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PUBLIC EXPENDITURE 1980-81 TO 1983-84: THE SCOPE  
FOR REDUCTIONS

Note by the Chief Secretary, Treasury

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Attached as background to the Cabinet's discussion on public expenditure is the report by the Public Expenditure Survey Committee on "Public Expenditure 1980-81 to 1983-84: The Scope for Reductions".

W J B

Treasury Chambers

6 July 1979

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PUBLIC

EXPENDITURE

1980-81 to 1983-84

The Scope For Reductions

1979 Public Expenditure Survey

Report by the Public Expenditure Survey Committee

July 1979

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PUBLIC EXPENDITURE, 1980-81 TO 1983-84

## REPORT ON SCOPE FOR REDUCTIONS

### Contents

	Page
1. Introduction	1
i Table 1 Summary	4
ii Table 2 Options for reductions	6
iii Table 3 Additional bids	12
2. Ministry of Defence	16
3. FCO (Overseas Development Administration)	19
4. FCO - other	21
5. EEC Budget	24
6. MAFF and other agricultural departments	25
7. Forestry Commission	30
8. Department of Industry	31
9. Department of Trade	34
10. ECGD	35
11. Department of Employment	37
12. Department of Energy	39
13. Government lending to nationalised industries	42
14. Department of Transport	43
15. DOE - housing	48
16. DOE - PSA (programme 14 only)	52
17. DOE - other	55
18. Home Office	59
19. Lord Chancellor's Department	64
20. Department of Education and Science	65
21. Arts and Libraries	70
22. DHSS - health and personal social services	73
23. DHSS - social security	76
24. HMSO	80
25. GSD - civil superannuation	81
26. Central Office of Information	82
27. Scottish Office	83
28. Welsh Office	85
29. Northern Ireland Department	90
30. Annexes: A Effect on Legislative Programmes	91
31.          B Local authority expenditure	93
32.          C Public expenditure on construction	94
33.          D Economic assumptions	103

SECRET

PUBLIC EXPENDITURE, 1980-81 TO 1983-84  
INTRODUCTION TO REPORT ON THE SCOPE FOR REDUCTIONS

Introduction

At Cabinet on 24 May, officials were asked to report on:

- (a) the public expenditure plans inherited from the previous Government;
- (b) the scope for reductions.

A separate report, "The Inherited Plans", available to Ministers in their Departments, deals with (a). This report deals with (b).

factual and analytical

2. These two reports present the material on the basis of which Ministers will now determine the changes which they wish to make in the plans inherited from their predecessors. The survey covers a five-year period. Decisions for 1979-80 have already been taken and announced in the Budget. Decisions taken in this survey for 1980-81 will be used in due course as the basis for cash limits, Parliamentary Estimates and the Rate Support Grant for that year. Decisions for the later years, 1981-82 to 1983-84, will be more provisional.

3. This report covers about 98% of public expenditure, and comprises contributions from most major spending Departments. Those excluded are Departments whose expenditure is almost entirely on civil service pay: they are mostly very small and will be covered in the Civil Service Department (CSD) report on the recent decision by Ministers to seek cuts in civil service costs. The CSD report will also cover the civil service pay and related costs of the Departments contributing to this report: where options for reductions (or additional bids) are presented in this report which would affect such costs, account will be taken of that fact in the CSD report.

4. A separate report to Ministers deals with the financing requirements of the nationalised industries. Sales of assets are also the subject of a separate Ministerial exercise.

Options for reductions

included

5. The options for reductions/in this report are presented in accordance with the Cabinet decision. Except in the defence, law and order and health programmes, officials were asked to identify options for each Department amounting to its share of the cuts identified in Opposition, or (if greater)  $7\frac{1}{2}\%$  of its programmes (or share of programmes) in 1980-81, as in Cmnd 7439,  $12\frac{1}{2}\%$  in 1981-82 and  $17\frac{1}{2}\%$  in 1982-83; and options in 1983-84 not less than those for 1982-83.

6. In the defence and law and order programmes, officials were asked to effect the maximum economy in the use of resources before formulating proposals for increases in expenditure. In the health service, officials were asked to identify the maximum cuts within the Manifesto commitment.

7. Table 1 summarises the contents of the Departmental contributions to this report. The identified options for reductions are shown in line 10 (and listed in Table 2). They include decreases resulting in later years from the Government's decisions in respect of 1979-80 (eg Budget cuts and cash limits squeeze) and reduced requirements (some resulting from the changes in economic assumptions since Cmnd 7439 - see next paragraph).

Economic assumptions

8. The economic assumptions underlying the figures in this report are listed at Annex D. They are working assumptions, which take into account the Budget of 12 June. They are different from the assumptions underlying Cmnd 7439, and hence estimating changes have been made in some programmes: these changes are included in the options for reductions (if negative) or the additional bids (if positive). The options for reductions, if implemented, could themselves affect these economic factors, especially unemployment, which would lead to further estimating changes.

# SECRET

## Legislative requirements

9. Many of the changes proposed would require legislation. Annex A lists these options and indicates those requiring legislation in the present session, for which the legislative programme is already crowded.

## Additional bids

10. Line 11 of table 1 summarises the additional bids presented by Departments, which are listed in Table 3. They include estimating increases resulting from the change in economic assumptions since Cmnd 7439.

## Contingency reserve

11. The Government have decided the size of the contingency reserve for 1979-80. The later-year figures shown in table 1 are those in Cmnd 7439. Ministers will wish to decide the appropriate level.

## Shortfall

12. Shortfall in 1977-78 was nearly £5bn compared with previous plans, and in 1978-79 the latest estimates suggest that it was about £2½bn. But in 1979-80 it is expected to be lower, because the Budget cuts and cash limits squeeze are expected to absorb some of the underspend which would otherwise occur. Cuts of the size shown in line 10 of table 1 would have a similar effect in the later years.

## Debt interest

13. Projections of debt interest, based on revised economic assumptions following the Budget, are shown in line 12 of table 1.

## Local authority expenditure

14. A separate analysis of the implications of the options for reductions for local authority expenditure is at Annex B.

## Construction

15. A separate analysis of the construction content of the options for reductions and additional bids is at Annex C.

SECRET

	<u>1977-78</u>	<u>1978-79</u>	<u>1979-80</u>	<u>1980-81</u>	<u>£m at 1979 Survey prices</u>		
					<u>1981-82</u>	<u>1982-83</u>	<u>1983-84</u>
Total programmes (excluding Government lending to NIs and expenditure by Departments not covered in this report):							
1. Cmdnd 7439 revalued	<u>64,149</u>	<u>67,596</u>	<u>70,583</u>	<u>71,783</u>	<u>72,473</u>	<u>73,182</u>	<u>-</u>
2. Inherited plans	64,239	67,428	70,117	71,765	72,460	73,178	73,154
3. Budget cuts etc in 1979-80	-	-	-1,393	-	-	-	-
3A. Social security changes announced 13 June	-	-	+ 194	+ 332	+ 335	+ 332	+ 332
Expenditure by Departments not covered in this report (inherited plans less Budget cuts), and other items:							
4. NIs' total borrowing	771	1,132	750	750	700	700	700
5. Other expenditure by Departments not in report	1,223	1,181	1,235	1,276	1,316	1,288	1,281
6. Contingency reserve (Cmdnd 7439)	-	-	276	1,527	2,197	2,750	2,750
7. Sales of assets, 1979-80	-	-	-500	-	-	-	-
8. Shortfall	<u>-</u>	<u>-</u>	<u>-1,000</u>	<u>-1,000</u>	<u>-1,000</u>	<u>-1,000</u>	<u>-1,000</u>
9. Total, lines 2-8	66,233	69,741	69,679	74,650	76,008	77,248	77,217
10. Options for reductions presented in this report - see Table 2				-6,615	-10,410	-13,220	-13,353
11. Additional bids presented in this report - see Table 3				+1,435	+2,003	+2,221	+2,867
12. Debt interest (public expenditure definition): latest projection	2,561	2,560	3,000	3,100	3,100	3,000	2,800

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## Notes

- Lines 1 and 2. Exclude former adjustment in respect of child tax allowances. BP share sale proceeds are added back in 1977-78 (£697 million). Programmes presented in "cash" terms have been revalued again since report on "The Inherited Plans", using post-Budget economic assumptions: see Annex D.
- Line 2. Differs from line 1 by including announced changes made by previous Government to Cmnd 7439 plans: chief items in 1979-80 were reductions in Estimates (eg £185 million on employment services and £60 million on agriculture) and switch of £200 million of export credit to Trustee Savings Banks.
- Line 3. Includes all changes made by the Government affecting 1979-80, except sales of assets which are shown in line 7, and social security changes shown in line 3A.
- Line 4. Separate report is being presented to Ministers on nationalised industries' investment and financing review. Meanwhile no assumption made about level of reductions. Short-term borrowing and leasing is included, as recommended in investment and financing review.
- Line 5. CSD will bring forward report in due course on this expenditure. Meanwhile no assumption made about level of reductions.
- Line 7. Includes £1 billion for 1979-80, because although aim is £1 billion not all sales may reduce public expenditure total (though they will reduce PSBR). Figures for later years will emerge from separate review.
- Line 8. Includes post-Budget estimate of around £1 billion for 1979-80. For later years, shortfall would be similarly affected by large cuts in expenditure (see paragraph 12 of introduction), and same figure as for 1979-80 is included.

SECRET

# SECRET

TABLE 2

## Options for Reductions

The following list summarises the options for reductions mentioned in the separate departmental sections below. Work done under another Department's programme by ESA is included under the Department concerned. Savings required for offsetting additional bids are also included.

