</u>	<u>250</u>
	<u>240</u>	<u>395</u>	<u>400</u>

SECRET

18

FROM: ROBERT CULPIN
DATE: 8 JULY 1987

CHANCELLOR

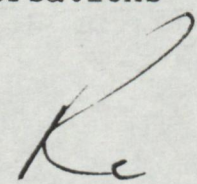
1. NW to see
2. NSEM.

cc Chief Secretary
Sir Peter Middleton
Mr F E R Butler
Sir T Burns
Mr Anson
Mr Monck
Mr Turnbull
Mr Luce
Mr Scholar
Mr Gieve
Mr Tyrie

PUBLIC EXPENDITURE CABINET

I attach some notes for your meeting tomorrow. They reflect discussion with Mr Turnbull.

The first page gives a possible line to take. I have then dictated, separately, the sort of follow-up conversations I can imagine having.



ROBERT CULPIN

Encs.

SECRET

INGHAM COMMUNIQUE

The Cabinet had its usual July discussion of public expenditure today. It reaffirmed the policy that public expenditure should continue to take a declining share of national income. Within that constraint, the Chief Secretary will hold bilateral discussions in the Autumn. In the light of these, the Government will review both the individual spending programmes and the planned total for spending, and will, as usual, announce decisions in the Autumn Statement in November.

Text

"My Government will maintain firm control of public expenditure so that it continues to fall as a proportion of national income and permits further reductions in the burden of taxation." - Queen's speech.

Will the planning total be increased?

I can't tell you whether the total will be changed, or if so by how much, or where the money will go. None of that is decided.

There may be some change in the total. But there will be no change whatever in the policy that public expenditure declines as a proportion of GDP.

That is not just an aspiration. It is what we have achieved since 1982-83.

TREASURY NOTES FOR SUPPLEMENTARIES

Is the planning total LIKELY to be increased?

Have to wait and see. Need to conduct the review first.

Why unable to decide, as usual, in July?

Cabinet has decided to stick firmly to the policy.

Details of Survey running a little later this year. Election. Reshuffle. [Local authorities - if no July announcement.]

Leaves things open ended/breaks rule that you must decide what you can afford before examining particular programmes?

No. Commitment to take smaller share of GDP is a binding constraint.

Is the policy that public expenditure should decline as a proportion of GDP by any old amounts or by some predetermined ones?

It should fall to the sort of levels set out in the White Paper.

Silly to put absolutely precise figures on the path from year to year, because it depends on what happens

to GDP as well as what happens to spending. But the ratio should certainly decline as much as in the White Paper.

Including or excluding privatisation?

Either.

What is the maximum increase in the planning total this could imply?

Not going to speculate. Early days. But clearly the commitment that public expenditure should grow less fast than the economy as a whole is a major constraint.

When was the last time the Treasury conceded, before the bilaterals, the possibility of an increase in the planning total?

[Being checked]

Why are you considering the possibility this time?

You've seen the local authority settlement [if there is a July announcement]. You know some of the other things in the pipeline - for instance, the continuing extra cost of the nurses' pay award. [And it is plain that the economy is strong.]

We have a tough objective for public expenditure, and we mean to stick to it. But the figures have to be realistic as well.

What's the point of having planning totals when you've raised them substantially three years running?

Better a really demanding target which you may have to raise a bit than an undemanding one.

Proof of the pudding: public expenditure is falling as a proportion of GDP for the fifth year in a row.

Will there be Star Chamber?

No doubt: established part of the constitution.

CONFIDENTIAL

109/Ba



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~936 7022~~ 218 2111/3

MO 8E

18th June 1987

*To Jill,
16th June, at 11ap.*

The Defence Secretary has seen the Chief Secretary's minute of 15th June to the Prime Minister and is content with his proposals for the conduct of the Survey.

Copies of this letter go to the Private Offices of Ministers in charge of Departments and to Trevor Woolley.

NBOM

*Yours ever,
John Howe.*

(J F HOWE)
Private Secretary

Miss Jill Rutter
HM Treasury

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ECON POL: Public Expenditure PT37



CONFIDENTIAL



cbg

LPO

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

17 June 1987

Dear Jill,

CONDUCT OF THE 1987 PUBLIC EXPENDITURE
SURVEY

The Prime Minister has seen the Chief Secretary's minute of 16 June about the revised timetable for the 1987 Public Expenditure Survey and, subject to the views of colleagues, is content.

I am copying this letter to the Private Secretaries to Ministers in charge of Departments and to Trevor Woolley (Cabinet Office).

Jas,

David.

DAVID NORGROVE

Miss Jill Rutter,
Chief Secretary's Office,
H.M. Treasury.

CONFIDENTIAL

SLW

CONFIDENTIAL



FROM: CHIEF SECRETARY

DATE: 16th June 1987

PRIME MINISTER

Yes not
 Prime Minister
 This is largely a formality.
 Cabinet, subject to colleagues?

CONDUCT OF THE 1987 PUBLIC EXPENDITURE SURVEY

DLW
 16/6.

In March you agreed guidelines for the conduct of the 1987 Public Expenditure Survey. These were circulated formally to departments on 30 March. Inevitably the election has interrupted the process and we need now to agree on a new timetable.

2 Most of the preparatory work commissioned by the original guidelines has already been completed. The Survey baseline has been agreed and departments have submitted statements on output, performance, and value for money in their programmes which are now being discussed at official level with the Treasury. Departments have also reported to the Treasury on their contingent liabilities. However the next step which is the submission by Ministers of their proposals for changes to their departmental baselines has been delayed by the election (they were called for originally by 22 May).

3 I see considerable advantage in getting back to the normal Survey timetable as quickly as possible. In particular, I think we should aim for a meeting of Cabinet before the end of July to consider our overall objectives for the Survey so that I can hold discussions with individual Ministers on their programmes in September and October.

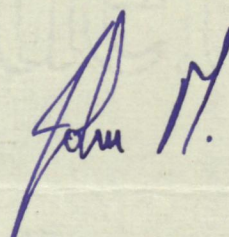
4 I propose therefore that colleagues now complete the review of their programmes to which Cabinet agreed in March in time to report on the outcome and submit any proposals for changes by 2 July. I recognise that time is short, but I judge that this is the last date which would still allow us time to make an overall assessment of our public expenditure objective in Cabinet before the summer break.

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5 Apart from this change of date, I do not think the guidelines issued in March require alteration. In particular, I envisage that local authority relevant expenditure will be discussed separately in Cabinet committee. I propose also that the Investment and Financing Review for the nationalised industries should proceed on the timetable agreed early this year. I understand that the industries have already submitted their provisional bids and that sponsor departments should be in a position to submit revised bids in the normal way at the end of July.

6 Subject to any comments you or colleagues may have I propose to issue the revised timetable formally to departments on Monday 22 June.

7 I am sending copies of this minute to Ministers in charge of departments and to Sir Robert Armstrong.


JOHN MAJOR

ECON. POL: Public Expenditure : Pt 37



Copyrighted

N. C. U. (in David's absence)



Prime Minister

No honours here.

N. C. U.

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

18 May 1987

David Norgrove Esq
10 Downing Street
LONDON
SW1

Dear David,

MS

MONTHLY NOTE ON PUBLIC SECTOR BORROWING

I enclose this month's note on the PSBR. The outturn for April will be published tomorrow at 11.30 am.

*Yours
Alex*

ALEX ALLAN
Principal Private Secretary

PUBLIC SECTOR BORROWING

Summary

- The PSBR for April is provisionally estimated at £1.8 billion. This is about £0.6 billion lower than last month's Budget forecast (Chart 1). Borrowing on central government own account was close to forecast. Local authorities and public corporations each borrowed £0.3 billion less than forecast.
- The April PSBR is £1.1 billion higher than in April 1986 (Chart 2), largely because of lower privatisation proceeds.
- The PSBR is forecast to be about £¼ billion over the next three months, close to the Budget profile.
- The PSBR for 1986-87 remains at £3.3 billion, ¾ to 1 per cent of money GDP.

Figures in this report are not seasonally adjusted and also may not sum precisely because of rounding.