	£ million, 1979 survey prices			
	1980	1981	1982	1983
	-81	-82	-83	-84
Ministry of Defence	-	-	-	-
DCO: Overseas Development Administration				
i. Overseas Aid	72	125	184	184
ii. Overseas aid administration	1	2	2	2
Total	72	127	186	186
Foreign & Commonwealth Office: other				
i. Overseas representation	15	26	35	35
ii. Overseas information	7	10	15	15
iii. Other external relations	1	3	3	3
iv. Military assistance	-	-	1	1
Total	23	39	54	54
DCO* (total)	300	446	533	625
MAFF (including Intervention Board, DAFS, Welsh Office)				
i. Market regulation	32	49	70	70
ii. Sheep and potato guarantees (abolition)	9	9	9	9
iii. Administrative savings (MLC) from item i,ii	2	4	4	4
iv. Capital grants: reduced rates	19	37	57	55
v. Guidance premiums: reduced rates	1	1	1	1
vi. LFA allowances: reduced rates, Jan '82	-	7	8	8
vii. R & D	3	5	8	8
viii. Agricultural Training Board	1	1	1	1
ix. Expenditure economies by ADAS, etc	1	2	2	2
x. Salaries and general administrative expenses	2	2	2	2
xi. Sales of land	-	6	3	3
xii. Dispersal to Merseyside (abandonment)	-	-	2	5
xiii. Other minor options and rounding	1	2	1	1
xiv. Reduced requirements	15	6	9	12
xv. Land drainage	55	25	29	25
xvi. Strategic food stockpile	11	11	10	3
Total	152	167	216	209

\* This option has to be considered in conjunction with the corresponding additional bid in Annex B. (The same is true of some other smaller options and bids.)

SECRET

	1980	1981	1982	1983
	-81	-82	-83	-84
Country Commission (total)	10	11	12	12
Department of Industry				
Net reductions in baseline	35	42	29	33
Further estimating changes since the baseline, including reduced receipts	-24	-15	3	21
Regional development grant	133	170	179	195
Regional selective assistance	1	5	7	8
Land and buildings	-	-	8	8
Research and development	7	10	23	10
National Enterprise Board	-	46	97	86
Selective assistance for individual industries etc	5	8	20	12
Reductions in provision for future industrial support	-	2	27	43
Abolition of provision for future industrial support	9	15	15	20
	166	283	408	436
Department of Trade				
Tourism	2	5	8	7
Export promotion	2	5	7	8
Trade regulation	9	5	5	5
Local authority consumer protection	3	5	7	7
Central and miscellaneous services	1	1	1	1
Local authority loan sanction	1	2	2	2
	18	23	30	30
Export Credit Guarantee Department				
Raise to 70% foreign currency financing	4	16	31	34
Cover only 7-year maturities	2	8	28	47
	6	24	59	81
Department of Employment				
Reduced requirements	61	68	107	137
Effect of Budget cuts	159	-	-	-
Short-time working compensation, reductions in staff and MSC, illustrative	258	497	529	499
	478	565	636	636
Department of Energy				
End IRG Scheme	3	1	2	3
Non-nuclear R & D and energy conservation	5	5	11	11
Nuclear R & D	7	12	23	21
Assistance to coal industry	5	25	23	14
Changes since Cmd 7439	4	-2	-2	7
	24	40	56	56
Department of Transport				
Motorways and trunk road	25	51	56	56
Local roads: capital	41	51	68	68

SECRET

	1980 -81	1981 -82	1982 -83	1983 -84
iii. Other local capital expenditure	15	14	26	26
iv. Local roads: maintenance	3	15	36	36
v. Local passenger transport subsidies	43	57	72	72
vi. Local concessionary fares	17	34	40	40
vii. Other local current expenditure	10	21	51	51
viii. Support to British Rail: pensions	70	70	70	70
ix. Support to British Rail: other	6	16	24	24
x. Support to NFC: pensions	3	3	3	3
xi. Other support to transport industries	6	8	7	7
xii. Ports	2	2	5	5
xiii. Other transport services	1	2	4	4
xiv. Driver and Vehicle Licensing Centre	4	6	9	9
<b>Total</b>	<b>246</b>	<b>350</b>	<b>471</b>	<b>471</b>
<b>DOE (Housing)</b>				
i. Additional council house sales	40	100	100	75
ii. Acquisition of dwellings	130	130	130	130
iii. Land acquisition	78	78	60	40
iv. Local authority new housebuilding	445	503	532	547
v. Private sector improvement grants		- unquantified -		
vi. Subsidies: estimating changes	1	58	198	212
vii. Subsidies: rent increases faster than earnings	-	100	200	330
viii. Subsidies: further "massive" rent increases, and/or an unspecified cut in housing capital	750	900	1,095	1,095
<b>Total</b>	<b>1,444</b>	<b>1,869</b>	<b>2,315</b>	<b>2,429</b>
<b>DOE (Property Services Agency)</b>				
i. Running costs	9	15	23	29
ii. Major new works and acquisitions (less disposals)	33	46	58	52
iii. Departmental administration	2	4	5	5
<b>Total</b>	<b>44</b>	<b>65</b>	<b>86</b>	<b>86</b>
<b>DOE (other)</b>				
i. Regional Water Authorities	38	42	42	42
ii. British Waterways Board	2	3	4	4
iii. Local environmental services: current	107	283	320	319
iv. Local environmental services: capital	20	33	55	55
v. New towns: industrial and commercial	4	6	8	8
vi. Administration	3	6	8	8
vii. Research	2	4	5	5
viii. Central miscellaneous	2	4	5	5
ix. Community Land	57	56	54	54
x. Urban programme	11	19	27	27
xi. Development Commission	1	2	3	3
xii. Parliament, etc	1	1	1	1
xiii. Miscellaneous items from other programmes	2	4	6	6
<b>Total</b>	<b>250</b>	<b>463</b>	<b>538</b>	<b>537</b>
<b>Home Office</b>				
i. Fire Service	24	40	57	57
ii. Community Services	2	3	6	6
iii. Prison Building (PSA)	1	2	2	2
iv. Registration of electors	1	2	2	2
<b>Total</b>	<b>28</b>	<b>47</b>	<b>67</b>	<b>67</b>

## Chancellor's Department

	1980	1981	1982	1983
Court building	5	3	-	-
Legal aid	-	-	1	-
<b>Total</b>	<b>5</b>	<b>3</b>	<b>1</b>	<b>-</b>

## Department of Education and Science

Halve under-5 expenditure	70	100	110	115
Halve school transport from Sept '80	40	60	60	60
Halve school meals/milk by 1982-83	70	125	200	200
Reduce school standards	100	200	400	400
No school building beyond basic need	30	50	50	50
Tuition fees for 16-18 from Sept '80	90	100	130	130
Higher education cut to 1977-78 level	50	100	150	150
Non-advanced further education cut to 1977-78 level	20	50	80	85
Higher/further building programme halved	10	25	35	35
Full-cost fees for overseas students from Sept 1980	65	100	100	100
Increase parental contribution to student grants; and abandon 16-18 awards scheme	30	50	40	40
Reduce Youth Service below present level	5	10	15	15
Halve planned adult education	15	20	20	20
Reduce inspection and administration	15	35	50	50
Reduced requirements	-	-	20	30
Reduce grants to Research Councils	20	35	50	50
<b>Total</b>	<b>630</b>	<b>1060</b>	<b>1510</b>	<b>1530</b>

## Office of Arts and Libraries

British Library building postponement	4	7	7	7
Reduce British Library services	2	3	4	4
Reduce Arts Council (etc) support	3	4	5	5
Reduce other central government capital expenditure	-	1	1	1
Reduce national museums and galleries purchase grants, capital and current expenditure	2	4	10	10
Reduce capital and current expenditure on local museums	2	3	5	5
Reduce expenditure on local libraries	15	25	35	35
<b>Total</b>	<b>28</b>	<b>47</b>	<b>67</b>	<b>67</b>

## Health and personal social services (England):-

Prescription and dental charges (effect of 1979 Budget)	46	42	41	-
General medical and ophthalmic services	2	2	2	-
Prescription charges raised to 70p	32	31	30	30
Welfare milk restriction	3	3	3	3
Road casualties, recovery of full cost	-	57	57	57
Foreign visitor charge:-	-	21	21	21
Consequences of Budget for PSS	10	10	10	10
Elimination of non-demographic growth from PSS	-	6	23	-
Reduction in standards of PSS for elderly, disabled and children	78	135	186	209
<b>Total</b>	<b>171</b>	<b>307</b>	<b>373</b>	<b>330</b>

SECRET

1980 1981 1982 1983  
-81 -82 -83 -84

## Social Security (GB):-

	1980	1981	1982	1983
Estimating changes	329	381	277	-72
Options				
'Prices only' upratings	84	265	380	505
Staff redeployed on fraud and abuse work	20	20	20	20
Employers pay sickness benefit for first six weeks	-	300	300	300
Child dependency allowances held back	10	30	45	55
Raise pension age for women to 65 by steps	30	50	80	100
Abolish earnings - related supplements to short-term benefits	280	260	260	260
Hold back earnings limit for pensioners' wives	8	13	18	18
Minor Savings (eg abolish death grant)	54	52	45	43
Pensions etc uprated by substantially <u>less</u> than prices, and child benefit cut below existing rate	1,100	2,200	3,000	3,100
Total options	1,586	3,190	4,148	4,401

## Her Majesty's Stationery Office:

Reductions in services	8	12	18	18
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## Central Office of information:

Reductions in publicity services	2	4	5	5
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## Civil Service Department:

Civil Superannuation	-	3	2	-
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## Scotland

Comparable programmes	315	455	593	602
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## Programme 4

Scottish Development Agency	27	31	31	31
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Section 7 assistance	1	2	3	3
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Reduced requirements	1	1	4	-
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Highlands and Islands Development Board	1	2	-	3
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Total (non comparable programmes)	29	36	38	37
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## Wales

Programme 4				
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Welsh Development Agency	11	12	12	12
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Section 7 Assistance	-	1	2	2
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Wales Tourist Board	-	-	1	1
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Balance of programme	1	1	1	1
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Reduced requirements	-	2	1	-
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Programme 6				
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Motorways and trunk roads	6	10	14	14
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Local transport	7	12	17	17
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Programme 7				
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Subsidies - estimating changes	-	-	3	2
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Subsidies - higher rents	-	5	12	19
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Option mortgage subsidy	4	5	5	5
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First-time buyers' scheme	2	-	-	-
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SECRET

	1980 -81	1981 -82	1982 -83	1983 -84
v. Housing associations	3	-	3	3
vi. New housbuilding	18	23	24	24
vii. Council house sales	2	6	6	4
viii. Further unspecified reductions	38	46	56	56
Programme 8				
i. Welsh Water Authority	3	3	3	3
ii. Local Authority LES capital LDS	1	2	3	3
iii. Local Authority LES current	-	12	14	14
iv. Coast protection	-	-	1	1
v. Community land	10	10	10	10
vi. Urban programme	-	1	1	1
Programme 10				
i. School building improvements	2	3	3	3
ii. HFE building programme	-	1	1	2
iii. Libraries and museums: capital expenditure	-	-	1	1
Programme 11				
i. Health	5	10	9	6
ii. Personal social services	5	8	12	12
<b>Total</b>	<b>121</b>	<b>175</b>	<b>213</b>	<b>215</b>
Northern Ireland				
Percentage reductions	130	218	308	308
<hr/>				
<b>GRAND TOTAL</b>	<b>6,615</b>	<b>10,410</b>	<b>13,220</b>	<b>13,354</b>

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TABLE 3

## Additional Bids

The following list summarises the additional bids put forward by Departments which contributed to the exercise.

	£m 1979 Survey Prices			
	1980	1981	1982	1983
	-81	-82	-83	-84
<b>Ministry of Defence :</b>				
Increase in Defence Budget	88	316	564	828
<b>Overseas Development Administration</b>				
Overseas aid administration	1	1	-	-
Other external relations: pensions	1	1	-	-
<b>Total</b>	<b>2</b>	<b>2</b>	<b>-</b>	<b>-</b>
<b>(other)</b>				
BBC audibility programme	-	-	1	1
Increased training and loan service personnel	4	4	4	4
<b>Total</b>	<b>4</b>	<b>4</b>	<b>5</b>	<b>5</b>
<b>(total)</b>	<b>236</b>	<b>346</b>	<b>376</b>	<b>468</b>
<b>(including DAFS, Welsh Office, Intervention Board)</b>				
Increase higher Sheep Allowance in LFA	5	5	4	4
Restructuring Fishing Industry	8	10	13	8
Sea fisheries protection	4	11	12	6
Thames tidal scheme	37	2	3	-
Other arterial drainage	9	10	12	12
Replacement of sugar stocks	7	7	7	-
Turnover or renewal of other stocks	4	4	3	3
<b>Total</b>	<b>73</b>	<b>48</b>	<b>54</b>	<b>33</b>
<b>Forestry Commission</b>				
Acquisition of land	3	3	3	3
Notional increase in interest	-	-	-	1
<b>Total</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>4</b>
<b>Department of Industry</b>				
	-	-	-	-



	1980	1981	1982	1983
	-81	-82	-83	-84

## Department of Trade

i. Firms	-	1	1	1
ii. Trade regulation	1	1	1	1
iii. Shipping	3	1	1	1
iv. Civil Aviation Authority	6	6	5	3
Total	10	9	8	6

## Export Credits Guarantee Department

i. Refinancing of fixed rate export credits	-14	-12	-22	28
ii. Interest support costs	171	122	65	-26
iii. Cost escalation cover	17	17	15	4
Total	174	127	58	6

## Department of Employment

	4	4	4	4
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## Department of Energy

i. Nuclear R & D	18	18	18	19
ii. Assistance to NCB	138	133	139	139
iii. Tripartite gas centrifuge	15	15	-	-
iv. Oil pipeline and storage system	8	5	1	-
Total	179	171	158	158

## Department of Transport

i. Motorway maintenance	5	3	2	2
ii. Assistance to Port of London Authority	6	2	-	-
iii. DVLC: Post Office agency services	3	3	1	-
iv. DVLC: computers	2	1	4	2
Total	16	9	7	4

## Department of the Environment: Housing

	300	296	260	374
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## Department of the Environment: other

Environmental research: radioactive waste management research	6	5	4	3
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## Department of the Environment: Property Services Agency

	-	-	-	-
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## Home Office

i. Crown prosecutions, legal aid etc	-	-	3	9
ii. Magistrates Courts: running expenses	2	2	4	6
iii. Magistrates Courts: building programme	5	5	11	18
iv. Prisons: staff	7	7	9	11
v. Prisons: rent allowances	-	1	1	1
vi. Prison industries etc	5	4	6	4
vii. Prisons: building programme (PSA)	2	2	2	6

# SECRET

	1980 -81	1981 -82	1982 -83	1983 -84
viii. Probation: manpower etc	3	3	5	6
ix. Probation: building programme	1	1	1	2
x. Police manpower	6	18	28	37
xi. Police pensions	-	-	-	8
xii. Police: civilian support, goods and services, etc	5	10	12	14
xiii. Police: central support services	2	2	6	4
xiv. Police: building programme	8	17	13	16
xv. Firemen's pensions	-	-	-	3
xvi. Control of immigration etc	1	2	2	3
xvii. Computers etc	1	2	1	4
xviii. Registration of electors	1	1	1	1
<b>Total</b>	<b>49</b>	<b>77</b>	<b>105</b>	<b>153</b>
<b>Lord Chancellor's Department</b>				
i. Verbatim court reporting etc	1	1	1	2
ii. Consolidated Fund: additional judges	1	1	1	2
iii. Legal aid	-	-	-	4
<b>Total</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>8</b>
<b>Department of Education and Science</b>				
Schools: assisted place scheme (up to a maximum of )	-	40	55	55
<b>Office of Arts and Libraries</b>				
-	-	-	-	-
<b>Department of Health and Social Security (England):</b>				
<b>Health:-</b>				
i. FPS: general medical and ophthalmic services	-	-	-	8
ii. Centrally financed services	3	3	9	8
iii. Hospital and community health: demographic growth	-	-	-	47
<b>Personal social services:-</b>				
i. Children and Young Persons Act 1969 amendment	7	8	9	10
ii. Demographic growth	-	-	-	24
<b>Total Health and Personal Social Services</b>	<b>9</b>	<b>10</b>	<b>18</b>	<b>96</b>
<b>Social Security (GB):-</b>				
i. Phasing our retirement pensioners' earnings rule	30	60	100	150
ii. Implementation of EEC directive on sex equality	1	3	3	12
iii. Child benefit uprated in line with prices in 1980	170	400	370	350
iv. Make maternity grant non-contributory	2	2	2	2
v. Administrative changes	2	-1	-2	-2
<b>Total Social Security</b>	<b>205</b>	<b>464</b>	<b>473</b>	<b>512</b>

# SECRET

# SECRET

	1980 -81	1981 -82	1982 -83	1983 -84
<b>Her Majesty's Stationery Office</b>				
i. More frequent printing of tax tables	1	1	1	1
ii. Office machines etc	5	5	5	6
<b>Total</b>	<u>6</u>	<u>6</u>	<u>6</u>	<u>7</u>
<b>Central Office of Information</b>				
	-	-	-	-
<b>Civil Service Department :</b>				
Civil Superannuation	-	-	-	32
<b>Scotland</b>				
Comparable programmes	41	44	42	67
Programme 4	8	2	1	4
<b>Wales</b>				
Programme 4				
i. Development Board for Rural Wales	6	6	7	7
ii. Welsh Development Agency	-	2	2	2
Programme 7				
Housing	11	7	6	10
Programme 8				
Arterial Drainage	1	1	1	1
Programme 10				
Assisted Places scheme	-	1	2	2
Programme 11				
i. Health	-	-	1	5
ii. Personal social services	1	1	-	2
<b>Total</b>	<u>18</u>	<u>17</u>	<u>19</u>	<u>28</u>
<b>Northern Ireland</b>				
Adjustments arising from revised economic assumptions	1	-	1	13
<b>GRAND TOTAL</b>	<u>1,434</u>	<u>2,002</u>	<u>2,223</u>	<u>2,868</u>

# SECRET

DEFENCE PROGRAMME

	£ million, 1979 Survey prices						
	1977	1978	1979	1980	1981	1982	1983
MOD, inc PSA expenditure)	-78	-79	-80	-81	-82	-83	-84
1. Cmdd 7439 revalued	7,550	7,573	7,917	8,177	8,219	8,227	-
2. Survey baseline	7,550	7,573	7,927	8,177	8,219	8,227	8,227
3. Budget cuts, etc			+100	-	-	-	-
4. Options for reductions			-	-	-	-	-
5. Line 4 as % of line 1			-	-	-	-	-
6. Additional bids				88	316	564	828

1. Part 1 of the PESC Report summarised the growing military threat from the Warsaw Pact; NATO's defensive strategy; the UK's contribution to the fulfilment of that strategy, and other military commitments; NATO's financial targets for defence spending and their plans for modernisation of Alliance forces; the budgetary underprovision for defence in recent years by comparison with the last Government's costed defence programme; the military consequences of that underprovision, and commitments which now exist but were not provided for in that costed programme.