Chart 1 : 1987-88: Comparisons with 1987 Budget profiles

£ billion cumulative

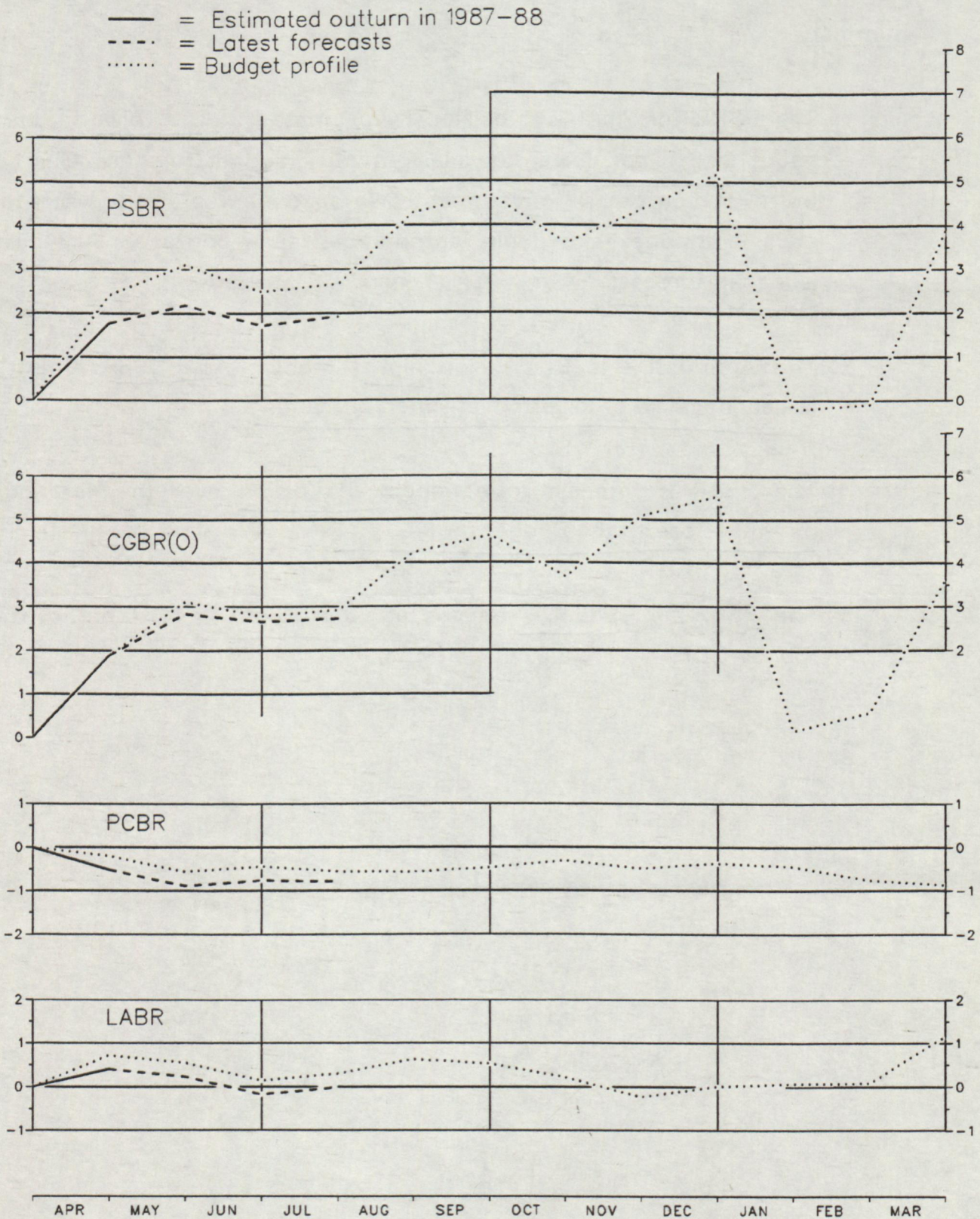


Chart 2: 1987-88: Comparisons with outturns for 1986-87

£ billion cumulative

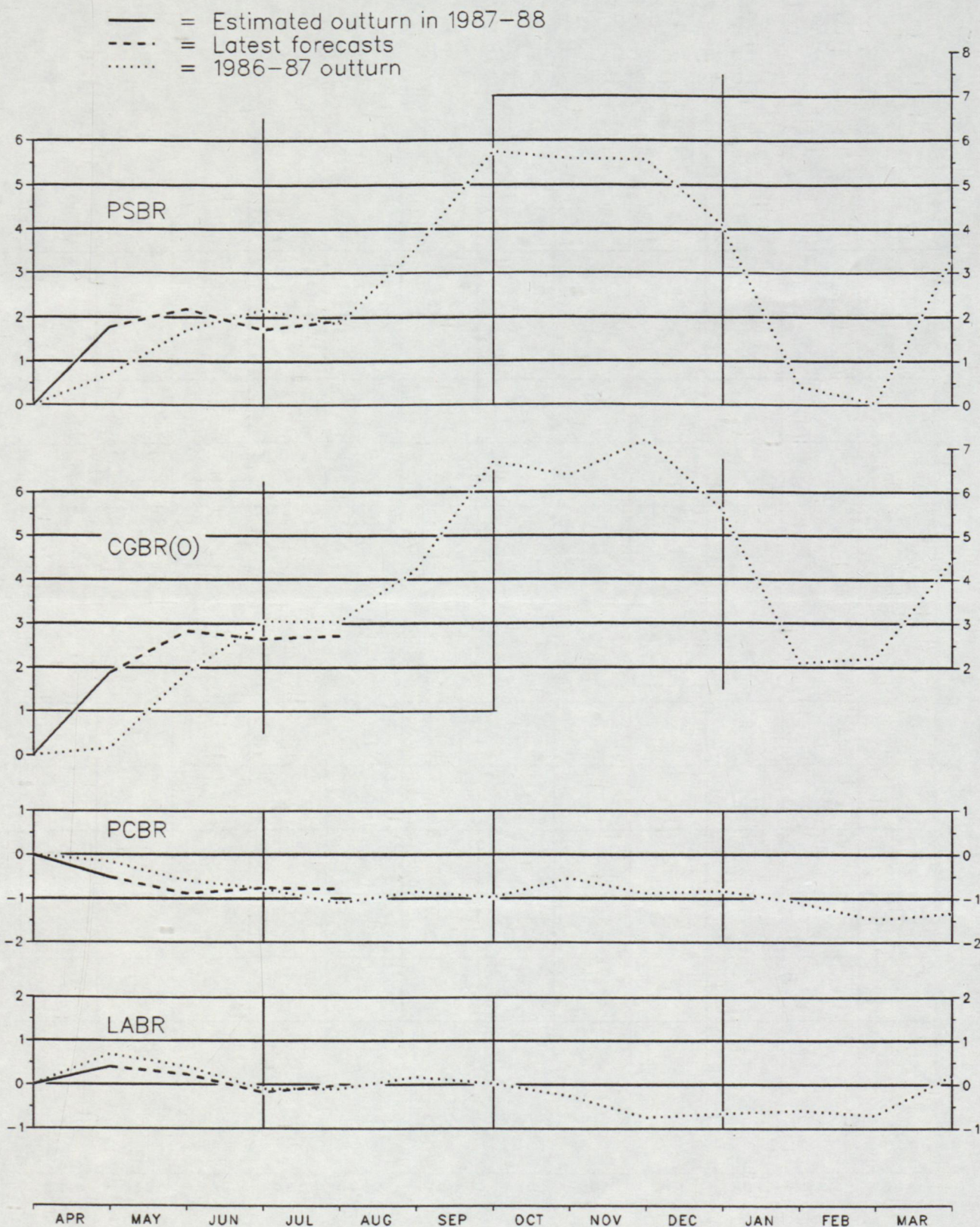
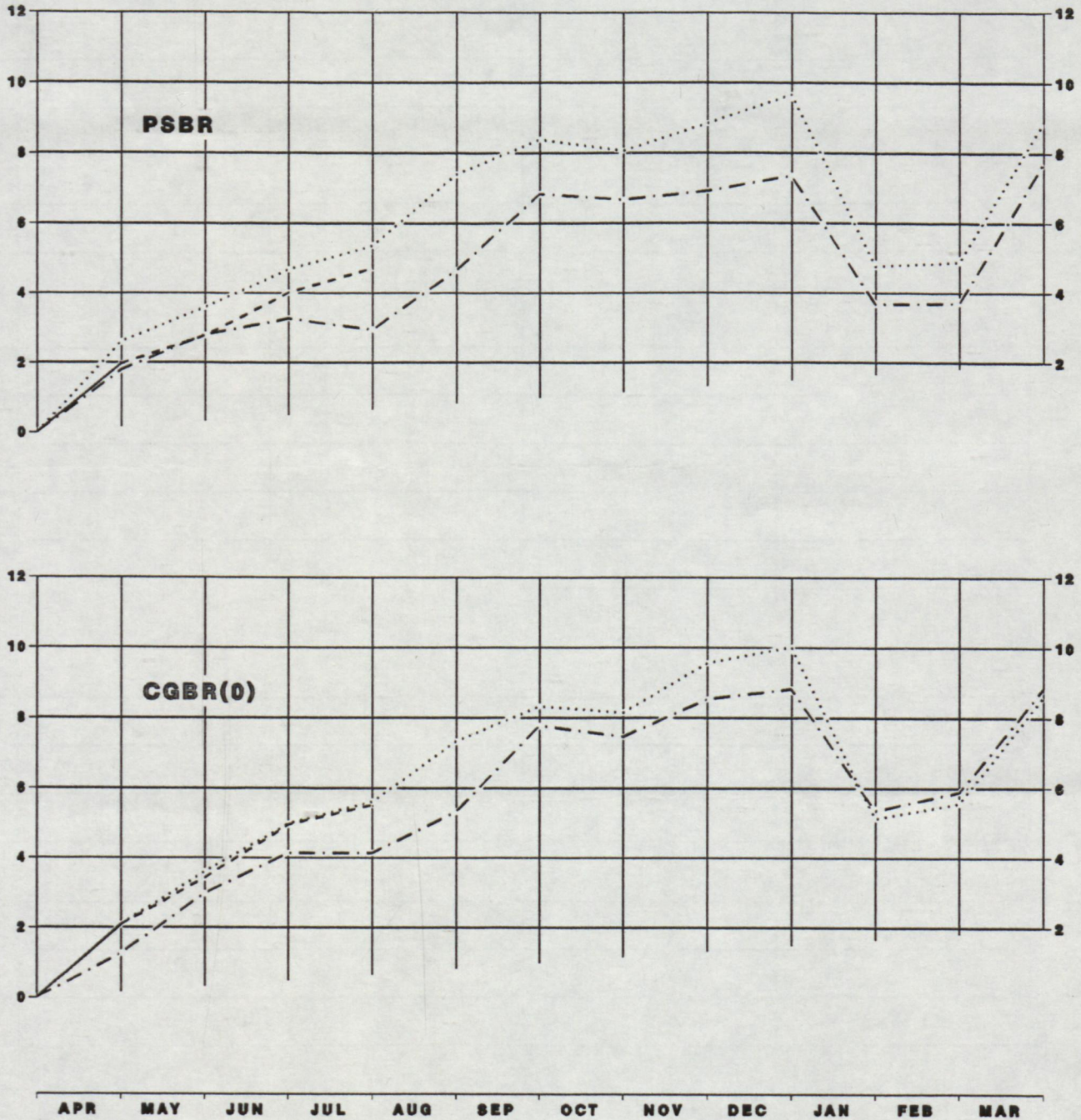


Chart 3: Comparisons excluding privatisation proceeds

£ billion cumulative

- = Estimated outturn in 1987-88
- - - = Latest forecasts
- · - = 1986-87 outturn
- = 1987-88 Budget profiles



Borrowing in April

(Outturn compared with last month's Budget forecast)

1. The provisional estimate of the PSBR in April is £1.8 billion, compared with last month's forecast of £2.4 billion. The differences between forecast and outturn on the individual sub-sectors are shown in the table below.

Table 1: April 1987 borrowing requirements

£ billion

	PSBR	Comprising		
		CGBR(O)	LABR	PCBR
Forecast*	2.4	1.9	0.7	-0.2
Outturn	1.8	1.9	0.4	-0.5
Difference	-0.6	-	-0.3	-0.3

*made on 15 April

2. Borrowing on central government's own account was as forecast last month. The main differences on components were higher Inland Revenue receipts (by £0.2 billion, mainly Corporation Tax), lower National Insurance contributions (by £0.2 billion) and higher Supply expenditure (by £0.1 billion). The monthly profile for National Insurance contributions over April-June has been erratic in recent years, so it is not possible at this stage to assess the effect of the April shortfall.

3. Local authorities provisionally showed net borrowing of £0.4 billion in April, a month with low rate receipts and seasonally high borrowing. The April outturn was £0.3 billion lower than last month's forecast and £0.3 billion below April 1986.

4. Public corporations made a net repayment of debt of £0.5 billion in April, compared with a forecast repayment of £0.2 billion. Currently available information from individual industries, which is not always consistent with the aggregate PCBR figure, indicates that

Electricity, British Steel and British Rail each borrowed around £0.1 billion less than forecast. Borrowing in the last three months has been much lower than in the corresponding months of 1986.

April to July

5. The PSBR for the period May-July is forecast to be about £¼ billion, close to the Budget forecast. This brings the total for the first four months of 1987-88 to £2 billion, about £¾ billion below the Budget profile (Chart 1 and Table 2).

6. Table 4 shows the latest detailed profile of borrowing on central government own account for April to July; a comparison with the Budget forecast for those months and with the outturn in April-July 1986 is shown in Table 5.

7. The CGBR(O) is forecast to be about £¼ billion below the Budget profile over the next three months, due mainly to higher Corporation Tax receipts (by £0.1 billion), higher privatisation proceeds (by £0.1 billion, from the sale of Rolls Royce), and higher receipts of Vehicle Excise Duty (by £0.1 billion, as a result of later information from the Post Office).

8. The monthly path of the CGBR(O) is as follows:

- In May, the CGBR(O) is forecast to be £1 billion. High debt interest payments and relatively low Inland Revenue receipts are partly offset by proceeds from the Rolls Royce sale.
- In June, the CGBR(O) is forecast to be in surplus by about £¼ billion, benefitting from the £1¾ billion proceeds from the second call on British Gas.
- In July, the CGBR(O) is forecast to be close to zero. Receipts of Advanced Corporation Tax will exceed £1 billion, but net debt interest payments are very high. The forecast assumes (as in the Budget profile) that the sale of British Airports Authority will raise £½ billion in the month.

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9. Local authorities are assumed to show net borrowing close to the Budget profile over the next three months, and hence the cumulative total is assumed to remain about £¼ billion below it.

10. The PCBR in the next three months is forecast to be about £0.1 billion more than in the Budget profile, on account of higher forecast borrowing in July by British Coal. Public corporations are assumed to make a further net repayment in May – Electricity is assumed to continue repayments, and seasonal repayments by the Post Office and Water Authorities are expected. Small positive borrowing in total is forecast for June and broad balance for July.

1986-87

11. The estimate for the PSBR outturn for 1986-87 remains at £3.3 billion, $\frac{3}{4}$ -1 per cent of GDP. The estimate of the CGBR(O) has been revised downwards by nearly £0.2 billion following an increase in the estimate of on-lending, while the LABR and PCBR have risen correspondingly.





1987-88

12. As foreshadowed in last month's note, the PCBR (and hence the PSBR) monthly profile for 1987-88 has been revised slightly following receipt of information from individual industries. The final Budget profiles are shown in Table 6.

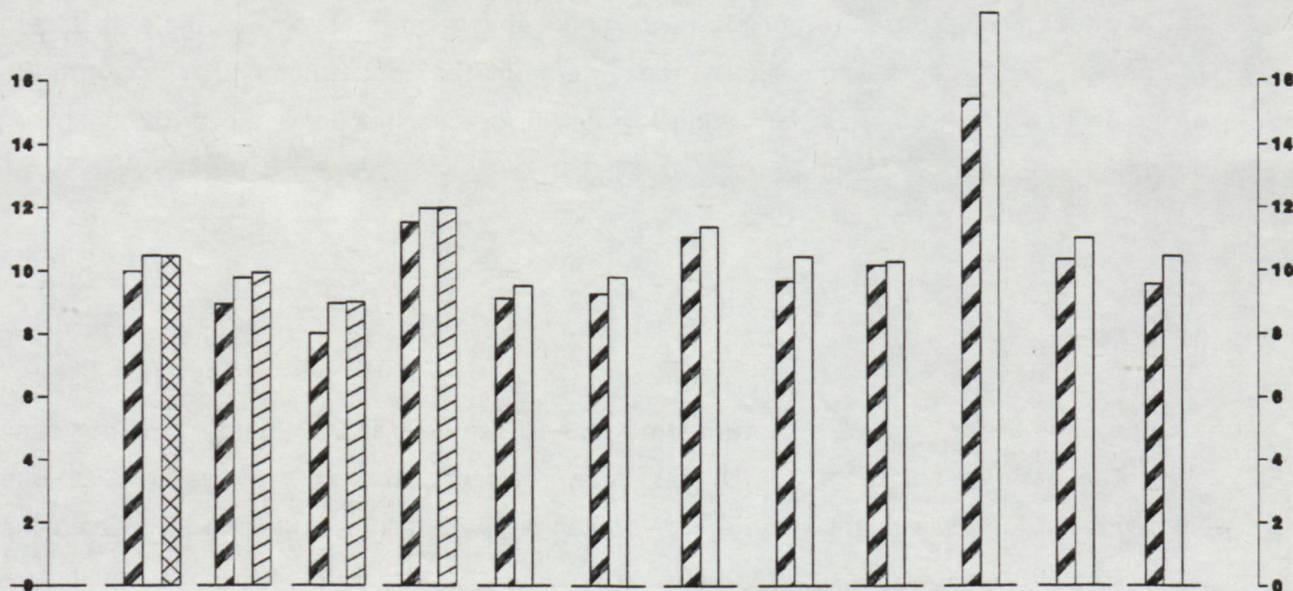
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Chart 4: Components of central government receipts and expenditure