2. Since Part 1 was prepared the baseline figure for 1979-80 has been increased to take account of the £100 million increase announced in the Budget on 12 June. The Ministry of Defence's case for additional bids in the PESC period is summarised below. The spending authorities are the MOD and the Property Services Agency. No legislation would be required, and the retail price index would be unaffected. The consequences for Civil Service manpower cannot be assessed at this stage.

a) The Government have a political commitment, reaffirmed in the Queen's Speech, to improve the security of the nation and strengthen our contribution to NATO.

b) At the NATO Defence Planning Committee Meeting in May the Secretary of State for Defence accepted the Alliance's call to aim for 3 per cent a year real increase in defence spending to 1986. This was not in itself a binding commitment, and was recognised as being subject to Ministers' decisions on public expenditure. But, taken with the Government's declared intentions on defence, it reinforces the strong public and Alliance expectation that the Government's spending plans, when announced, will include a 3 per cent annual real increase in the defence budget.

c) The last Government consistently failed to approve the defence budgets which their own published projections had shown to be necessary at the time of their Defence Review (1974-75). Since that date moreover the military threat to the Alliance has increased.

(d) The inherited defence programme shows a substantial upswing in planned spending on equipment for all three Services over the PESC period. This is necessary to finance a programme with a heavy production content, including the Tornado aircraft, the Navy's rolling programme of ASW cruisers, Type 42 destroyers, Type 22 frigates and nuclear-powered submarines; and additional Chieftain tanks, Milan anti-tank missiles and Army air defence improvements. It was for this reason that Ministers increased the defence budget for 1979-80 by £100 million. The level of expenditure on equipment is planned to increase by 25 per cent in real terms over the PESC period.

(e) Over the same period the requirement for uniformed manpower increases by 7 per cent, compared with the current low starting-point reflecting shortages stemming from discontent with pay and conditions of service. The restoration by the Government of pay levels comparable with outside employment, and the declared intention to retain this relationship, greatly improve the prospects of achieving the manning levels required, though continuing efforts to recruit and retain manpower will be needed.

(f) Apart from their general insufficiency (see (c) above) the last Government's Defence Review budget projections have proved to be unrealistic in one important respect. They assumed some downturn in funding requirements between 1981-82 and 1983-84. In fact, as stated above, there will be a significant increase in the cash required for equipment over this period.

(g) Ministers have yet to take decisions on how the defence programme should be enhanced. Issues to be considered include nuclear capabilities; the remedying of weaknesses in the present force structure (including the direct defences of the UK, and the improvements called for by NATO through the Long Term Defence Programme); and the nation's defence interests outside the NATO area. It is therefore premature to put forward a precise programme of costed improvements. However, in the MOD's judgment the additional bids now made are the minimum necessary to provide Ministers with a small margin for some enhancement of the capabilities, which would have been required to implement the policies inherited from the last Government.

3. The Ministry of Defence will play a full part in the search for administrative economies throughout Government. This will yield financial savings which cannot yet be quantified; the Ministry have however taken account of these factors in framing the additional bids. The Ministry point out that the scope for fresh savings has been diminished by past economies achieved since the formation of a unified Ministry in 1964, and latterly intensified as a result of budgetary cuts under the last Government; and that continuing commitments outside our main defence effort, such as those in Northern Ireland and Belize, give rise to costs which must equally be reflected in the additional bids.

4. Treasury officials note that:

(a) the £100 million already made available for 1979-80 is added to the baseline on which annual 3 per cent increases are built; that the excess is similarly built into the subsequent calculations; and that the total increase in the four years 1980-81 to 1983-84 is 12.8 per cent;

(b) in addition to the £100 million already approved, MOD's bids would represent an increase of some £488 million more\* than would be required to meet the NATO target of 3 per cent annual increases on a 1978-79 baseline throughout the Survey period;

(c) acceptance of these bids would mean that the proportion of total public expenditure devoted to defence would rise above the present 11 per cent; that the new figure would by 1983-84 be about 14 per cent if total public expenditure had by then been brought down to the 1977-78 outturn level, in accordance with the Government's aim;

\*Note

	1980-81	1981-82	1982-83	1983-84	Total
i. MOD's bids	88	316	564	828	1796
ii. Increases required to achieve strict 3% growth	-12	190	435	695	1308
Excess of i over ii.	100	126	129	133	488

SECRET

SECRET

and that such an increase would make more difficult the achievement of this aim;

(d) as a proportion of GDP, our defence expenditure on NATO definitions would rise from 4.95 per cent in 1979-80 to around 5.5 per cent by the end of the PESC period, a figure higher than those of any of our major NATO Allies at present.

Treasury officials note that the MOD propose in due course to bring forward a precise programme of costed improvements on which the additional resources now sought would be spent, and also intend to find financial savings through a new economy drive (which in the Treasury view would need to include a due share of the cuts in the PSA works programme on which Ministers have decided). They believe that it would be appropriate to await these developments before entering into firm commitments on defence expenditure beyond 1981-82. They suggest that Ministers might indeed wish to commission studies to check priorities within the defence programme, ensure maximum defence value for money, and verify the requirements for additional expenditure.

SECRET 18

# SECRET

DEPARTMENT AND COMMONWEALTH OFFICE: OVERSEAS DEVELOPMENT ADMINISTRATION  
OVERSEAS AID, OVERSEAS AID ADMINISTRATION AND OTHER EXTERNAL RELATIONS (PART)

	£m 1979 survey prices						
	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
Cmd 7439 revalued	757	829	885	940	993	1051	
Survey baseline			897	941	994	1051	1051
Cmd 7439 revalued (revised revaluation)	772	844	905	955	1010	1067	
Survey baseline (revised revaluation)			897	956	1011	1068	1068
Budget cuts			50				
Options for reductions (4) as percentage of (1A)				72	127	186	186
Additional bids				7.5	12.5	17.5	
				2	2		

The spending authority concerned is a central government department. No legislation would be required to achieve the reductions discussed below.

OVERSEAS AID

	1980-81	1981-82	1982-83	1983-84
Options for reductions	67	119	176	176
(remaining programme)	(830)	(833)	(833)	(833)

Reductions of this order would mean that the United Kingdom would make virtually no progress towards the UN 0.7 per cent target - indeed, performance might remain static or even decline - over the survey period. Because commitments to multilateral expenditure are generally more inflexible than those on the bilateral side, reductions would fall largely on the bilateral aid programmes including research, development, education and training and other home-based technical co-operation. To this extent, the reductions would constrain our flexibility as a bilateral donor, and might have implications for the amount that could be spent on tied aid or our ability to respond to unforeseen needs of politically or strategically important developing countries. If further reductions were required to offset the non-availability of reductions in Other External Relations (Pensions, etc), as follows:-

	1980-81	1981-82	1982-83	1983-84
	4	6	8	8

The aid programme would bear more than its proportionate share of the proposed reductions and the difficulties for that programme would be compounded.

But, even with these further offsetting reductions, there would be growth in aid expenditure between 1979-80 and 1980-81 and the programme would be maintained at this increased level in the following years.

The Treasury suggest an alternative, and slightly more severe, option of maintaining the programme steadily at its 1979-80 level (£790 million) in real terms, giving reductions as follows:-

# SECRET

1980-81      1981-82      1982-83      1983-84

Treasury proposed reductions

107                  162                  219                  219

The Treasury believe that, on this basis, it would still be possible to plan a satisfactory programme of multilateral and bilateral aid, and to provide for such unforeseen needs as may arise. It is also the Treasury's view that the UK contribution (about £7 million, with payment not before 1980 and perhaps spread over more than one year) to the first window (buffer stock financing) of the UNCTAD Common Fund should be found within this reduced programme; and that a decision in this sense should be taken during the survey. It is, however, the view of ODA that the appropriate programme for this contribution should be that of the lead department, ie the Department of Trade.

It is unlikely that reductions in aid expenditure would lead to savings in administrative costs, unless particular programmes were cut out completely.

## OVERSEAS AID ADMINISTRATION

1980-81      1981-82      1982-83      1983-84

Options for reductions  
Additional bids

1                  2                  2                  2  
1                  1                  -                  -

This programme covers only the cost of salaries, etc of the headquarters staff of the ODA and related general administrative expenditure. Options for reductions will be considered in the context of the Lord President of the Council's manpower exercise; the figures shown above simply reflect the standard percentages. Increased provision is required to cover some of the costs in 1980-81 and 1981-82 of dispersal of part of the ODA to East Kilbride.

## OTHER EXTERNAL RELATIONS (PENSIONS, ETC)

1980-81      1981-82      1982-83      1983-84

Options for reductions  
Additional bids

-                  -                  -                  -  
1                  1                  -                  -

Part of this programme covers payments of pensions, ex gratia loan advances and supplements payable under the Pensions (Increases) Acts to certain pensioners in public service with overseas governments. It is a demand related service, and additional provision is required to cover the growth in the number entitled to such supplements as well as the size of supplements amended under the annual reviews. There is no scope for reduction.



# SECRET

## Foreign and Commonwealth Office (other)

### Overseas representation, information and other external relations:

	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84
1. Cmd 7439 revalued	271	293	312	308	311	310	310
2. Survey baseline	-	-	311	308	309	310	309
3. Budget cuts, etc	-	-	3	-	-	-	-
4. Options for reductions	-	-	-	23	39	54	54
5. Line 4 as percentage of line 1	-	-	-	7.5	12.5	17.5	17.5
6. Additional bids	-	-	-	4	4	5	5

This covers all the FCO elements in these programmes excluding the Secret Service and GCHQ, and ODA expenditure on pensions (dealt with above).

#### Options for reductions:

	1980/81		1981/82		1982/83	
	programme	cuts	programme	cuts	programme	cuts
Overseas representation	185	15	188	26	188	35
Overseas information:						
FCO	3	-	3	-	4	1
BBC	48	4	47	6	46	9
British Council	26	3	26	4	26	5
Other external relations	43	1	43	3	43	3
Military assistance	3	-	2	-	3	1
	308	23	309	39	310	54

#### Overseas Representation:

In Overseas representation the options would involve a mix of cuts in the size and capability of the FCO in all its work at home; reductions in the size of large missions and closures of some of the smaller ones; and the curtailment of major Diplomatic Service functions, eg commercial work in developed countries, or some consular services. These options will be considered in the context of the Lord President of the Council's manpower exercise. A proportion of the manpower savings would be found across the board in the FCO home-based functions, but post closures would carry the main burden. Depending on the mix adopted, up to 110 posts would have to be closed. This would automatically reduce the demand on the communications services. If those services were, however, to bear a full pro rata cut, the effects would go beyond this and could entail material damage to the reliability of the remaining network, to security protection and to the BBC's external broadcasting. This could only be avoided by additional post closures or by even heavier cuts in other FCO programmes.

SECRET

SECRET

The options described in the following paragraphs would also involve some reduction in FCO manpower.

#### Overseas Information:

FCO information work could be cut by radically reducing the number and quality of sponsored foreign visitors programmes as well as reducing expenditure on new information technology. BBC external services cuts could be attained partly by the elimination of all vernacular transmissions except to Eastern Europe, China and the Arabic service. To these could be added various options for closing relay stations, reducing World Service broadcasts and reconsidering the recently approved expenditure to improve audibility. British Council options would include closure of a large number of offices at home and overseas and a substantial reduction in activities elsewhere. A functional approach might involve a 25% reduction in the information and cultural work which the Council does for the FCO.

The Treasury suggest that an alternative option to those listed above would be to make bigger savings in the lower priority work of the British Council; eg. arts tours and exhibitions, student exchange visits, and libraries. Some £20 million a year might be saved by cutting out this work (while maintaining existing expenditure on cultural relations with the Soviet Bloc and China).

#### Other External Relations:

Most of this programme comprises international subscriptions which cannot be cut without, in most cases, withdrawal from organisations such as the UN and OECD, reneging on international commitments or, in some cases, legislation. If the full weight of the cuts were to bear on the balance of the programme, this could only be achieved by, for example, a combination of withdrawal of our contribution to the UN Force in Cyprus (UNFICYP) and the abolition of all grants in aid (the major source of funds for the Commonwealth Institute, Marshall Aid scholars etc) but if the balance of the programme were to be confined to a 17½% cut, this could be attained by such measures as reducing grants in aid and cutting our involvement in the activities of the Commonwealth Secretariat and Western European Union.

#### Military Assistance:

To achieve the target cuts would mean putting into reverse the recently agreed augmentation (to £6.5m in 1979/80) of our modest military assistance training programme for developing countries. The main sufferers would be India and Kenya.

SECRET

SECRET

Additional Bids:

	1980/81	1981/82	1982/83	1983/84
BBC (£4m.) audibility programme	0.3	0.2	1.3	1.4
Increased training and loan service personnel	4.1	4.0	4.0	4.0

Overseas Information:

The previous Government accepted the recommendation of the CPRS on improved audibility. The cost was put at £30m of which £25m is included in the survey figures. The bid therefore provides for the balance of the cost of the programme. If the option above for cutting vernacular services is adopted there would be no scope for effecting savings to accommodate this addition.

Military Aid:

The 1979/80 military assistance programme contains an additional £3.8m agreed by the previous Government for military training. The bid is to maintain the higher commitments to friendly Governments which the new level of provision makes possible.

## 2.7 Contributions to the European Communities (net), and the European Investment Bank.

EC Budget

£ million (1979 Survey Prices)

	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
Cmd 7439 revalued	632	760	780	851	797	888	888
Survey baseline	632	760	780	851	797	888	888
Cmd 7439 revalued (revised revaluation)	638	766	787	858	804	896	896
Survey baseline revalued (revised revaluation)	638	766	787	858	804	896	896
Budget cuts etc.			-	-	-	-	-
Options for reductions*			-	300	446	533	625
Line 4 as percentage of line 1A			-	7½	12½	17½	17½
Additional bids			13	236	346	376	468

The options for reductions include both the percentage cuts as shown in line 5 and the further savings needed to offset the additional bids (described below) in line 6.

The additional bids show the increase over the baseline taking estimates which assume a continuation of past experience as explained in the baseline report. These latest projections exclude any allowance for success in present Government efforts to achieve a fairer distribution of budgetary burdens among individual Member States. It is too early to say whether reductions of the order shown above will prove feasible; this will depend on the success achieved by the Government in its negotiations within the Community on EEC policies and on the net UK contribution to the Budget.

If these reductions do not prove feasible; the UK contribution cannot be cut without breaching commitments under the terms of the Treaty of Rome and the Treaty of Accession.

MAFF/DAFS/WOAD/IBAP: PROGRAMMES 3 AND 15

	£m at 1979 Survey prices						
	77-78	78-79	79-80	80-81	81-82	82-83	83-84
Cmd 7439 Revalued	945	871	951	859	844	837	837
Survey baseline	947	815	874	859	845	837	837
Cmd 7439 Revalued (revised revaluation)	981	893	973	883	868	859	859
Survey baseline (revised revaluation)	983	838	897	883	869	860	860
Budget cuts	-	-	-	-	-	-	-
Options for reductions	-	-	-	86	131	177	181
Line 4 as percentage of IA	-	-	-	9.7	15.1	20.6	21.1
Additional bids	-	-	-	17	26	29	18

Options for reductions

1980-81    1981-82    1982-83    1983-84

Programmes 3 and 15. Item

Market regulation (part of total CAP expenditure)							
a. Reduced requirements		30.0	46.5	46.1	46.1		
b. End variable premium scheme for beef		2.2	2.2	2.2	2.2		
c. Cut cost of CAP to UK by price freeze on products in structural surplus		-	0.5	21.3	21.3		
		<u>32.2</u>	<u>49.2</u>	<u>69.6</u>	<u>69.6</u>		
End price guarantees for sheep and potatoes							
MAFF		5.3	5.3	5.3	5.3		
DAFS		2.1	2.1	2.1	2.1		
WOAD		1.8	1.8	1.8	1.8		
		<u>9.2</u>	<u>9.2</u>	<u>9.2</u>	<u>9.2</u>		
MEC Administrative saving resulting from 1B and 2, net of redundancy payments							
MAFF		0.9	2.0	1.9	1.9		
DAFS		0.2	0.4	0.5	0.5		
IBAP		1.2	2.1	2.1	2.1		
Reduce rates of capital grant							
MAFF		11.8	25.6	41.9	39.9		
DAFS		4.9	6.9	10.6	11.5		
WOAD		2.6	4.4	4.4	3.7		
Reduce rates of guidance premiums							
MAFF		0.2	0.3	0.3	0.3		
DAFS		0.3	0.3	0.2	0.2		
WOAD		0.2	0.2	0.1	0.1		

## 6. Reduce LFA allowances rate in January 1982

MAFF	-	2.7	3.1	2.9
DAFS	-	2.5	3.3	3.1
WOAD	-	1.7	2.1	2.0
7. Commissioned and other R & D				
MAFF	2.5	4.3	6.2	6.0
DAFS	0.4	0.9	1.6	1.6
8. Agricultural Training Board (MAFF)				
	0.6	1.0	1.3	1.3
9. Economies in expenditure by ADAS on experimental farms, veterinary centres, laboratories etc and by Scottish Agricultural Colleges				
MAFF	0.5	0.7	1.0	1.0
DAFS	0.5	1.0	1.6	1.6
10. Salaries (continue 3% reduction for 1979), consequential administrative savings				
MAFF	2.3	2.3	2.4	2.4
11. Sales of MAFF land				
	-	6.0	2.7	2.8
12. Abandon MAFF dispersal to Merseyside				
	0.1	0.1	1.6	4.7
13. Other minor options				
MAFF	0.4	0.7	0.9	0.9
DAFS	0.1	0.1	0.1	0.1
14. Reduced requirements				
MAFF	8.2	-	1.6	3.0*
DAFS	6.3	5.0	5.5	7.3
WOAD	0.9	1.4	1.6	1.6
GRAND TOTAL	86.5	131.0	177.4	181.3

1. All these options affect expenditure by Central Government. None would directly affect the retail price index. Items, 4, 5, 6 and part of 13 would require subordinate legislation. None is planned. The reduction in spending on capital grants in 1980-81 assumes that the changes are made before September 1979.

2. Manpower effects are difficult to predict but over the PES period in England and Wales the options in various grants could save up to 200 staff, and those at experimental farms and veterinary centres up to 80 staff, towards those needed to continue the 3% reduction in salaries costs. Consultations with the Agricultural Colleges and Research Institutes would be required to determine the manpower effects in Scotland.

3. The cuts in capital grant rates, and <sup>in</sup> LFA allowances and guidance

\* The reduced requirements are net of certain replacement items and additional dispersal costs.

premiums would, in the view of Agricultural Departments, severely damage investment and agricultural productivity unless accompanied by measures to provide equivalent support through end prices or tax concessions. The construction industry would be affected. LFA allowances already are down in real terms and confidence in the hill areas would be harmed since the grants are income subsidies. Some areas, eg Scotland, are regarded by the Agricultural Departments as particularly vulnerable.

4. The cuts on R & D, training, experimental farms, science laboratories and veterinary centres would involve closing some establishments and could retard the growth of agricultural productivity. There would be some consequential redundancies, the cost of which is included within the option cuts.

5. Some of these options could be difficult. The cuts of some £20m a year in 1982-83 and 1983-84 on IBAP depend on decisions to be taken in Brussels. The abolition of sheep and potato guarantees are subject to the introduction of CAP regimes. In Opposition cuts of about £40m in 1979 prices were suggested. The options listed above include some £20m in these areas.

Additional Bids

	1980-81	1981-82	1982-83	1983-84
<u>Programmes 3 and 15. Item</u>				
1. Increase higher Sheep Allowance in LFAs by £1	5	5	4	4
2. Restructuring Fishing Industry	8	10	13	8
3. Sea Fisheries Protection	4	11	12	6

The additional bids are covered in all years, taking the programme as a whole, in 1981-82 and 1982-83. except, marginally, The increase of £1 on the higher rate of LFA allowances would continue an increase being proposed for 1979-80, to sustain this vulnerable sector until it receives the benefit of higher end prices.