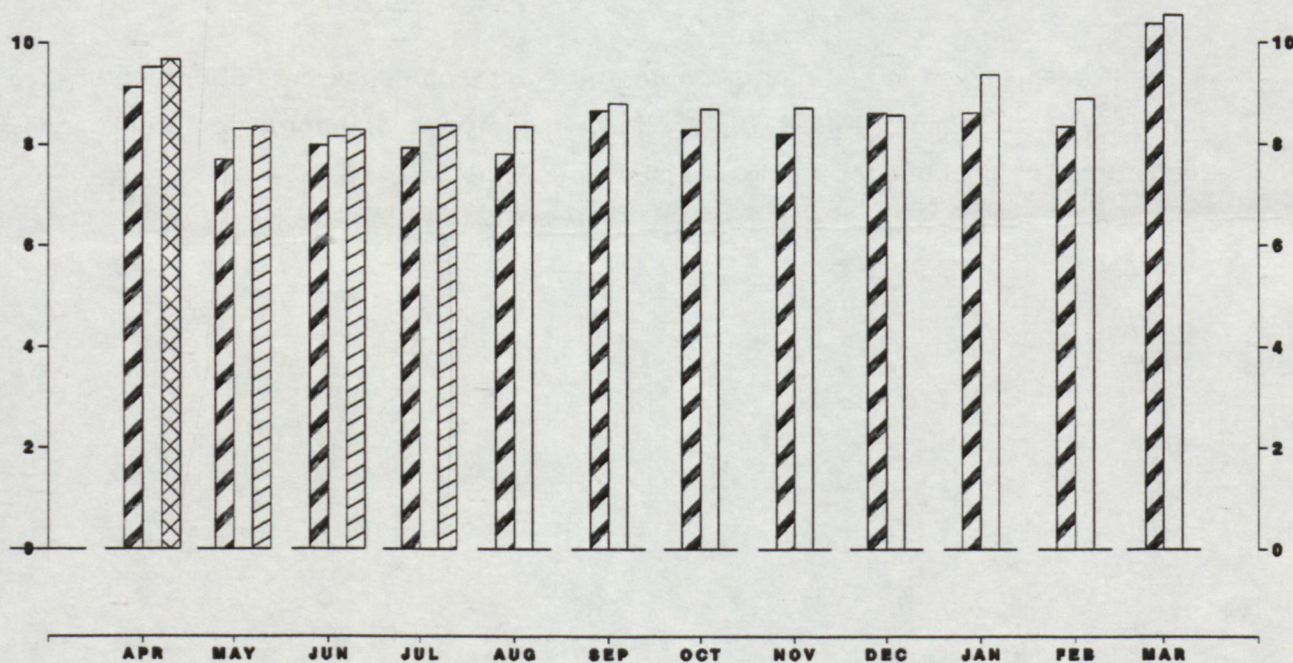
£ billion

-  = 1987-88: Outturns
-  = 1987-88: Latest profiles
-  = 1987-88 Budget forecasts
-  = Outturn in 1986-87

(I) NON OIL TAX AND NATIONAL INSURANCE RECEIPTS



(II) SUPPLY EXPENDITURE



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Table 2: Borrowing requirement monthly profiles May-July
(Budget profiles in italics for comparison)

£ billion

	PSBR		Comprising					
			CGBR(O)		LABR		PCBR	
1987-88								
Apr	<i>1.8</i>	<i>2.4</i>	<i>1.9</i>	<i>1.9</i>	<i>0.4</i>	<i>0.7</i>	<i>-0.5</i>	<i>-0.2</i>
May	<i>0.4</i>	<i>0.7</i>	<i>0.9</i>	<i>1.2</i>	<i>-0.2</i>	<i>-0.2</i>	<i>-0.4</i>	<i>-0.4</i>
Jun	<i>-0.5</i>	<i>-0.6</i>	<i>-0.2</i>	<i>-0.3</i>	<i>-0.4</i>	<i>-0.4</i>	<i>0.1</i>	<i>0.1</i>
Jul	<i>0.2</i>	<i>0.2</i>	<i>0.1</i>	<i>0.1</i>	<i>0.2</i>	<i>0.2</i>	<i>-</i>	<i>-0.1</i>
Cumulative								
Apr	<i>1.8</i>	<i>2.4</i>	<i>1.9</i>	<i>1.9</i>	<i>0.4</i>	<i>0.7</i>	<i>-0.5</i>	<i>-0.2</i>
May	<i>2.2</i>	<i>3.1</i>	<i>2.8</i>	<i>3.1</i>	<i>0.2</i>	<i>0.6</i>	<i>-0.9</i>	<i>-0.6</i>
Jun	<i>1.7</i>	<i>2.5</i>	<i>2.7</i>	<i>2.8</i>	<i>-0.2</i>	<i>0.1</i>	<i>-0.8</i>	<i>-0.4</i>
Jul	<i>1.9</i>	<i>2.7</i>	<i>2.7</i>	<i>2.9</i>	<i>-</i>	<i>0.3</i>	<i>-0.8</i>	<i>-0.6</i>

Figures for April are outturns

Table 3: PSBR for 1987-88 - comparisons with 1986-87 and 1987 Budget profile

£ billion

	1986-87	1987-88		Differences from	
	Outturn	Budget profile	Latest update ⁽¹⁾	1986-87 outturn	Budget profile
	1	2	3	3-1	3-2
Apr	0.7	2.4	1.8	1.1	-0.6
May	1.0	0.7	0.4	-0.6	-0.3
Jun	0.5	-0.6	-0.5	-0.9	0.2
Q2	2.2	2.5	1.7	-0.5	-0.8
Jul	-0.3	0.2	0.2	0.5	-
Aug	1.7	1.6			
Sep	2.2	0.4			
Q3	3.6	2.2			
Oct	-0.2	-1.1			
Nov	-	0.8			
Dec	-1.5	0.8			
Q4	-1.7	0.5			
Jan	-3.7	-5.4			
Feb	-0.4	0.1			
Mar	3.3	4.0			
Q1	-0.8	-1.3			
Cumulative					
Apr	0.7	2.4	1.8	1.1	-0.6
May	1.7	3.1	2.2	0.5	-0.9
Jun	2.2	2.5	1.7	-0.5	-0.8
Jul	1.9	2.7	1.9	0.1	-0.7
Aug	3.6	4.3			
Sep	5.7	4.7			
Oct	5.6	3.6			
Nov	5.6	4.4			
Dec	4.1	5.2			
Jan	0.4	-0.2			
Feb	-	-0.1			
Mar	3.3	3.9			

⁽¹⁾Figures for April are outturns

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**Table 4: Central government transactions – April
outturn and latest forecasts for May–July**

£ billion

	April		Latest forecasts		
	forecast	outturn ⁽¹⁾	May	Jun	Jul
Receipts					
<i>Consolidated Fund</i>					
Inland Revenue	4.6	4.8	3.9	3.8	6.2
Customs and Excise	3.7	3.7	3.6	2.9	3.3
Other ⁽²⁾	0.7	0.2	1.5	2.3	1.0
<i>National Loans Fund</i>					
Interest etc. receipts	0.6	0.3	0.4	0.6	0.4
Total Receipts	9.5	8.9	9.3	9.6	10.8
Expenditure					
<i>Consolidated Fund</i>					
Supply expenditure ⁽³⁾	9.5	9.7	8.3	8.3	8.4
Adjustment to Supply Services basis ⁽⁴⁾	-	0.2	0.2	-0.1	0.1
Other	0.5	0.5	0.5	0.5	0.5
<i>National Loans Fund</i>					
Service of the national debt	1.1	1.1	1.6	0.6	2.0
Net lending	0.3	1.0	0.3	0.2	0.3
Total Expenditure	11.4	12.5	11.0	9.5	11.2
Other funds and accounts (+ increases borrowing) (- reduces borrowing)	0.3	-1.1	-0.3	0.2	-
CGBR	2.2	2.5	1.4	-	0.4
On-lending	0.3	0.6	0.4	0.2	0.3
CGBR(O)	1.9	1.9	0.9	-0.2	0.1

⁽¹⁾Due to time lags in some items reaching their final accounting destination, figures of forecast and outturn may not be strictly comparable for the components identified, but there is no effect on the overall CGBR.

⁽²⁾Includes privatisation proceeds, except where these are temporarily lodged in "other funds and accounts."

⁽³⁾On a cheques issued basis. Supply includes an element of on-lending in the form of public dividend capital etc. It also includes advance payments to the EEC.

⁽⁴⁾Reflects changes in balances of departmental accounts with the Paymaster General, timing and other differences between cheques issued by departments and payments to them from the Consolidated Fund. An offset to this item is included in "Other funds and accounts".

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Table 5: Central government transactions⁽¹⁾ – comparisons for April–July

£ billion

	1986	1987	
	Outturn	Budget forecast	Latest update
Receipts			
<i>Consolidated Fund</i>			
Inland Revenue	18.0	18.3	18.5
Customs and Excise	12.7	13.5	13.5
Other ⁽²⁾	1.9	5.0	4.9
<i>National Loans Fund</i>			
Interest etc. receipts	2.0	2.0	1.7
Total Receipts	34.6	38.7	38.7
Expenditure			
<i>Consolidated Fund</i>			
Supply expenditure ⁽³⁾	32.7	34.3	34.6
Adjustment to Supply Services basis ⁽⁴⁾	0.9	0.2	0.4
Other	1.3	1.9	2.0
<i>National Loans Fund</i>			
Service of the national debt	5.2	5.2	5.3
Net lending	3.4	0.4	1.8
Total Expenditure	43.5	42.1	44.1
Other funds and accounts (+ increases borrowing) (- reduces borrowing)	-2.2	0.2	-1.2
CGBR	6.7	3.5	4.2
On-lending	3.6	0.6	1.5
CGBR(O)	3.0	2.9	2.7

⁽¹⁾Due to differences in treatment of some items in the accounts between the periods/forecasts shown, and time lags in some items reaching their final accounting destination, figures for the components identified may not be strictly comparable.

⁽²⁾Includes privatisation proceeds, except where these are temporarily lodged in "other funds and accounts."

⁽³⁾On a cheques issued basis. Supply includes an element of on-lending in the form of public dividend capital etc. It also includes advance payments to the EEC.

⁽⁴⁾Reflects changes in balances of departmental accounts with the Paymaster General, timing and other differences between cheques issued by departments and payments to them from the Consolidated Fund. An offset to this item is included in "Other funds and accounts".

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Table 6: Borrowing requirement Budget profiles 1987-88
(1986-87 outturns in italics for comparison)

£ billion

	PSBR		Comprising					
			CGBR(O)		LABR		PCBR	
1987-88								
Apr	2.4	<i>0.7</i>	1.9	<i>0.2</i>	0.7	<i>0.7</i>	-0.2	<i>-0.2</i>
May	0.7	<i>1.0</i>	1.2	<i>1.7</i>	-0.2	<i>-0.3</i>	-0.4	<i>-0.4</i>
Jun	-0.6	<i>0.5</i>	-0.3	<i>1.2</i>	-0.4	<i>-0.5</i>	0.1	<i>-0.2</i>
Jul	0.2	<i>-0.3</i>	0.1	-	0.2	-	-0.1	<i>-0.3</i>
Aug	1.6	<i>1.7</i>	1.3	<i>1.2</i>	0.3	<i>0.3</i>	-	<i>0.3</i>
Sep	0.4	<i>2.2</i>	0.4	<i>2.5</i>	-0.1	<i>-0.1</i>	0.1	<i>-0.1</i>
Oct	-1.1	<i>-0.2</i>	-1.0	<i>-0.3</i>	-0.3	<i>-0.3</i>	0.2	<i>0.4</i>
Nov	0.8	-	1.4	<i>0.8</i>	-0.5	<i>-0.5</i>	-0.2	<i>-0.3</i>
Dec	0.8	<i>-1.5</i>	0.5	<i>-1.6</i>	0.2	<i>0.1</i>	0.1	<i>0.1</i>
Jan	-5.4	<i>-3.7</i>	-5.4	<i>-3.5</i>	0.1	<i>0.1</i>	-0.1	<i>-0.3</i>
Feb	0.1	<i>-0.4</i>	0.4	<i>0.1</i>	-	<i>-0.1</i>	-0.3	<i>-0.4</i>
Mar	4.0	<i>3.3</i>	3.0	<i>2.2</i>	1.1	<i>0.9</i>	-0.1	<i>0.1</i>
Cumulative								
Apr	2.4	<i>0.7</i>	1.9	<i>0.2</i>	0.7	<i>0.7</i>	-0.2	<i>-0.2</i>
May	3.1	<i>1.7</i>	3.1	<i>1.9</i>	0.6	<i>0.4</i>	-0.6	<i>-0.6</i>
Jun	2.5	<i>2.2</i>	2.8	<i>3.0</i>	0.1	<i>-0.1</i>	-0.4	<i>-0.8</i>
Jul	2.7	<i>1.9</i>	2.9	<i>3.0</i>	0.3	<i>-0.1</i>	-0.6	<i>-1.1</i>
Aug	4.3	<i>3.6</i>	4.2	<i>4.2</i>	0.6	<i>0.2</i>	-0.6	<i>-0.8</i>
Sep	4.7	<i>5.7</i>	4.6	<i>6.7</i>	0.5	-	-0.5	<i>-1.0</i>
Oct	3.6	<i>5.6</i>	3.7	<i>6.4</i>	0.2	<i>-0.3</i>	-0.3	<i>-0.5</i>
Nov	4.4	<i>5.6</i>	5.1	<i>7.2</i>	-0.2	<i>-0.7</i>	-0.5	<i>-0.9</i>
Dec	5.2	<i>4.1</i>	5.5	<i>5.6</i>	-	<i>-0.7</i>	-0.4	<i>-0.8</i>
Jan	-0.2	<i>0.4</i>	0.2	<i>2.1</i>	0.1	<i>-0.6</i>	-0.4	<i>-1.1</i>
Feb	-0.1	-	0.6	<i>2.2</i>	0.1	<i>-0.7</i>	-0.8	<i>-1.5</i>
Mar	3.9	<i>3.3</i>	3.6	<i>4.5</i>	1.2	<i>0.2</i>	-0.9	<i>-1.3</i>



10 DOWNING STREET

Prime Minister ²

I thought you might
enjoy this as a model of
what such letters should
say!