7. The bid for restructuring the fishing industry is to assist it adapt to the radical change in fishing opportunities resulting from the Common Fisheries Policy and the exclusion of our fishermen from traditional waters. The bid for sea fisheries protection covers replacement of obsolescent vessels by 4 new RN ships and the upgrading of a DAFS replacement vessel as part of the same exercise.

PROGRAMME 8: LAND DRAINAGE

	£ million 1979 Survey Prices						
	77-78	78-79	79-80	80-81	81-82	82-83	83-84
1. Cmdnd 7439 revalued	82	119	133	120	103	77	77
2. Survey baseline	83	111	133	120	103	77	77
3. Budget cuts	-	-	-	-	-	-	-
4. Option cuts for reductions				55	25	29	25
5. Line 4 as percentage of 1				46	24	38	32
6. Additional Bids				46	12	15	12

Options for reductions

Prog	Item	80-81	81-82	82-83	83-84
8	1 Thames Tidal Scheme: reduced requirement				23
8	2 Other arterial drainage	3	5	7	2
3	3 Remainder: programme 3	52	20	22	-

The spending authorities for this expenditure are the water authorities and local authorities. There are no feasible options for saving on the Thames Tidal Scheme (part from a reduced requirement in 1983-84). A decision to slow down the programme of work would increase the total cost and delay the necessary safeguards against serious flooding in London and downstream. The reductions required by the ground rules to achieve the percentage reductions and offset the additional bids could not be achieved by reductions in the other arterial drainage expenditure alone (which would be at the cost of an increased risk of floods in urban and rural areas). The remainder would have to be made up by further cuts in programme 3 expenditure additional to those already required for that programme. MAFF argue that programme 3 expenditure should not suffer on account of increases in programme 8, especially Thames Tidal Scheme expenditure.

Additional bids

Prog	Item	80-81	81-82	82-83	83-84
8	1 Thames Tidal Scheme	37	2	3	
8	2 Other arterial drainage	9	10	12	12

The bid for the Thames Tidal Scheme is to cover additional expenditure resulting from programme slippage, cost escalation and the adoption of a faster programme for the construction of the Barrier. The other bid is for work on sea and urban flood defences which MAFF regard as urgently needed.

Note  
Welsh land drainage expenditure is covered in the Welsh text



# SECRET

MAFF: PROG 9: STRATEGIC FOOD STOCKPILE £ million 1979 Survey prices

77-78 78-79 79-80 80-81 81-82 82-83 83-84

1. Cmnd 7439 revalued	3.4	4.4	4.3	4.3	4.3	4.3	4.3
2. Survey baseline	3.4	3.1	5.6	4.3	4.3	4.3	4.3
3. Budget cuts							
4. Options for reductions				11	11	10	3
5. Line 4 as percentage of 1				256	256	233	70
6. Additional bids				10	10	9	3

### Options for reductions

MAFF argue that as the food stockpile is required for defence and civil emergencies it should be exempted from the percentage reductions. The only way in which savings could be made on this expenditure to achieve the percentage reductions would be by selling off part of the stocks but this would not be consistent with the purpose of the stockpile. Acceptance of the additional bids would imply a quite contrary approach, in which case the necessary savings could be made only by further cuts in programme 3 expenditure additional to those listed above. MAFF argue that their programme 3 expenditure should not suffer on this account.

### Additional Bids

Prog.	Item	80-81	81-82	82-83	83-84
9	1 Replacement of sugar withdrawn from stocks during 1974 emergency	6.6	6.6	6.6	
	2. Turnover or renewal of other stocks	3.7	3.7	2.6	2.6

The size of the stockpile is currently under review. The above bids are those which would be required to restore the stocks to the currently recommended levels. The bid for replacement of sugar assumes a gradual replacement programme starting in 1980-81. If however the entire replacement were to take place in 1979 this would achieve a substantial overall saving because levy receipts in 1979 accrue to the Exchequer.

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## FORESTRY COMMISSION

### CENTRAL GOVERNMENT (VOTES)

£m 1979 Survey Prices

	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
1. Cmnd 7439 revalued)	52	57	65	62	63	64	64
2. Survey baseline )							
3. Budget cuts (1979-80)			1				
4. Options for reductions				10	11	12	12
5. Line 4 as percentage of line 1				16.6	17.7	18.7	18.7
6. Additional bids				3	3	3	4

#### Options for reductions

To reduce expenditure by the amounts shown at line 4 above would represent a complete change from existing forestry policy set in 1972 and would require a cessation of all expenditure on land acquisition, new planting and recreational development and reductions in forest management expenditure and grants to private woodland owners. These reductions would save some £9 million rising to £10 million a year. The remainder would have to be made up by additional sales of assets including forest land and plantations. This would require primary legislation. Some 370 posts would go, most involving redundancy.

The above options assume a return to the 1977-78 PES provision (the target agreed in Opposition for this expenditure). However, a large part of the increase since 1977-78 is accounted for by an increase in the notional interest charge on the value of plantations. Options for reduction based on the actual increase in expenditure excluding interest effects would be as follows:

	1980-81	1981-82	1982-83	1983-84
	6	6	5	5

These reductions represent a substantial change in forestry policy and would halt further recreational development, severely restrict land acquisition, reduce new planting by a third, curtail new building and road construction, substantially cut crop improvement expenditure, cut 120 jobs and reduce the level of funds for grants to private woodland owners.

#### Additional bids

The additional bids in line 6 are £2.6 million a year for acquisition of land - the additional amount necessary to support the existing new planting programme at current land prices - and £1.2 million in 1983-84 corresponding to the annual notional increase in interest arising from the previous year's investment.

# SECRET

## £ million 1979 Survey Prices

<u>DEPARTMENT OF INDUSTRY</u>	<u>1977-78</u>	<u>1978-79</u>	<u>1979-80</u>	<u>1980-81</u>	<u>1981-82</u>	<u>1982-83</u>	<u>1983-84</u>
Grant 7439 revalued	1052*	1018*	1229	1182	1105	1052	1041
Survey baseline	-	-	1204	1147	1063	1023	1008
Budget cuts	-	-	200	-	-	-	-
Options for reductions	-	-	-	166	283	408	436
line 4 as percentage of line 1	-	-	-	14%	26%	39%	42%
Additional bids	-	-	-	-	-	-	-
<u>Options for reductions</u>							
Net reductions in baseline				35	42	29	33
Further estimating changes since the baseline, including reduced receipts				(24)	(15)	3	21
Regional Development Grant				133	170	179	195
Regional Selective Assistance				1	5	7	8
Land and Buildings				-	-	8	8
Research and Development				7	10	23	10
National Enterprise Board				-	46	97	86
Selective Assistance for individual industries etc				5	8	20	12
Reduction in provision for Future Industrial Support				-	2	27	43
Abolition of provision for Future Industrial Support				9	15	15	20
				<hr/>			
				166	283	408	436
				<hr/>			
			Total	166	283	408	436

\* Out-turn at 1979 Survey Prices

Commentary on Options

For the Department of Industry the cuts proposed by Ministers when in Opposition were:-

1980-81	1981-82	1982-83	1983-84
161	268	414	414

In some instances the 'Opposition' proposals are not attainable because existing commitments require a higher proportion of the relevant provision than the 'Opposition option' allows for. In other cases action to produce a particular saving in 1982-83 results in a different profile of reduction from that suggested.

Option:

2 These options comprise net reductions since Cmnd 7439 which have been included in the baseline (line 2) together with certain other changes that have occurred since the baseline was agreed.

Regional Development Grant

The option is based on the assumption that:-

- (a) SDA rates of grant would remain unchanged
- (b) DA rates would be reduced to 10 per cent
- (c) IA rates would be reduced to nil
- (d) minimum qualifying expenditures would be increased to £500 and £5000 for plant and buildings respectively, and
- (e) there would be 12 months' notice of change.

No assumption is made about removing the recently announced 4-month moratorium. This moratorium pulls forward into earlier years some small amounts of the projected savings. Since agreeing the RDG baseline investment intentions have been revised and it is possible that further small savings might accrue in some years on this account. Also, if there were some relatively limited geographical boundary changes, there could be additional modest savings to those shown. Certain of the changes described above would require a legislative procedure during the current session of Parliament (the Development Area change before the summer recess). The staff savings are estimated to be some 75 persons with the main effect from 1981-82 onwards.

Regional Selective Assistance

Savings rising to £15 million by 1983-84 are considered feasible for Great Britain as a whole, by tightening the criteria for assistance. This can be achieved by administrative action. Some minor staff savings might be made.

Land and Buildings

These options take no account of any disposals of land and buildings that might be made. All funds are committed in 1980-81 and largely in 1981-82. The reductions, if implemented, would reduce the factory building programme but there would be no significant staff savings.

Research and Development

The options relate partly to abandonment of the move of the Government Chemist to Cumbria and partly to general R & D activities, with particular emphasis on cuts in the UK contribution to the European Space Agency in the later years of the Survey. Cancelling the Government Chemist's move to Cumbria would eliminate a planned increase of some 75 staff over the two years 1982-83 and 1983-84.

7. National Enterprise Board

The NEB's commitments to BL and RR limit possible savings in the early years of the Survey. The options take no account of disposals of existing holdings and assume some limited NEB activities in respect of existing holdings, regional and rescue cases. No Departmental staff savings are envisaged.