DSW
8/5.

Excellent

~~_____~~

nd

CCPC

From ADMIRAL SIR DAVID WILLIAMS GCB DL
VICE-CHAIRMAN



COMMONWEALTH WAR GRAVES COMMISSION
2 MARLOW ROAD
MAIDENHEAD BERKSHIRE SL6 7DX
Telephone: 0628 34221

Our ref: ACC 15/3

7 May 1987

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

Dear Chief Secretary,

**PUBLIC EXPENDITURE SURVEY COMMITTEE - 1987 SURVEY
DEPARTMENT 013 COMMONWEALTH WAR GRAVES COMMISSION**

I am writing in accordance with the guidelines for this year's Public Expenditure Survey to report that after a full scrutiny of the Commission's work programme over the survey period I do not wish to seek any additional resources to support the programme.

2. I have reached this conclusion on the basis that there are at present no changes in economic assumptions to justify any movement away from the baseline and that improvements in efficiency will release sufficient resources to provide for the progressively increasing workload that arises as the fabric of cemeteries and memorials ages. The period of the survey is seen as a time of consolidation after the substantial re-organisation of recent years, with the necessary resources being released by continuing to make better use of staff, equipment and techniques. All of this is in accordance with the Commission's corporate plan already agreed.

3. For the record, the baseline for the period of the survey stands at:

1988-89	1989-90	1990-91
£000	£000	£000
14161	14515	14878

4. I am copying this letter to the Prime Minister and the Lord President of the Council, as requested in the guidelines; and also to the Defence Secretary as Chairman of the Commission.

Yours sincerely

David Williams

CCBG



nbpm

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Tom King MP
Secretary of State for Northern Ireland
Northern Ireland Office
Whitehall
London
SW1A 3AZ

14TH April 1987

Dear Tom,

GUIDELINES FOR THE 1987 SURVEY

Thank you for your letter of 31 March.

As you say, our officials have discussed how the Guidelines for the 1987 Survey should be applied to the Northern Ireland block arrangements. I too am pleased that it has been agreed that the main features of the Guidelines will be complied with although there will be some minor differences of detail and timing which reflect your particular circumstances.

On your second point, you will appreciate that the only commitment I can give now as far as Northern Ireland is concerned, is that the block budget ground-rules will form the basis of the handling of this year's Survey. I hope that in large measure it will be possible to follow the normal procedures. But the ground-rules do allow for Ministerial override in particular circumstances and I am not prepared to foreclose that option at such an early stage.

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

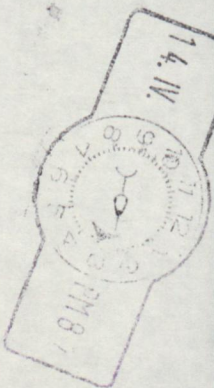
Yours ever,

JOHN MacGREGOR

Rec'd 702

Public Telephone

PT 37



CCBG



SECRETARY OF STATE
FOR
NORTHERN IRELAND

NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

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

31 March 1987

Dear Chief Secretary

NBM -

GUIDELINES FOR THE 1987 SURVEY

Thank you for sending me a copy of your minute of 18 March to the Prime Minister. My officials have been in touch with yours on some detailed aspects of the application of the Guidelines, reflecting the ground rules for the operation of the Northern Ireland Block which have now been agreed, and I gather that a useful understanding has been reached on the way ahead.

On a more fundamental point, I am anxious to avoid the situation which arose in the last two Surveys where, at a stage which seriously disrupted the elaborate programme of work undertaken within NI on each Survey, the Treasury sought to reduce the outcome of the application of the formula to comparable programmes in GB. It is of the essence of the formula arrangement that its application in some instances will give NI more than it needs but in others (for example, Law and Order, Housing and Labour Market measures) it will give markedly less than demographic characteristics of closing the gap in standards would require. To curtail the results of applying the formula in instances of the former kind whilst maintaining it in the other cases is inequitable and it inevitably frustrates the simplification of Survey work which the formula should achieve. I would find it helpful therefore to have your confirmation that the comparability formula will be applied in full in this year's Survey.

at trap

CONFIDENTIAL

I have also noted your proposals in respect of the handling of departmental running costs and I can confirm that details of Northern Ireland's requirements in this respect will be available to your officials in time for the preparation of your overall proposals in July.

I am sending copies of this letter to other Cabinet colleagues, Richard Luce and Sir Robert Armstrong.

Yours sincerely,
Robin Crossfield

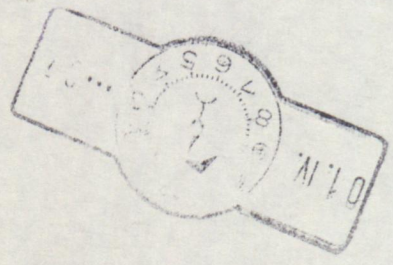
for TK
(Approved by the Secretary of State
and signed in his absence in Northern Ireland)

2

CONFIDENTIAL

JLD

ECON POL: Public Expenditure PT37



FROM:

THE RT. HON. LORD HAILSHAM OF ST. MARYLEBONE, C.H., F.R.S., D.C.L.



HOUSE OF LORDS,
LONDON SW1A 0PW

25 March 1987

CONFIDENTIAL

The Chief Secretary to the Treasury
Parliament Street
LONDON
SW1

NBFR.

My dear John:

Guidelines for the 1987 Survey

at-11ap

Thank you for sending me a copy of your minute of 18 March to the Prime Minister.

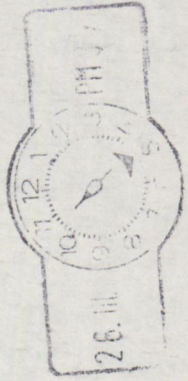
If I may say so, I think the Guidelines you propose succeed admirably in carrying forward our wider objectives for public expenditure in the coming Survey. My only caveat is to echo the point made by Malcolm Rifkind, Geoffrey Howe and others about the relationship between the central pay settlement, gross running costs, and the attainment of policy objectives. Like colleagues, I will have problems in delivering targets which would otherwise be reasonable if there is a discrepancy between my assumptions for growth in business, pay levels, and productivity. I will ensure that the papers prepared for the Survey identify objectives which are particularly at risk.

Copies to Cabinet colleagues, Richard Luce and Sir Robert Armstrong.

Yrs.

CONFIDENTIAL

ECON POL : Public Exp. PT37



CONFIDENTIAL



file DASAFJ

bc BQ

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

23 March 1987

Dear Jill,

GUIDELINES FOR THE 1987 SURVEY

The Prime Minister has seen the Chief Secretary's minute of 18 March, to which was attached draft guidelines for the 1987 Survey. The Chief Secretary also proposed that the new third year of the Survey should be calculated on the basis of an uplift factor of 2½ per cent.

The Prime Minister is content, subject to the views of colleagues, both with the draft guidelines and the proposal for uplift of the new final year by 2½ per cent.

I am copying this letter to the Private Secretaries to other members of Cabinet, the Minister for the Arts, and Sir Robert Armstrong.

*Yours,
David*

D R NORRGROVE

Miss Jill Rutter
Chief Secretary's Office

CONFIDENTIAL

CONFIDENTIALPRIME MINISTER

GUIDELINES FOR THE 1987 SURVEY

The Chief Secretary's minute below sets out the proposed guidelines for the 1987 Public Expenditure Survey.

These should cause no difficulty, except perhaps on one point. The Treasury propose, as in each of the last three Public Expenditure Surveys, to create the baseline for the new final year of the survey (1990-91) by increasing expenditure by 2½ per cent. Against this, the FSBR, published with the Budget, shows a GDP deflator in 1990-91 of 3 per cent. The result, in effect, is to give the Treasury a half per cent of expenditure to distribute around programmes to meet bids during the course of the Survey.

Some colleagues may protest at this, arguing that even 3 per cent is unrealistic. But it is essential. I suggest you agree the Chief Secretary's proposals now, subject to the views of colleagues, to avoid a head of steam building up against it.

Agree?

Yes *mt*

DNR

D R NORGROVE
19 March 1987

CONFIDENTIAL

CONFIDENTIAL



FROM: CHIEF SECRETARY

DATE: 18th March 1987

PRIME MINISTER

GUIDELINES FOR THE 1987 SURVEY

In my minute of 12 February I set out my proposals for the arrangements for the early part of this year's Public Expenditure Survey. Your Private Secretary's letter of 17 February recorded that you were content with the proposals outlined in my minute about the ending of the formal Survey Report, the integration of running costs fully into the rest of the Survey and the absence of formal manpower targets beyond April 1988.

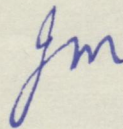
... 2 As foreshadowed in my earlier minute, I now attach draft detailed guidelines for the conduct of the Survey. These follow the same general format as in earlier years, but reflect the further changes in procedure this year. Subject to any comments from colleagues by 26 March, I propose that the guidelines should be formally circulated as a PESC paper by the end of the month.

3 I should draw colleagues' attention in particular to the proposal in 6 of the guidelines that the initial departmental baselines for 1990-91, the new third year of the Survey, should be calculated on the basis of an uplift factor of 2½ per cent. This repeats the figure adopted for the final year in each of the last three Surveys. I should make clear however that this is (as usual) an assumption used for determining the starting point for the Survey, and is not intended to prejudge the final outcome, although I have to say that I believe colleagues should be able to offset the small real reduction implied by improvements in efficiency and productivity. A further advantage with this approach is that it provides a useful extra degree of flexibility in the process of re-assessing priorities across Government and public expenditure as a whole. I shall as usual be making detailed proposals for the planning totals in July.

CONFIDENTIAL

4 It is intended that the treatment of running costs will follow the same processes as for the main programme expenditure. I know that you share my view that the running costs regime will need to be operated strictly to ensure that Civil Service numbers (and, by implication, running costs themselves) do not start to drift up. We cannot afford to relax our efforts, and it was with this in mind that I suggested in my earlier minute that I would bring forward proposals on the overall provision for running costs for the Survey years in July at the same time as my proposals for expenditure generally.

5 I am sending copies of this minute to other Cabinet colleagues, Richard Luce and Sir Robert Armstrong.



JOHN MacGREGOR

CONFIDENTIAL

DOWNGRADE TO RESTRICTED
AFTER 5 YEARS

PESC(87)3

PESC(WM)(87)4

HER MAJESTY'S TREASURY
PUBLIC EXPENDITURE SURVEY COMMITTEE

Guidelines for the 1987 Survey

Note by the Treasury

Introduction

This paper sets out guidelines for the conduct of the 1987 Survey. The general arrangements are explained in the main sections of the text, with further more detailed guidance in the Annexes.

2. A number of changes were made last year in the procedures for the early stages of the Survey. In his minute of 12 February to the Prime Minister, the Chief Secretary proposed some further changes this year. One result is that a Survey Report will not be prepared and circulated. Details of the proposed changes are discussed in the relevant sections of this paper which follow.

3. The rest of the paper is divided into the following sections and Annexes:

- I : Timetable
- II : The Survey Report; proposed changes in 1987
- III : Ministerial proposals for changes to the baseline
- V : Local authorities
- VI : Nationalised industries
- VII : European Community expenditure
- VIII : Contingent Liabilities
- IX : Further information

ANNEX A : 1987 Public Expenditure Survey: key dates March-May

ANNEX B : Construction of the baseline

ANNEX C : Outputs, performance targets and value for money.

ANNEX D : Preparation of Ministerial and official letters

ANNEX E : Information on the economic composition and territorial consequences of proposed changes to be baseline

I TIMETABLE

4. A table setting out the key departmental dates is attached at Annex A. Departments are asked to submit running tallies setting up the baseline by Thursday 9 April. The baselines will be set and agreed by Wednesday 13 May, and circulated on Friday 22 May. Information on value for money should be sent to the Treasury by Friday 1 May, and Ministerial and official letters will be due by Friday 22 May. Information on contingent liabilities should reach the Treasury by Thursday 28 May.

II THE SURVEY REPORT; PROPOSED CHANGES IN 1987

5. It is not proposed this year to prepare and circulate a Survey Report. Instead, the information about Survey and running cost baselines will be brought together and circulated to departments as a working document. The remaining information provided last year, about output and performance measures and targets, will be transmitted separately to the Treasury for bilateral discussion (see paragraphs 9 to 11 below and Annex C).

The Baseline

6. Annex B gives detailed information on the construction of the departmental baselines to 1989-90. Departmental baselines for the new year 1990-91, will be calculated by the Treasury by adding 2½ per cent to the cash figures for 1989-90, adjusted as necessary in accordance with the guidance at Annex B. The baseline for gross running costs in 1990-91 will be calculated in the same way. Departments are asked to provide a breakdown of their running cost baseline on form DRC2 by

8 May (see PESC(WM)(87)6), and should also indicate on this form the manpower figure 1.4.91 consistent with this running cost provision, having regard to further progress in improving efficiency.

7. The text in the working document circulated on the baselines will be limited to short explanations of any significant differences between the Survey baseline and provision in the White Paper, or any special understandings about the way in which the baselines have been constructed. These texts will be drafted by the Treasury as the running tally exercise progresses and cleared with departments as indicated in the timetable at Annex A.

8. It is also proposed that a number of supporting analyses will also be circulated in May, for example, further elaborations of the main baseline tables and the baselines for the interdepartmental exercises such as the discussion of local authority relevant public spending in E(LA), and more detailed information on capital spending.

III OUTPUT, PERFORMANCE, TARGETS AND VALUE FOR MONEY

9. By the beginning of May, Departments should provide Treasury divisions with a statement of output and performance measures and targets currently available to support their baseline expenditure, and of their plans to improve and extend these in the coming year (see annex C for further details). The information should build on that in the 1987 public expenditure White Paper and in departmental management systems and publications. Further guidance on the nature of this information will be given in PESC(WM)(87)5.

10. The information will be the basis for bilateral discussions between departments and expenditure divisions both on the value for money offered by the baseline programmes and on the development of output and performance measures and targets. Further discussions may be needed at Ministerial level if satisfactory agreement cannot be reached at official level on the choice of measures and targets, or plans for their improvement or if questions arise about a programme's value.

11. These discussions build on the previous Survey arrangements for collecting output and performance information and the regular six-monthly discussions on financial management matters. The other six-monthly discussion will continue to take place, after the Survey decisions, and will cover progress and plans on budgeting, policy evaluation, output and performance measurement and financial management matters generally.

MINISTERIAL PROPOSALS FOR CHANGES TO THE BASELINE

12. Ministers are asked to write to the Chief Secretary to report the outcome of their personal scrutiny of priorities within their programmes, whether or not this has resulted in their wishing to seek net additional resources. If after that scrutiny Ministers propose to seek net additional resources, the Ministerial letter should say why the Minister considers it essential to put forward such proposals and why the upward pressures cannot be accommodated through offsets or improved efficiency. They should also specify what indicators and targets of output and performance would be used to evaluate the use of the extra resources. Whether or not additional resources are being sought, the letter should explain proposals to reallocate existing resources in order to accommodate changing priorities. They should also explain how the outturn of the new proposal should be evaluated. Supporting official letters including more detailed information will also be needed; detailed guidance is at Annex D.

Gross Running costs and manpower

13. The public expenditure White Paper contained provision for gross running costs for 1988-89 and 1989-90 as well as for 1987-88. Where, exceptionally, additional resources are proposed, Ministers should identify these exceptional reasons in their letters and explain why the resource needs cannot be met by a reallocation of existing priorities or efficiency savings. Details of the measures of output and performance relating to each bid and of any offsetting savings or reduced requirements elsewhere within running costs should also be included in the official letters. Each proposed change to the baseline should also be supported by a separate DCR3 form (which must accompany the official letter); guidance on the information required is contained in PESC(WM)(87)6. The official letters should also indicate changes (with explanations) to the manpower plans, including any stemming from running costs proposals.

Economic composition and territorial implications of proposed changes to baseline

14. Annex E gives details of the information the Treasury needs to collect about proposed changes to be baseline, and how it should be prepared. This information should be forwarded, on a copy of the form attached to Annex E, with the official letter sent to the Treasury. Departments are asked to keep the territorial departments informed of possible changes affecting the territorial blocks throughout the 1987 Survey by copying relevant Ministerial and official correspondence to the respective Secretaries of State. ST3 division in the Treasury will advise

in any case of doubt - Max Sharratt (270-5057) on Northern Ireland or Tony Davis (270-5064) on Scotland and Wales.

Economic assumptions

15. Where they are needed, revisions to specific economic assumptions will be issued to the Departments concerned.

Options for reductions

16. In areas where the Treasury believes that there are or ought to be options which could be used to offset requests for additional resources or to produce savings and these have not been identified by departments, departments will be asked for costings of these options. In some cases it may be more appropriate for departments to set out how they could achieve a given level of savings in an area of spending. In either case departments should, as in previous years, provide the Treasury with the necessary information.

V LOCAL AUTHORITIES

17. Local authority relevant public expenditure will, as in previous years, be considered separately in E(LA). It will therefore only be necessary for proposals for adjustments to programmes which will not be covered by discussions in E(LA) to be included in the Ministerial and official letters. (See Annex D.) Provision and allocations for local authority capital expenditure will be matters for consideration in the Survey. The Treasury will be discussing arrangements for handling these issues with the departments concerned.

VI NATIONALISED INDUSTRIES

18. The external finance of the nationalised industries, and related expenditure as agreed by the Treasury and sponsor Departments (including redundancy provision), will be separately considered in the Investment and Financing Review. Arrangements for this are being notified to sponsor departments. The arrangements for reporting on contingent liabilities for nationalised industries are covered in paragraph 21 below.

VII EUROPEAN COMMUNITY EXPENDITURE

19. PESC(EC) will continue to consider spending allocated to programme 2.7, as last year. Under the arrangements agreed last year for the operation of EURO-PES,

Departments seeking negotiating authority to agree levels of Community R&D expenditure which would go beyond the EURO-PES baseline and could not be covered by transfers within EURO-PES are expected to write to the Treasury identifying the offsetting domestic savings which could be made. In the case of Ministers seeking net additional provision, information should be included in the letters referred to in paragraph 12 above.

20. Departments are in any case asked to provide EC Division in the Treasury with information about their latest forecast outturn for EC receipts for 1986-87 and their estimates for 1987-88 by 1 April. This information should be consistent with the figures contained in the 1987 Estimates, but on the basis of receipts by subprogramme within programme 2.7.

VIII CONTINGENT LIABILITIES

21. Departments are reminded of the Prime Minister's minute of 23 May 1986 requesting Ministers to take a personal interest in an annual review of their departments' contingent liabilities. The results of the first of these reviews, carried out last year, have already been reported to the Treasury.

22. This year's exercise should be carried out concurrently with the initial stages of the Survey. Except where the Treasury has requested changes, the review and subsequent report to the Treasury on the outcome should follow the same general form as last year. For consistency, the amounts reported in the review should be the contingent liabilities of departments and the bodies they sponsor as at 31 March 1987, but attention should be drawn to any significant changes since 31 March, and to the reasons for any variations from figures previously reported to the Treasury or to Parliament.

23. In other respects, departments should be guided by PESC(86)13 and any supplementary guidance received from Treasury Expenditure Divisions. As a result of the decision to discontinue the Survey Report the paragraph envisaged in paragraph 7 of PESC(86)13 will however not be required.

24. When Ministers in charge of Departments have approved the reports on contingent liabilities, they should be transmitted to the relevant Treasury Expenditure Division, by Thursday 28 May. This timing is intended to allow the Treasury time to follow up action with departments as necessary, and to take account of the results in their consideration of proposals for survey provision.

IX FURTHER INFORMATION

25. The PESC(WM) papers listed below are also relevant:

PESC(WM)(87)3 - 1987 Survey Baseline: Submission of Running tallies.

PESC(WM)(87)5 - Information on output, performance and value for money in the 1987 Survey.

PESC(WM)(87)6 - 1987 Survey: Running Costs Information.

PESC(WM)(LA)(87)1 - 1987 Survey Baseline: Submission of Local Authority Running tallies.

General questions arising from this paper should be addressed to the secretaries, Ros Dunn (270-5522) or Moira Wallace (270-5523). Questions on departmental running costs should be addressed to Mike Hoare (270-4996) or Paul Harris (270-4997), on manpower to Ron Carpenter (270 4865), on contingent liabilities to David Shore (270-5361), and on EC expenditure to John Addison (270-4425).

MRS R M DUNN

MISS M P WALLACE

1987 PUBLIC EXPENDITURE SURVEY: KEY DATES MARCH-MAY

MARCH Thursday 12 March Last date for departments to comment on formats of main departmental tables.

Thursday 19 March PESC(WM) paper seeking running tallies to amend PES database issued.

APRIL Thursday 9 April Last date for departments to submit running tallies to amend PES database for years up to 1989-90.

MAY Friday 1 May Last date for departments to submit output and performance information to Treasury expenditure divisions.

Wednesday 6 May GEP Data Unit circulate draft survey tables showing Survey baseline including new third year (with separately identified running cost baselines and manpower plans), and more detailed PESKEL reports to expenditure divisions and departments. Draft texts explaining changes since White Paper figures circulated.

Friday 8 May Last date for departments to submit running tally forms to amend PES database for 1990-91, and DRC2 forms to provide breakdowns of running cost baselines and manpower plans.

Wednesday 13 May Last date for final comments on departmental tables. Last date for comments on textual explanations of changes since White Paper figures.

Friday 22 May Working document circulated to PESC and Ministers.

Friday 22 May Last date for Ministerial and official letters to the Chief Secretary and expenditure divisions. Last date for DRC3 forms to support each proposed change for running costs and manpower.

Thursday 28 May Last date for information on contingent liabilities to be sent to expenditure divisions.

CONSTRUCTION OF THE BASELINE

1. The starting point for the 1987 Survey will be the cash plans published in Cm56 adjusted for any Budget policy changes and classification changes.
2. For the new third year, 1990-91, baseline figures for programme expenditure and running costs will be calculated by the Treasury by adding 2½ per cent to the cash baseline figure for 1989-90.
3. Manpower plans at 1 April 1988, 1 April 1989 and 1 April 1990 are as published in Cm56 except where subsequently amended by agreement with the Treasury. Baseline manpower plans for 1 April 1991 should be consistent with the baseline figures for running costs calculated as above, having regard to further progress in improving efficiency.
4. The general rule is that the baseline figures to be circulated in this year will not provide for any changes to the figures published in the White Paper. Any changes resulting from reassessment of priorities' should be part of the Survey and not reflected in the baseline. In particular, switches into running costs from other expenditure should not be made (except where already made in Estimates or by prior agreement with the Treasury). This will apply to the three Survey years 1988-89 to 1990-91.
5. However, there may be a case for making some adjustments to the database, in the following categories:
 - (i) Coding errors that need correcting. For example departments may have identified data that are wrongly coded and need to be corrected by switching money between sub-programmes, economic categories, territorial areas or spending authorities;
 - (ii) Any minor and non-contentious amendments to figures beyond 1987-88 as a result of the Estimates scrutiny for 1987-88. PESC(WM)(87)3 asked departments to align PES and Estimates for 1987-88. In some, but not all cases changes in 1987-88 might have implications for later years involving switches between sub-programmes, economic categories or spending authorities and these may be reflected in the database. Increases in expenditure (or switches from programme expenditure into running costs) should not be included, even where policy agreements have already been reached as these will be dealt with as part of the Survey itself.

In addition the classification changes required in PESC(WM)(87)3 should also be made.

6. In all cases these adjustments can only be implemented by prior agreement with Treasury expenditure divisions.

7. Running tallies for any agreed changes to the baseline, for all years of the Survey (ie 1982-83 to 1989-90), or forward years as appropriate, should be sent to the Treasury by 9 April. Running tallies for agreed changes to the baseline for 1990-91 should be sent in, after the baseline for that year has been created, by 8 May.

INPUTS, PERFORMANCE, TARGETS AND VALUE FOR MONEY

The information mentioned in paragraph 9 of the main paper should include so far as possible for each main element of the programme, the following:

- (i) the available output and performance measures and indicators for past and current years, for individual programmes, policies or activities;
- (ii) forecasts and targets for the Survey years (and beyond) where appropriate;
- (iii) unit costs (of inputs and outputs);
- (iv) value for money targets - ie targets set specifically to improve efficiency and performance for individual programmes or in particular activities (eg purchasing).
- (v) what reviews and scrutinies will be carried out; and
- (vi) where work is need to establish new or better measures of output and performance.

2. This information can be collected and presented in various ways and departments may find it helpful to have a preliminary discussion with Treasury expenditure divisions before it is prepared. There is no intention to apply a standard format. Some departments may be able to provide it by summarising material from the management system for their Ministers and senior managers. Where measures or targets have been published in Cm56, these should be rolled forward and the outturn given to compare with published targets. Departments may in addition wish to roll forward measures and targets in other publications, and to add tables of measures and targets which do not appear in the White Paper.

3. Detailed guidance on output and performance measurement, including a glossary of terms, has been circulated in PESC(WM)(87)5.

PREPARATION OF MINISTERIAL AND OFFICIAL LETTERS

Ministerial letters

1. In order to provide the background to subsequent collective decisions, Ministers are asked to write to the Chief Secretary reporting the outcome of their personal scrutiny of priorities within their programmes and, if they consider it necessary, making proposals for net additions to provision or gross running cost baselines or manpower plans. As indicated in paragraph 12 in the main paper, the letters should say why the Minister considers it essential to put forward proposals for net additional resources and why the upward pressures cannot be accommodated through offsets or improved efficiency, and indicate what output and performance would be bought by the proposed additions and the relative priority of the different proposals.

2. Any proposals, including proposed reductions, which have cost implications for other departments should have been discussed with the departments concerned and understandings should have been reached on the responsibility for funding the costs involved. The Ministerial letters should draw attention to the existence of such effects and the details of the agreements reached should be set out in the official letters - see paragraph 9 below.

3. Proposals for changes to nationalised industry expenditure, and local authority relevant current spending should not be covered. Switches out of local authority non-relevant current or capital expenditure should only be proposed, and will only be allowed, where the Treasury is satisfied that explicit policy changes will ensure the relevant reduction (whether resulting from policy or estimating changes).

4. Increases for 1987-88 should not be proposed as part of the Survey exercise - any such proposals will be dealt with as they arise through the year as part of the operational control of the Reserve and in year departmental control of running costs and manpower.