8. Selective Assistance for Individual Industries

The baseline includes provision for an extension of the Selective Investment Scheme beyond 30 June. Under the 'inherited' programme an increase of £150 million (cash) was intended although not the whole of this sum is included in the Survey period. This is essentially the only uncommitted element of this sub-programme. The options allow for a modest increase in funds (£15 million cash) for the Selective Investment Scheme to enable it to be continued until 30 June on tightened criteria and a further extension beyond that date (£50 million cash although not all of this is included in the Survey period).

9. Reduction in the provision for Future Industrial Support

This sub-programme is intended to meet future requirements for new activities and existing programme variations. The option proposed allows the retention of only modest funds to meet variations.

10. Abolition of the provision for Future Industrial Support

Under this option all the available provision from the Future Industrial Support sub-programme would be eliminated.

£ million 1979 Survey Prices

	77-78	78-79	79-80	80-81	81-82	82-83	83-84
Cmd 7439 revalued	185	183	201	199	176	170	-
Survey baseline	-	-	196	196	175	168	170
Budget cuts	-	-	5	-	-	-	-
Options for reductions	-	-	-	18	23	30	30
Line 4 as a percentage of line 1	-	-	-	9.2	13.1	17.6	-
Additional bids	-	-	-	10	9	8	6

Options for reductions

Programme 4.1	Tourism			2	5	8	7
Programme 4.5	Export Promotion			2	5	7	8
Programme 4.6	Trade Regulation			9	5	5	5
Programme 4.6	Local Authority Consumer Protection			3	5	7	7
Programme 4.8	Central & Miscellaneous Services			1	1	1	1
Programme 6.5	Local Authority Loan Sanction			1	2	2	2

**Tourism:** Cut promotional activities of the British Tourist Authority and English Tourist Board and phase out assistance for projects, thus saving staff and reducing grant-in-aid requirements. Conditional on parallel Scottish and Welsh savings.

**Export Promotion:** Mixture of higher charges and cuts in services.

**Trade Regulation:** Abolition of the Price Commission, Consumer Advice Centres and Local Price Surveys; companies administration £0.5m depends on primary legislation already planned.

**Central and Miscellaneous Services:** Carrying forward of 1979-80 3% cut and consequential savings.

**Local Authority:** This expenditure is not under the direct control of the Department and local authorities will decide where cuts are to fall but from 1981-82 it may be necessary to determine priorities to ensure essential services, which would require primary legislation.

Additional bids

Programme 4.1	Films			-	1	1	1
Programme 4.6	Trade Regulation			1	1	1	1
Programme 6.4	Shipping			3*	1	1	1
Programme 6.5	Civil Aviation Authority			6	6	5	3

**Films:** The bid, pending Ministerial decisions, maintains support for the National Film Finance Corporation at its 1980-81 level. Would require primary legislation.

**Trade regulation:** The bid meets a serious Patent Office printing backlog and some small expenditures.

**Shipping:** The bid reflects delayed expenditure on the IMCO building (which is an unavoidable commitment), additional provisions against oil pollution and a rescue helicopter.

**Civil Aviation:** Bid reflects Eurocontrol's decision not to move to full cost recovery in 1980/81, and borrowing from the National Loan Fund by the Civil Aviation Authority for investment.

**Options:** Neither options for reductions nor bids affect the RPI or civil service manpower, and require no legislation unless stated.

**Additional bids:** this bid is covered by offsetting savings in addition to the percentage cuts.

EXPORT CREDITS GUARANTEE DEPARTMENT

£ million 1979 Survey prices

	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
1. Cmnd 7439 revalued	- 172	428	46	- 37	- 54	- 10	- 10
2. Survey baseline	- 172	428	- 154	- 37	- 54	- 10	- 10
1A. Cmnd 7439 revalued (revised revaluation)	- 173	432	47	- 36	- 54	- 10	- 10
2A. Survey baseline (revised revaluation)	- 173	432	- 153	- 36	- 54	- 10	- 10
3. Budget cuts etc			25	-	-	-	-
4. Options for reductions				- 6	- 24	- 59	- 81
5. As a percentage of Cmnd 7439				17	44	590	810
6. Additional bids				174	127	58	6

Incorporating the post Budget revised revaluation factors. Lines 3, 4 and 6 are at the same 1979 survey prices as lines 1A and 2A.

This programme is to a large extent demand-responsive and very sensitive to changes in economic assumptions. It is impossible to make precise adjustments to expenditure by means of policy changes. Options for reductions can, therefore, only be broad-brush and, if implemented, could easily be swamped by changes in economic circumstances outside the control of export credit policy.

Options for reductions

	1980-81	1981-82	1982-83	1983-84
I 4.5.3: Refinancing of fixed rate export credits: 70% (now 55%) foreign currency financing	- 4	- 16	- 31	- 34
II 4.5.3: Refinancing of fixed rate export credits: Refinancing of only over 7 yr (now over 5 yr) maturities	- 2	- 8	- 28	- 47

Spending authority: Central Government. No legislation required.

Option 1 is increasing the target for foreign currency financing. If favourable conditions continue, we may be able to achieve 70% with the current rules on access to sterling finance. But that cannot be assumed. A tightening of the rules might damage exports of heavy capital goods. Moreover, the higher the proportion of foreign currency financing, the greater the contingent liability to refinance foreign currency loans in exceptional circumstances.

Option 2 is increasing the share of sterling finance provided by the banks. This would not damage exporters' interests. But it would need to be negotiated with the banks. It is possible that they would only agree in return for exemption of this lending from monetary controls.

Neither of these options (which affect new business) would reduce real demand or the money supply. Nor would they produce significant savings in the early years. The only way to achieve significant savings in those years would be to increase the private sector's share of old business. It is quite possible the Trustee Savings Banks might take on more, but that cannot be assumed.

#### Additional bids

	1980-81	1981-82	1982-83	1983-84
4.5.3: Refinancing of fixed rate export credits	- 14	- 12	- 22	+ 28
4.5.5: Interest support costs	+ 171	+ 122	+ 65	- 26
4.5.4: Cost escalation cover	+ <u>17</u>	+ <u>17</u>	+ <u>15</u>	+ <u>4</u>
	<u>174</u>	<u>127</u>	<u>58</u>	<u>6</u>

The substantial increase in requirements for interest support is the result of increases in the forecast of market interest rates. It would be impossible to offset these increases by raising the fixed rate charged to overseas buyers, since this would only affect new business.

The increase in requirements for cost escalation cover is the result of increases in inflation forecasts. Most of it relates to commitments already incurred. It does not assume that any business is taken on after March 1980 when without a further extension the scheme would expire.



	£ million 1979 Survey Prices						
	77-78	78-79	79-80	80-81	81-82	82-83	83-84
1. Cmnd 7439 revalued	1039	1110	1478	1648	1688	1683	-
2. Survey baseline	1039	1110	1300	1652	1690	1685	1684
3. Budget cuts etc	-	-	204	-	-	-	-
4. Options for reductions	-	-	-	478	565	636	636
5. Line 4 as percentage of line 1	-	-	-	29	33	38	38
6. Additional bids	-	-	-	4	4	4	4

Options for Reductions

	80-81	81-82	82-83	83-84
1. Reduced requirements	61	68	107	137
2. Later year effects of budget cuts	159	-	-	-
3. Short-time working compensation scheme	207	445	445	445
4. Department of Employment, Health & Safety Commission, Advisory, Conciliation & Arbitration Service - illustrative reduction in staff	5	10	15	15
5. Illustrative reductions in Manpower Services Commission's programmes (including staff)	65	65	65	65

These options show the areas in which savings will have to be made to achieve the target reductions in the first table. However the figures for reductions in staff (option 4) and in the Manpower Services Commission's expenditure (option 5) are illustrative only. They cannot be finalised until the scope for reducing staff numbers has been examined in the CSD's review and consultations with the MSC on the scope for reducing their programmes have been completed.

- 1 - Reduced requirements are described in the separate report on the inherited programmes.
- 2 - The greater part (£89m) of the reductions to expenditure in 1980-81 reflects the budget cuts in special employment measures which have previously been rolled forward on an annual basis. The remaining £70m is a result of the budget cuts in MSC expenditure.
- 3 - Substantial savings would be made by not proceeding with the proposal for a new statutory scheme for short-time working compensation.
- 4 - A high proportion of HSC, ACAS and the Department's own expenditure is on staff, so savings will depend on reductions in staff numbers. A saving of about £10m over the whole period would result from abandoning the proposed dispersal to Merseyside of HSE staff, but some of the staff related costs would be within the reductions included in the table.
- 5 - The effect of the budget cuts on the MSC's expenditure 1980-81 are included in 2 above. Continuing savings will result from a review of the MSC's programmes, and details will be settled in consultation with the Commission.

In all cases the spending authority is a Central Government Department. No legislation would be required for any of the options. The effect on Civil Service manpower will be taken into account in the CSD's separate review.

The Treasury note that neither the baseline nor the totals as reduced to meet the lower programme targets include provision for special employment or short-time measures beyond March 1980. It would therefore be necessary to make further savings, particularly on the Manpower Services Commission, to accommodate such measures within the new programme targets.

Additional Bids	£ million			
	1980-81	1981-82	1982-83	1983-84
Programme 4.7.4 Special Employment Services	4	4	4	4

Payment of grants to trade unions towards the cost of secret ballots. This new provision will require legislation.