Official letters

5. In order to facilitate the task of bringing the specific information on proposed changes to the baseline together, the Treasury proposes a further refinement to the arrangements in operation last year. Letters at official level should give

tails of the improvements in output and performance which would be achieved by any bids put forward. This information should now be provided in tabular form. An example of the desired format, together with some notes on completion, is attached to this Annex. The aim is that these proformas will be used at the basis for the summary of proposed changes to the baseline circulated before the July Cabinet.

6. The letters should also include any further detailed explanation which Departments wish to put forward or which the Treasury may request. For example, the letters should explain more fully how the need for additional provision arises, and whether or not it results from a policy or estimating change. They should also give fuller details of reduced requirements for provision already in the baseline resulting from revised economic or demographic assumptions, or proposed policy changes. In the case of proposed changes to demand led programmes, the Treasury will in due course seek agreement with Departments on an analysis of outturn for the relevant programme for at least the past two years. It is intended that this should contribute to the Treasury's overall assessment of the proposed changes.

7. Capital expenditure proposals and major items of maintenance expenditure of a similar nature ie with benefits running into future years should be supported by a full summary of the information justifying them. This will normally include details in each case of: a clear statement of objectives; the expected return (eg NPV, and/or other measures of net benefit); alternatives considered; the material factors in the proposed decision; the costs of foregoing or postponing the expenditure; and the impact on maintenance or other current expenditure.

8. For all proposed changes to the baseline, the official letters should indicate whether the expenditure is governed by existing legislation or regulations or is within the Government's administrative control.

9. For any proposed change effecting other departments, the letters should set out the details of agreements reached with those departments on the responsibility for funding the costs involved - see paragraph 2 above.

10. Running cost proposals and related manpower changes must be separately identified in all cases, whether or not changes for the baseline provision are proposed. Details of the information required are set out in PESC(WM)(87)6.

11. Paragraph 14 of the main paper, and Annex E, give details of the information on the economic composition spending authority breakdown and territorial consequences of proposed changes to the baseline needed by the Treasury. Copies of the form attached to Annex E should be returned to the Treasury with the official letters.

12. All letters and supporting information (eg DRC3 forms for running costs and manpower) should be sent to the Treasury by 22 May. Ministerial letters should be copied to the Prime Minister, the Lord President and other Ministers in charge of departments who would be affected. Official letters should be sent by the Principal Finance Officer to the appropriate Head of Treasury Expenditure Group (or division in the case of small departments), with copies to other departments affected. All letters should provide an estimate of any impact of the proposals on other Ministers' policies or programmes.

1987 SURVEY: PROPOSED CHANGES TO THE BASELINE

DEPARTMENT:

1. PROPOSED INCREASES⁽¹⁾

Description of bid	£ million			Output and performance measures and targets for evaluating effects of spending ⁽²⁾
	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	
TOTAL PROPOSED INCREASES				

2. PROPOSED REDUCTIONS⁽¹⁾

Description of reduction				Type of reduction ⁽³⁾	
	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	Reduced requirement	Policy offset
TOTAL PROPOSED INCREASES					

3. RUNNING COSTS AND MANPOWER⁽⁴⁾⁽⁵⁾

Running costs:	Running costs			Manpower	
	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1.4.88</u>	<u>1.4.89</u> <u>1.4.90</u> <u>1.4.91</u>
- baseline					
- net consequences of proposed changes in (1) and (2) above					
- further proposed change					
TOTAL PROPOSED CHANGE TO GROSS RUNNING COSTS					
Manpower:					
- baseline					
- proposed changes					

TES

- (1) Please number and list proposed bids and reductions in order of priority.
- (2) Please indicate what targets for outputs and performance and/or what other measures will be used to judge the success of the additional spending.
- (3) Please indicate the type of reduction here. If a reduced requirement, indicate whether it results from an estimating change, revised economic assumptions, or other change. If a policy offset to one or more of the bids listed above, please indicate which bid or bids by including their numbers in brackets.
- (4) Proposals for changes in gross running costs should be shown here. This includes both
 - (i) the consequences of the proposed bids and reductions listed above, which should be shown as a single total here; and
 - (ii) any further proposed change in gross running costs.

If a net increase in overall provision in gross running costs is proposed as a result of (ii) above, this should also be listed separately as a bid. Details of the running costs elements of proposed bids and reductions will need to be provided with the supporting official letters on DRC3 forms.

- (5) Proposals for changes manpower plans should be shown here, with supporting detail included on the DRC3 forms.

INFORMATION ON ECONOMIC COMPOSITION AND TERRITORIAL CONSEQUENCES

The Treasury needs to collect the following information about proposed changes to the baseline:

- (i) departmental running costs: The effects of proposed changes on departmental running costs need to be set out to help monitor the future profile of running costs in total. The figures should be consistent with the detailed breakdowns on forms DRC3 (see PESC(WM)(87)6).
- (ii) other economic categories: Attention also needs to be given to other economic categories, as this information is given to the Treasury forecasters to help prepare the forecasts for the July Cabinet and the Autumn Statement.
- (iii) spending authority: The spending authority should also be shown in brackets next to the description of the bid, by means of the following abbreviations:

CG: Central Government, excluding finance to public corporations

LA: Local authority (ie capital or other non-relevant current expenditure not covered in E(LA) discussions), excluding finance to public corporations

PC: other public corporations ie excluding nationalised industries

In the case of local authority spending, use (LACap) to indicate capital spending and (LACur) to indicate other current spending.

- (iv) territorial consequences: ST3 division in the Treasury, the Scottish and Welsh Offices and the Northern Ireland Departments need to work out the consequences for the territorial blocks of agreed bids and savings.

It would be helpful if departments would provide the basic information needed by completing copies of the form attached to this Annex (one, or more if necessary, for each year of the Survey) and forwarding them to expenditure divisions with their official letter by 22 May. Divisions will check the information, particularly on territorial consequences, consulting ST3 and will forward it to the Secretaries.

PLEASE USE A SEPARATE SHEET FOR EACH YEAR

PUBLIC EXPENDITURE SURVEY 1987
LIST OF BIDS, REDUCED REQUIREMENTS AND
OFFSETTING SAVINGS

DEPARTMENT:

Name of originator:

Tel No:

Economic Categories

Territorial implications(5)

Bids(1) Reduced Requirements & Offsetting Savings	£m Total cost (3)	Depart- mental Running Costs	Other pay	Other current goods & services (gross of charges)	Fees and charges	Current grants (4)	Current subsidies on goods & services	Capital spending (gross)	Capital receipts	Capital grants	Net lending (by Govt sector)	Wales	Scotland	N.Ireland
Additional bids														
Reduced Requirements														
Offsetting savings														

(1) Please give very brief descriptions so that the editors can cross refer to the Official letters for more information. Downward changes in the estimate of the cost of existing policies should be shown as reduced requirements.

(2) Please list bids and reduced requirements and offsetting savings in the order in which they are covered in the letters.

(3) Total cost of bids/reduced requirements/offsetting savings should be shown here if possible; where the cost is split between economic categories, the broad proportions of the cost should be shown under the appropriate heading in cash.

(4) NB: subsidies aim to reduce prices, grants do not.

(5) Please indicate if possible whether bids/reduced requirements/offsetting savings have territorial implications eg by "yes", "no" or "some".

(6) Please indicate with C or NC beside each item whether the net lending is on commercial terms (C) or not (NC). NC should include both net lending at a subsidised rate and in circumstances where commercial lending would not be forthcoming.



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NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

SECRETARY OF STATE
FOR
NORTHERN IRELAND

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

NBM - 23 February 1987

Dear Chief Secretary

Your memorandum of 12 February to the Prime Minister set out proposals for the arrangements for the early part of this year's public expenditure survey. I note your alternatives to seeking percentage options for reductions of baselines but I assume that under the block budget ground rules this will not apply in the case of Northern Ireland. You can nevertheless be assured that I shall continue to pursue very vigorously the scope for maximum economies within the Northern Ireland Public Expenditure block.:

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

Yours sincerely
David Forster
for
TK

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



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pp's 16



COPY NO 2 OF 32

SECRETARY OF STATE FOR ENERGY

THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

01 211 6402

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

NBR

19 February 1987

R. G. G.

HANDLING OF THE 1987 PUBLIC EXPENDITURE SURVEY *at flap*

Thank you for copying to me your minute of 12 February to the Prime Minister about this year's Survey.

I am broadly content with what you propose. I agree with Malcolm Rifkind about the importance of ensuring that running costs limits are based on realistic expectations about cost movements, and with Paul Channon that it would be helpful if you could follow last year's practice in circulating a summary of baselines and bids by each Department, preferably before the first Cabinet discussion on the overall picture.

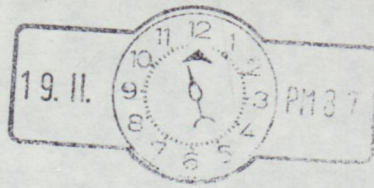
I am copying this letter to the Prime Minister, Cabinet colleagues, the Minister of State (Privy Council Office) and to Sir Robert Armstrong.

[Handwritten signature]

PETER WALKER

SECRET

Εκον πολ. ΠΕΣ ΠΤ37



15



Ministry of Agriculture, Fisheries and Food
Whitehall Place London SW1A 2HH

From the
Minister of State

SECRET

The Rt Hon John MacGregor OBE MP
Chief Secretary
HM Treasury
Parliament Street
London SW1P 3AG

18 February 1987

See file

NBM

HANDLING OF THE 1987 PUBLIC EXPENDITURE SURVEY

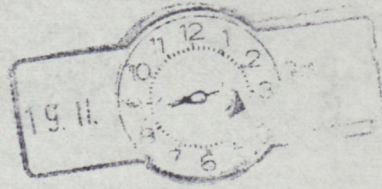
In Michael Jopling's absence, I write to record that our views coincide with those of Nicholas Ridley in his letter of 17 February.

I am copying this letter to the Prime Minister, other members of the Cabinet, the Minister of State at the Privy Council Office and to Sir Robert Armstrong.

John Selwyn Gummer

JOHN SELWYN GUMMER

Account POE
Public Expedition
PT 37



1911

SECRET



14.
ppd.

DEPARTMENT OF HEALTH AND 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

NBN.

17 February 1987

Dear John

HANDLING OF THE 1987 PUBLIC EXPENDITURE SURVEY

File with DEN

Thank you for copying to me your minute of 12 February to the Prime Minister.

I agree generally with your proposals subject to the following points:

- (a) I trust that the Treasury's right to require Departments to produce or cost options within our programmes will be used sparingly. A great deal of time and effort can be consumed by such exercises and they should be undertaken only when necessary to test bids and priorities.
- (b) I welcome your proposal to dispense with the Survey Report and hope that we can productively use the time by concentrating our efforts on improving our analysis of our programmes and our budgeting.
- (c) I am sure we are right to rely after April 1988 on control of running costs rather than control of manpower numbers. The latter has been effective up to a point but is becoming increasingly inefficient. While I appreciate your concern that the total size of the Civil Service should not be allowed to rise when we go over to relying on control of running costs, I would not wish to end up with two concurrent forms of control of administrative expenditure, by running costs and by manpower control. The scrutiny of Departments' forward manpower plans, such as is proposed in paragraph 14 of your minute, looks very much like a dual system. I should prefer that we rely solely on control of running costs and ensure that we make that control work.

I am copying this letter to the Prime Minister, Cabinet colleagues, Richard Luce and to Sir Robert Armstrong.

Yours

NORMAN FOWLER

SECRET

Econ Pol: Pub. Exp. PT37



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SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-270 3000 (Switsfwrdd)
01-270 0538 (Llinell Union)
Oddi wrth Ysgrifennydd Gwladol Cymru



13
WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-270 3000 (Switchboard)
01-270 0538 (Direct Line)
From The Secretary of State for Wales

COPY N°14 of 32

The Rt Hon Nicholas Edwards MP

17 February 1987

SECRET

NBPN.

JM

HANDLING OF THE 1987 PUBLIC EXPENDITURE SURVEY

with DAN.

Thank you for sending me a copy of your minute of 12 February to the Prime Minister.

I assume that the established procedures for the handling of my block budget will continue in accordance with the ground rules. The proposed changes in the way in which Departmental Running costs are handled are I think to be welcomed. Having both numbers and costs constrained as at present complicates the exercise a good deal without actually doing very much - certainly in the case of the Welsh Office - to improve the quality of control. The overriding control is that of money and a system which concentrates on it will, I think, be much easier to operate and simpler to present. This last point is of some significance since numerical targets do tend to provide a point around which the dissatisfaction and anxiety of the Trades Union Side - and indeed staff generally - can crystallise in a most unhelpful way. I feel that this is an irritant we can do without and whose removal need not in any way reduce the effectiveness of our control in this important area.

I am copying this letter to Cabinet colleagues, the Minister of State (Privy Council Office) and Sir Robert Armstrong.

✓ *er-*
DAN

The Rt Hon John MacGregor OBE MP
Chief Secretary
to the Treasury

copy no. 2 of 22

12



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215 5422
GTN 215
(Switchboard) 01-215 7877

Secretary of State for Trade and Industry

SECRET

17 February 1987

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

NBRN.

John John

HANDLING OF THE 1987 PUBLIC EXPENDITURE SURVEY

I am generally ^{ATTACHED} content with your proposals set out in your minute of 12 February to the Prime Minister for the handling of the 1987 PES survey. It would however be welcome if you followed last year's practice in circulating a summary of baselines and bids by each Department before the bilaterals. I agree that the time is now right to place greater reliance on running cost controls instead of aggregate manpower limits. The National Audit Office report on the FMI (No.588) was encouraging on progress made so far.

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

PAUL CHANNON

JF5BRV

SECRET



file // *Santiago*

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

17 February 1987

Dear Jill,

HANDLING OF THE 1987 PUBLIC EXPENDITURE SURVEY

The Prime Minister has seen the Chief Secretary's minute of 12 February setting out his proposals for handling the 1987 Public Expenditure Survey and, subject to the views of colleagues, is content.

The Prime Minister has asked that her colleagues should put forward bids for additional resources only where they are absolutely unavoidable. The strong presumption must continue to be that pressures for extra spending in one area will be met by reordering priorities: the need to maintain firm control of public spending remains as strong as ever.

The Prime Minister agrees that no further overall targets for reductions in Civil Service numbers should be set beyond April 1988. But the running costs regime will need to be operated strictly, as the Chief Secretary says, to ensure that Civil Service numbers do not start to drift up.

I am copying this letter to the Private Secretaries to members of the Cabinet, the Minister of State (Privy Council Office) and to Sir Robert Armstrong.

Yours,

David.

DAVID NORRGROVE

Miss Jill Rutter,
Chief Secretary's Office,
H. M. Treasury

SECRET

copy 1 of 22 10



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

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

NBM.

17 February 1987

Dear John

HANDLING OF THE 1987 PUBLIC EXPENDITURE SURVEY

I am grateful to you for copying to me your minute of 12 February to the Prime Minister proposing arrangements for the 1987 Survey. WTTT DKW

I see no difficulties with your proposals, and agree with you that there is now insufficient justification for a Survey Report. I also very much welcome the recommendation to end manpower targets as a separate control mechanism. The combination of three separate overlapping controls on manpower, on running costs, and on cash limits, has been unduly complex and can hinder efficiency and improvements in internal budgeting.

Running costs limits are now biting hard. We should keep up the pressure, and avoid increases if we possibly can. But with salary costs accounting for 60% of running costs the size of the pay settlement will be crucial. We must also ensure that we do not set the running costs limits so tightly that we are unable to make investments now that would lead to improved efficiency in later years.

I am copying this letter to the Prime Minister, Cabinet colleagues, the Minister of State at the Privy Council Office and to Sir Robert Armstrong.

NICHOLAS RIDLEY

210

89

SECRET



QUEEN ANNE'S GATE
LONDON SW1H 9AT

17 February 1987

NBM

Dear John,

HANDLING OF THE 1987 PUBLIC EXPENDITURE SURVEY

with DRN

You asked, in your minute of 12 February to the Prime Minister, for confirmation that colleagues agreed with your proposals for the handling of this year's Public Expenditure Survey.

I am content with what you propose, and welcome the underlying thrust of the various changes which you describe.

Yours,

Douglas,

The Rt Hon John MacGregor, OBE, MP

SECRET



FCS/87/039

NBRM.

CHIEF SECRETARY TO THE TREASURY

Handling of 1987 Public Expenditure Survey

WITH DRN

1. I agree with the proposals in your minute of 12 February to the Prime Minister. The emphasis you are placing on control by running cost limits should provide some useful flexibility. But I recognise that we shall still have to keep a close grip on manpower.
2. You are doubtless well aware of the difficulty which Departments face in discussing running cost limits with the Treasury in the absence of a Whitehall-wide pay assumption. It is clearly right that there should be no published pay factor but we will need the Treasury's informal guidance on this point. If the outcome of the pay settlement cannot be accommodated within running cost ceilings I welcome your suggestion that there should be further consideration in July.
3. I am sending copies of this minute to the Prime Minister and Cabinet colleagues, the Minister of State (Privy Council) and Sir Robert Armstrong.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
17 February 1987



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

16 February 1987

SECRET

The Rt Hon John MacGregor OBE MP
Chief Secretary
HM Treasury
Parliament Street
London SW1P 3AG

Dear John,

1987 PUBLIC EXPENDITURE SURVEY

Thank you ^{WITH DEN} for copying to me your minute to the Prime Minister of 12 February containing your proposals for the handling of this year's Public Expenditure Survey.

I am generally content with your proposals, and assume, in the absence of any suggestion to the contrary, that the territorial block arrangements will operate as normal, in accordance with the recently agreed ground rules. I note your intention not to produce the PES Report this year. I am sure this is a sensible move, given the arrangements which now apply for bids and savings during the Survey.

I also agree with the proposal no longer to set staff number targets beyond April 1988. This seems to me a logical consequence of the development of the running costs regime. As you well know, these have become academic so far as my Department is concerned as it can no longer afford to employ the numbers which present targets would permit.

In that context I am bound to record my concern about the way in which the restrictions on running costs are being approached. It goes without saying that I am fully committed to ensuring that the costs of running the Civil Service are subject to the same controls as other public expenditure; but I am equally committed to ensuring that the programmes for which I am responsible are administered and presented in a manner that brings maximum credit to the Government. If running costs limits are fixed on the basis of unrealistic assumptions about movements in costs - pay costs in particular - it will simply not be possible to deliver our policies in the way we would wish.

I am copying this letter to the Prime Minister, Cabinet colleagues, the Minister of State (Privy Council Office) and to Sir Robert Armstrong.

*Yours ever,
Malcolm*

MALCOLM RIFKIND

SECRET 6



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

Serial No: 1734

Copy No 17 of 25.

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

14 February 1987

Don John

NBM.

HANDLING OF THE 1987 PUBLIC EXPENDITURE SURVEY

FILE WITH DM

Thank you for sending me a copy of your minute of 12 February to the Prime Minister about the handling of the 1987 Public Expenditure Survey.

I am content with what you propose. However, while I agree that we should dispense with the Survey Report, I do attach great importance to what it was designed to achieve. At bilateral time it is impossible to have sensible discussions about the need for additional resources unless there is a basis of agreement on what can be achieved with existing ones. It is, therefore, essential that we replace the report with more effective if less formal arrangements.

I also welcome your proposal not to set new aggregate targets for manpower after April 1986. This recognises that budgeting is now effectively cash rather than manpower driven. But I would hope that in time even the residual manpower controls proposed in paragraph 14 of your minute can be dispensed with. This would allow departments to concentrate on making the best use of available resources, within running costs and other controls, such as unit costs for fee earning businesses.

I am sending copies of this letter to the Prime Minister, other members of the Cabinet, the Minister of State (Privy Council Office) and to Sir Robert Armstrong.

John Moore

JOHN MOORE

SECRET



FROM: CHIEF SECRETARY
DATE: 12 February 1987

PRIME MINISTER

HANDLING OF THE 1987 PUBLIC EXPENDITURE SURVEY

With the 1987 Public Expenditure White Paper now published, we need to decide on the arrangements for the early part of this year's Public Expenditure Survey. I propose that we should build on the changes to procedure we made last year.

Additional bids and options for reduction

2. Last year Ministers were asked personally to scrutinise the priorities within their programmes and then, if they thought it necessary, to put forward any bids in writing to me with copies to yourself and the Lord President.

3. I believe that the new procedure provided a more orderly way of preparing for the main Survey negotiations, and I would hope that it will increasingly make a difference to the number or amount of the bids put forward. I therefore propose that we should proceed in the same manner this year.

4. As in previous years there will be very limited scope to make additions to programmes. I must ask that any bids for additions should only be made when there is a genuine change of circumstances and only after Ministers have done their utmost to accommodate such changes by re-ordering their priorities. Where Ministers do put forward bids it is important that they should back them up with details of what the extra money is designed to achieve, how it is proposed to measure and evaluate this, and what has been done to find offsetting savings from lower priorities.

5. I propose also that we should follow last year's practice in not requiring departments to put forward percentage options for achieving reductions from their baseline on a standard percentage

5

Prime Minister
The Chief Secretary has already consulted you about these proposals. You need only send that you agree.

JAR/bk

Send me

010 | B/F Monday please.

SECRET

basis. As last year, however, I propose that the Treasury should have the right to require departments to produce or cost options if we consider it necessary. In some cases these may be particular policy changes, in others it may be more sensible for departments to set out how they would achieve a given level of savings in an area of spending.

The Survey Report

6. With the separation of the additional bids from the preparation of the programme baselines, the Survey Report focussed last year on providing a record of what the baseline programmes would achieve. This helped us greatly to improve the output and performance information in the recent White Paper. I am sure that we need to make further progress this year in improving the quality of such information; the Treasury and Civil Service Select Committee is now focussing on that. I do not think, however, that the considerable work involved in editing this into a common format in the Survey Report itself is the best use of officials' time since the Report plays little part in subsequent Ministerial discussion.

7. I propose, therefore, that we should dispense with the Survey Report this year. The detailed baseline tables for each department will still need to be prepared but can be circulated as a Treasury working document with such minimal text as is required to explain differences between the new baseline and the provisions of the White Paper, and any particular understandings about the construction of the baselines.

8. The time saved on preparing the formal document should allow departments and the Treasury to put in more work on the value of the underlying programmes and on further development of output and performance budgeting. Departments should, as previously, prepare in advance of the Survey material on output and performance and on their financial work more generally. This can then be a basis for discussions between officials, and between Ministers if satisfactory progress cannot be made at that level. I would hope that such

SECRET

discussions can be completed before the summer break so the results can be fed into the September Survey discussions if appropriate.

Running Costs and Manpower

9. We introduced the running costs control system to extend to the totality of current spending on the Civil Service the tight disciplines that have since 1979 applied to Civil Service manpower. Obviously like the general expenditure control system of which it is now part it has to provide for new measures and to meet inescapable increases in demand and other changes to departmental plans. Recent levels of pay increases have also imposed strains. But generally its introduction has been successful.

10. I propose that it should now be fully integrated with the Survey and that Ministers should put forward additional bids only if they are convinced that they cannot keep within the provision agreed in the last Survey. If the aggregate of the bids is too large I envisage bringing forward proposals on the overall provision for running costs in July at the same time as I make proposals on expenditure generally; I would then pursue the matter in bilaterals in the normal way.

11. We have always intended to consider, in the light of experience of running costs control, whether there is a need to set further overall targets for reductions in Civil Service numbers beyond April 1988.

12. There are risks in moving away from manpower targets. Although the 19 per cent reduction in the size of the Civil Service since 1979 is a significant achievement in itself, the total plans for 1987-88 to be published in the Estimates on Budget Day are likely to exceed our target of 590,000 on 1 April 1988. A decision not to set any further targets, therefore, could be used by our opponents to suggest that we are relaxing our control on the cost of government.

13. But on balance I believe that it is right to take the risk. In particular this approach will allow managers on the ground to make the best use of all their resources and is in line with the pressure

SECRET

for improved management which we have been applying through the Financial Management Initiative and the work on Budgeting.

14. I therefore propose that we should not set new aggregate targets for manpower after April 1988. But by operating the running costs system strictly we need to keep a firm grip on manpower to ensure that numbers do not start to drift upwards. So, in scrutinising departments' running costs, the Treasury will need to continue to examine their forward manpower plans (which are already published in the Public Expenditure White Paper each year). Any proposal by a department to go beyond its published manpower plans should have to be agreed with the Treasury before any commitment is undertaken. In considering any such proposals, the primary consideration for the Treasury will be whether the revised plans are consistent with the running costs limits. This combination of manpower plans and the control of running costs should impose sufficient pressure on departments to maintain the impetus for efficiency savings and ensure that the overall trend of manpower numbers continues downwards.

Contingent Liabilities

15. In your minute of 23 May last year you asked departments to carry out a full review of their contingent liabilities and to report the results to the Treasury. This has been done and has been helpful in focussing attention on the size of such liabilities and on the importance of action both to minimise the risk of actual expenditure arising on liabilities already incurred and to avoid adding to the list where possible.

16. Your minute asked that the exercise should be repeated each year and the outcome of each department's review noted in the annual Survey Report. As you will have noted above, I am proposing that we no longer compile the Survey Report. But I believe that departments should review such liabilities regularly and I propose that they should report the results to the Treasury in the course of the Survey.

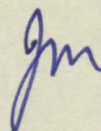
Conclusion

17. I would be grateful for confirmation that you and colleagues

SECRET

agree with these proposals on handling of this year's Survey and on manpower controls. I should be grateful for replies not later than Tuesday 17 February so that I can explain our new approach to manpower in the debate on the Public Expenditure White Paper which on present plans will be on Wednesday 18 February. I will then circulate the detailed Survey Guidelines as soon as possible after the Budget.

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



JOHN MacGREGOR



abg

4

10 DOWNING STREET

9 February 1987

From the Private Secretary

Dear Jill,

HANDLING OF THE 1987 PUBLIC EXPENDITURE SURVEY

The Prime Minister has seen the Chief Secretary's minute of 5 February about the handling of the 1987 Public Expenditure Survey. She endorses generally the Chief Secretary's proposals for the conduct of the 1987 Survey and in particular is content that the "Red Book" should be scrapped and that the running costs regime should now be integrated fully with the Survey.

The Prime Minister has noted that wider questions of tactics on the Survey, including the basis for the Star Chamber's operations, will need to be given further consideration later in the year.

I am copying this letter to Joan MacNaughton (Lord President's Office), Alex Allan (HM Treasury) and to Sir Robert Armstrong.

*Yours,
David*

(David Norgrove)

Miss Jill Rutter,
Chief Secretary's Office,
HM Treasury

PRIME MINISTER

HANDLING OF 1987 PUBLIC EXPENDITURE SURVEY

The Chief Secretary's minute below discusses the nuts and bolts of this year's Survey and Brian Unwin has provided some interesting general comments.

The Chief Secretary proposes:-

- no major changes in procedure, with Ministers still expected to endorse their bids personally, but abolition of the "red book" which summarises departmental bids;
- integration of running cost controls with the Survey;
- no separate target for Civil Service manpower to be set after April 1988.

This seems to me for the most part entirely sensible. I was slightly surprised that the Treasury wished to continue the practice of Ministers signing the letters to set out their bids. But Robin Butler believes the practice worth repeating, and I can see that it would now be difficult to revert to the earlier practice of bids being submitted at official level.

Brian Unwin's minute discusses more general points about the outcome of the 1986 Public Expenditure Survey. He makes the point that the huge increase in the planning total in that Survey will make it the more difficult to hold the line in the 1987 Survey. Indeed, as you know, the Treasury forecasters expect a £5b. increase in the planning total for 1988-89.

It seems to me likely that there will need to be some quite major changes in the public expenditure control system in the next few years. This may well not be the right year in which to start them, but you will in any case wish to discuss with

the Chancellor, the Lord President and the Chief Secretary the handling of this year's Survey when the Treasury have prepared their proposals.

The prospects for the Survey may also be a factor in the timing of the election (if a small one). An election in the spring would give Ministers time to settle into their Departments; an election in October would mean they were plunging immediately into negotiations. That might or might not be a good thing. It may also be a factor whether it would be better to announce a large increase in expenditure a few months after an election or a few weeks after it.

Immediately you might, as Brian Unwin suggests, endorse the Chief Secretary's proposals but note that wider questions of overall tactics on the Survey, and in particular on the basis of the Star Chamber's operations, will need to be given further consideration later in the year.

Content?

Dhs

Y

es

- more or less!

mb

David Norgrove
6 February 1987

MJR
PRZ



3

SECRET

P 02483

From: J B UNWIN
6 February 1987

MR NORGROVE

HANDLING OF THE 1987 PUBLIC EXPENDITURE SURVEY

You may like to have the following comments on the Chief Secretary's minute of 5 February to the Prime Minister.

2. First, it is important to recognise what this minute is not about. It is (deliberately) not about the tactics for handling the next Survey, but rather about the nuts and bolts.

Nuts and Bolts

3. So far as this is concerned, the proposals seem to me generally to form an acceptable basis for setting this year's Survey in train. They have been discussed with Departmental Principal Finance Officers (PFOs), who (the Treasury assure me) are content with them. The proposal in paragraph 6 to dispense with the "Red Book" is particularly welcome. A vast amount of time and effort has gone into preparing this, but it has done little more than rest in PFOs cupboards after production.

4. I am a little surprised, however, at the proposal in paragraph 5 to repeat last year's practice of asking Ministers to put in any additional bids personally to the Chief Secretary. You may remember that the Prime Minister queried this last year on the basis that Ministers would find it harder to back off from bids they had personally sponsored. My own view is that this objection was validated by last year's experience. Far from being selective and self-denying, the letters from Ministers contained disappointingly long lists of additional bids. But I have discussed this with Robin Butler who assures me that the Treasury believe the practice is worth repeating.

5. I am sure that it is now right (paragraphs 7 to 11) to integrate running costs control with the Survey. The Treasury are also now displaying the greater flexibility on manpower control that the new system was intended to make possible within the overall running costs constraints. But we shall have to see how this works out in practice.

Survey Tactics

6. As noted above, this is not covered in this minute. But I think there are major problems of public expenditure control ahead which the Prime Minister will need to consider with the Chancellor and the Chief Secretary later in the year as the Survey progresses.

7. I believe the Treasury's credibility has suffered with Departments as a result of last year's exercise. First, Departments and their Ministers were kept almost entirely in the dark as to the overall position until the very final stage of the Survey. Second, they then witnessed the Treasury being able to sell to the markets a substantial upward shift (of nearly £5 billion in 1987-88), together with a redefinition of the target from "constant in real terms" to "a reducing proportion of national income", without the catastrophic market reaction that Treasury Ministers had threatened would greet an increase of much smaller dimensions. There were, of course, a number of reasons for this reaction, and the Treasury handled the presentation very well. But I believe the outcome has damaged the totemic significance of the planning totals, and that next time Departments and their Ministers will be less likely to accept the Treasury's warnings.

Star Chamber

8. These considerations also raise the question of the basis on which the Star Chamber is set up. In one sense the Chief Secretary (paragraph 4) is correct in claiming that last year his bilaterals produced "a manageable core of major issues for the Star Chamber to handle" (though the managing was far from easy!). But the wider basis on which the Star Chamber was asked to operate

was far from satisfactory. They had no explicit target; and the implicit target (to keep within the published planning totals) was quite impossible. The Chief Secretary's prior bilateral settlements had in any case not been consistent with it. More seriously, apart from the Lord President the other members of the Star Chamber did not know the overall seriousness of the position, and this deprived them of an important weapon they could have deployed against spending Ministers in the Star Chamber discussions.

9. On a point of detail, I agree with the Chief Secretary that it would have been better to have had six rather than five members on the Star Chamber. This was, of course, the intention until the very eve of the Star Chamber. The reason for only five was the failure to reach a satisfactory bilateral settlement with Mr Edwards (further complicated by his absence in the United States).

Other Issues

10. There are other important longer term issues too that will need to be sorted out. Not least is the question of the treatment of local authority expenditure, which I know the Chief Secretary is keen to tackle. There may also be a case for a different approach to the way in which social security expenditure is controlled and presented. Year after year we are faced with the same difficult problems of the implications of excess demand led expenditure for the (smaller) discretionary budgets.

11. There are no easy answers to these problems and I am sure the Treasury have them in their sights. They do not need to be resolved now, or to delay the inauguration of this year's Survey, but they will need serious consideration as the year progresses.

Conclusion

12. In the light of the above points, and subject to any comments the Lord President may have, I would recommend the Prime Minister:-

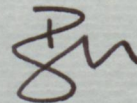
SECRET

(i) to endorse generally the Chief Secretary's proposals for the conduct of the 1987 Survey;

(ii) in particular to agree to the scrapping of the "Red Book" and to the proposals for integrating the running costs regime fully with the Survey;

but (iii) to note that wider questions of overall tactics on the Survey, and in particular on the basis for the Star Chamber's operations, will need to be given further consideration later in the year.

13. I am copying this minute to Miss MacNaughton in the Lord President's Office and to Sir Robert Armstrong.

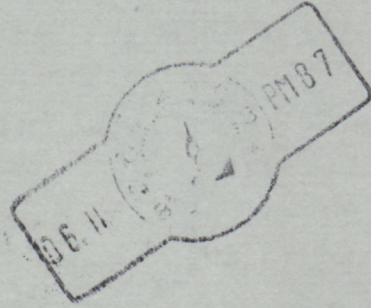


J B UNWIN

ECON POC: Public Expenditure



Pt 37



SECRET

2



pr
DAVID NORGROVE

HANDLING OF THE 1987 PUBLIC EXPENDITURE SURVEY

The Lord President has asked me to let you know that he has noted the views expressed by the Chief Secretary in his minute of 5 February to the Prime Minister. He has asked me to say that he would be glad to take part in any further consideration of the issues, such as that canvassed in Mr Unwin's note to you of today's date.

Nick Gibbons

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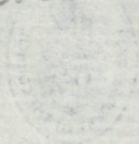
JOAN MACNAUGHTON
Private Secretary

Privy Council Office
6 February 1987

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ECON POL: Public Expenditure

Pt. 37



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FROM: CHIEF SECRETARY

DATE: 5th February 1987

PRIME MINISTER

HANDLING OF THE 1987 PUBLIC EXPENDITURE SURVEY

As usual at this time of the year, I am letting you know my proposals for the conduct of the 1987 Survey, having reviewed what happened last year. When I know that you are content, I shall circulate my proposals to the Cabinet generally.

The outcome of the 1986 Survey

2 Reviewing the additions that we made in last year's Survey has brought out starkly the extent to which they were in areas where genuine control by Central Government is limited - Local Authorities, Nationalised Industries, and demand-led programmes, notably social security. Genuine discretionary additions to expenditure formed a very small part of the story.

3 As a result of the last Survey we now have a more realistic provision for local authority spending and social security than we had this time last year. However, the continuing pressures in those areas are already apparent. It will be essential in the next Survey that we maintain our commitment to ensuring that public expenditure represents a steadily reducing proportion of national income.

Survey procedure

4 In general the machinery last year seemed to work well. My round of bilaterals was hectic as usual but led to settlements on a number of programmes and defined a manageable core of major issues for the Star Chamber to handle. I was immensely grateful for the help of the Lord President and other colleagues who served

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on his Group. Their task was the more onerous last year because there were only five members. If we have recourse to such a group again I feel that we should aim for the customary six members. This will ensure that even with some absences there is always a good quorum.

5 I do not propose any major changes to procedure for the current Survey. As last year, I propose that if Ministers feel they must put in any additional bids they should do so personally after reviewing priorities within their programmes and should be asked to back them up with a clear statement of what the extra money is expected to achieve and how it is proposed to measure and evaluate this. Again, I do not propose to require departments to submit options for reductions on a standard basis. Instead I propose that the Treasury should have the right to ask for particular options to be produced or costed in areas where we think that this is worthwhile or necessary, for example particularly where significant additional bids are being made.

6 The only major change from the established pattern is that I propose that the formal Survey report - the "red book" on Department's programmes circulated to Ministers at the start of each year's Survey - should not be produced this year. It plays no part in Ministerial discussions and is little used elsewhere. Its discontinuance will give the Treasury and Departments time for a more thorough examination of the value for money provided by existing programmes and the scope for economies in them.

Running Costs and Manpower

7 We introduced the new regime of running costs control two years ago and, although I am not entirely satisfied with the way in which the regime has worked so far, I am sure that we should continue with it. I propose that it should now be fully integrated with the Survey and that Ministers should put forward additional bids only if they are convinced that they cannot keep within the

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provision for 1988-89 and 1989-90 agreed in the last Survey. If the aggregate of the bids is too large, I envisage bringing forward proposals on the overall provision for running costs in July at the same time as I make proposals on expenditure generally; I would then pursue the matter in bilaterals in the normal way.

8 We also need to announce soon whether we intend to set another overall target for civil service numbers beyond April 1988. When we introduced the running costs system in 1985 you endorsed the Chancellor's proposal that running costs targets should gradually be introduced in substitution for manpower targets (your Private Secretary's letter of 28 March to the Chancellor's Private Secretary). This approach allows managers on the ground to make the best use of all their resources and is in line with the pressure for improved management which we have been applying through the Financial Management Initiative and the work on Budgeting.

9 I therefore propose that we should not set new aggregate targets for manpower after April 1988. But by operating the running costs system firmly we need to keep a grip on manpower to ensure that numbers do not start to drift upwards. This is underlined by the fact that as a result of the increases for David Young's employment measures and the need to increase staffing in social security offices (on which Norman Fowler and I will be reporting to you next week) the manpower plans to be published in the Estimates next month will show an excess over our 1988 target. While I would hope for a decrease over the next year from the current level of just under 600,000 the Estimates to be published on Budget Day will show the aggregate of Departments' plans as being higher than our target of 590,000 on 1 April 1988.

10 So, in scrutinising Departments' running costs, it is essential that the Treasury should continue to examine their manpower plans (which are already published in the Public Expenditure White Paper each year). Any proposal by a Department to go beyond its published manpower plans should have to be agreed with the Treasury before

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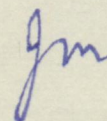
any commitment is undertaken. In considering any such proposals, the primary consideration for the Treasury will be whether the revised plans are consistent with the running costs limits. This combination of manpower plans and the control of running costs should impose sufficient pressure on Departments to maintain the impetus for efficiency savings and ensure that the overall trend of manpower numbers continues downwards.

11 Subject to your and colleagues' consent, I propose to announce this approach in the debate on the Public Expenditure White Paper later this month.

Contingent Liabilities

12 In accordance with your minute of 23 May, Departments carried out a full review of their contingent liabilities last year. This revealed contingent liabilities amounting to £55 billion. Of this, export credit accounted for £38 billion, but the rest was widely distributed among Departments. The Treasury are revising the guidance to Departments in the light of last year's exercise, but there are no general points which I need to draw to colleagues' attention at this stage. Moreover, we must not reveal the list of liabilities publicly lest an acknowledgement of some of them could cause pressure for triggering them. But in order to keep a watch on all contingent liabilities and ensure that action is taken promptly to minimise the risk of actual expenditure arising, the exercise should be repeated annually, as your minute proposed. I will ask Departments to do this in the Survey Guidelines and to report the results to the Treasury.

13 I am sending copies of this minute to the Willie Whitelaw, Nigel Lawson and to Sir Robert Armstrong.



JOHN MacGREGOR

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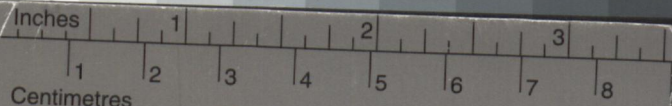
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Grey Scale #13



A 1 2 3 4 5 6 **M** 8 9 10 11 12 13 14 15 **B** 17 18 19



Colour Chart #13

Blue Cyan Green Yellow