**SECRET**

SECRET

Trade, Industry, Energy and Employment  
£m at 1979 survey prices

	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
1) Cmd 7439 revalued	309	383	311.4	318.8	320.1	318.9	318.9
2) Survey baseline	309	406	310.9	315.2	322.5	321.1	312.2
3) Budget cuts			2.0	-	-	-	-
4) Options for reductions			-	23.9	40.0	55.8	55.8
5) Line 4 as % line 1			-	7.5	12.5	17.5	17.5
6) Additional bids			-	178.7	170.8	158.3	158.0

<u>Options for reductions</u>		1980-81	1981-82	1982-83	1983-84
Programme 4.	Ending IRG Scheme	2.9	1.0	2.0	3.0
"	4. Non-nuclear R&D and Energy conservation	5.1	5.0	10.6	11.5
"	4. Nuclear R&D	7.0	11.7	22.6	20.5
"	4. Assistance to the coal industry	5.3	24.7	22.8	14.0
	Changes already made	3.6	-2.4	-2.2	6.8
	<b>TOTAL</b>	<b>23.9</b>	<b>40.0</b>	<b>55.8</b>	<b>55.8</b>

1. Reductions on the scale asked for must clearly fall mainly on the nuclear programme and on our programme of support for the coal industry, which are the only two areas in which the Department of Energy has sizeable expenditure (totalling 75 per cent of baseline). Cuts of this order would have a major effect on the two principal sources of our energy supplies for the future at a time when pressure on energy supplies worldwide is becoming increasingly severe.

2. The consequences of the reductions for the individual elements of our programmes include:-

(i) The present level of expenditure on our nuclear programme has already led to a significant postponement of the date at which a Commercial Demonstration Fast Reactor would be possible. Cuts on the scale indicated would put development back still further and adversely affect our ability to pursue international co-operation in this field.

(ii) The cuts would also severely reduce work on fusion projects other than JET and would curtail work

**SECRET**

on selected safety issues and on the handling of radio-active substances.

(iii) Reductions in the Department's non-nuclear R & D and energy conservation programmes would necessitate curtailing work in important areas of R & D (eg renewable energy sources, international co-operation on coal utilisation) which would be most damaging in terms of energy policy and would be entirely contrary to the approach presently regarded as essential by the international community and to which we are expected to make a contribution.

(iv) The reductions in the cost of the OSIRG scheme would call for modifications to the recent Ministerial decision on the future of the scheme. They will also involve going back on assurances given to the industry that 9 months notice would be given of significant changes in the scheme.

3. Some continued Government support for the coal industry is inescapable in the PES period. Its level will be decided in the context of the Coal Review and the Nationalised Industries Financing and Investment Review (FIR). Reductions in grant unaccompanied by cost savings, capital cuts or other real changes in the industry would be matched by increases in the NCB's borrowings (programme 5) and would not reduce the PSBR.

<u>Additional Bids</u>		£m			
		1980-81	1981-82	1982-83	1983-84
Programme 4	Nuclear R & D	17.6	17.9	18.4	19.0
"	4 Assistance to NCB	138.0	133.0	139.0	139.0
"	4 Tripartite Gas Centrifuge	15.0	15.0	-	-
"	4 Oil Pipeline and Storage System	8.1	4.9	0.9	-

1. Decisions on the levels of assistance to the coal industry will have to be made in the context of the coal review and the FIR (the NCB has assumed in their figures grant levels averaging some £139m above baseline).

2. The UKAEA states that the additional bids on nuclear R & D are the minimum necessary to enable them to maintain existing policies, to keep open the option of beginning construction of the CDFR in 1984-85, and to maintain and develop other programmes including nuclear safety and fusion.

3. Additionally BNFL have asked for a further investment of £30m (£15m pa in 1980-81 and 1981-82) in the Company's equity in support of the Tripartite Gas Centrifuge project.

4. If, as is likely, all the surplus oil held in the pipeline and storage system is sold it will no longer be available to fund the projected annual deficits on the system and additional funds (of about £15m over the period) will be required.

5. Although no further firm bids have yet been identified, energy conservation policy is currently under review and there is a possibility that the outcome may give rise to claims on the Contingency Reserve.

NATIONALISED INDUSTRIES

	£ million at 1979 Survey Prices						
	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
Cmd 7439 revalued:							
total net borrowing (other than short term) (1)	260	711	800	600	500	850	-
short term borrowing and leasing (2)	511	421	250	150	200	-150	-
total net borrowing	771	1132	1050	750	700	700	-
Survey baseline	771	1132	1050	750	700	700	700
Budget cuts etc	-	-	- 300	-	-	-	-
Options for reductions	-	-	- )				
Line 4 (after eliminating additional bids),	-	-	- )				
percentage of line 1							
Additional bids	-	-	-	350	250	200	150

Options for reductions are put forward in the nationalised industries investment and financing review

As in Cmd 7439, subject to some adjustments in the outturn years.

The figures for short term borrowing and leasing underlying Cmd 7439 are shown here (and included in the subsequent total) in accordance with proposals put forward in the Investment and Financing Review.

The investment and financing of the nationalised industries is the subject of a separate review which will be put to Ministers in parallel with the Public Expenditure Survey report. This will consider both the investment programmes themselves in the context of all methods of financing, including internal resources and grants as well as borrowing. In general however grants are treated in Programmes 4, 6 and 8 of the survey report according to the department administering them. In the case of the National Coal Board the split between borrowing and grants is highly uncertain and the increases in their total external financing requirements (including grants) are included in line 6 above. The investment and financing review will also put forward options for reductions.

## DEPARTMENT OF TRANSPORT

£m at 1979 Survey prices

	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
1. Cmdd 7439 revalued	2462	2461	2624	2622	2621	2617	-
2. Survey baseline	2465	2456	2639	2622	2621	2617	2617
3. Budget cuts, etc	-	-	11	-	-	-	-
4. Options for reductions	-	-	-	231	339	460	460
5. Line 4 as percentage of line 1	-	-	-	8.8	12.9	17.5	17.5
6. Additional bids	-	-	-	-	-	-	-

Options for reductions

Motorways and trunk roads (6.1)							
New construction and improvement				25	51	56	56
Maintenance				-	-	-	-
local transport (6.2)							
Capital:							
Roads - new construction and improvement				41	51	68	68
Car parks				1	2	3	3
Public transport investment				14	12	23	23
Current:							
Roads - maintenance				3	15	36	36
Car Parks				2	5	13	13
Road safety, etc				-	-	-	-
local authority administration				8	16	38	38
Passenger transport subsidies:							
British Rail				8	10	12	12
Bus, underground and ferry services				35	47	60	60
Concessionary fares				17	34	40	40
Central government support to transport industries (6.3)							
British Rail							
Pensions				70	70	70	70
Other				6	16	24	24
National Freight Corporation							
Pensions				3	3	3	3
Others				-	-	-	-
Other							
New bus grant to nationalised industries and private operators				3	5	4	4
Freight facilities grant				3	3	3	3
Ports (6.4)				2	2	5	5
Other transport services (6.7)							
Transport research and other services				1	1	2	2
Administration				-	1	2	2
TOTAL				242	344	462	462
<u>Increases</u>							
Motorway maintenance				-5	-3	-2	-2
Assistance to Port of London Authority				-6	-2	-	-
NET TOTAL REDUCTIONS (line 4)				231	339	460	460

Commentary

1. The Department of Transport roads and transport programme now stands £130m below the level in 1973-74, despite the fact that public expenditure as a whole rose by 13% over the period. If cuts were imposed on the scale contemplated, it would reduce the programme to only 78% of the level at the end of the last Conservative administration. Within the programme, expenditure on roads (construction and maintenance) has fallen by 35% since 1973-74 while subsidies to bus and rail services and concessionary fares have risen by 78%. Major reductions in expenditure on subsidies to transport services can only be achieved over a fairly lengthy period; otherwise the fare increases involved would lead to such a loss of traffic that public transport, particularly in rural areas, would collapse. This means that, to achieve the required level of reductions in the total programme, a heavy burden has to fall on the already depleted road construction and improvement programme.

Motorways and trunk roads (Central Government)

2. The road construction programme would be reduced by a further 15% from 1981/82 onwards. On this basis schemes currently under construction could be continued and a limited number of new schemes of major industrial importance begun, but the majority of schemes in the forward programme would be delayed by from 3 to 6 years depending on priority. Maintenance expenditure on the existing network will have to be increased (with offsetting savings elsewhere) in view of the deteriorating condition of the earlier motorways under increased heavy traffic. Loss of jobs would be about 3,500 in the construction industry itself and up to 2,000 elsewhere. Taken with the possible rundown in local road construction, activity in the road construction industry might be reduced to about 40% of its level in 1973/74.

Local Transport (Local Authority)

3. The proposed options show one pattern of reductions to achieve the required savings, but the actual pattern achieved would depend on decisions by the authorities and would not necessarily reflect the proposed pattern. By 1982/83 local road construction would be reduced by nearly 25% with loss of over 1,000 jobs in local authorities and nearly 3,000 elsewhere. These figures could be much greater, if, as is likely, authorities were to find more savings from here instead of from subsidies. Important links between factories and the trunk road network would in any event be delayed. Road maintenance would be postponed on a significant scale with loss of 3,000 jobs, and with the prospect of higher costs in later years.

4. On public transport investment, expenditure on new buses would be reduced by £10m by 1982/83 with repercussions for bus manufacturers, and other expenditure would fall by £13m in that year. Revenue support for rail, bus and other local transport would be reduced by £72m in 1982/83 leading to real fare increases of about 13% or mileage cuts of about 9%. These effects would be additional to the real fare increases of about 3% per annum required anyway to cover increased costs. The RPI effect by 1982/83 would be about 0.3%, and local fares would be more than doubled in money terms. Although there is some room for savings on concessionary fares as a result of the decision not to impose a national half-fare scheme, a slight



reduction in the generosity of existing schemes would be necessary to achieve the savings indicated, since the number of people qualifying is growing steadily. Expenditure on transport administration would fall steadily with the loss of over 4,000 jobs.

5. The effect of the reductions on the local authority sector is particularly severe in 1982/83, and authorities might not be prepared to take action to give effect to these reductions without specific direction from Ministers.

#### British Rail and NFC pensions

6. The savings assume legislation, probably contentious, to repeal the present arrangements for government funding of BR and NFC pension schemes, and to substitute a form of notional funding for those liabilities which are not likely to arise for many years. The legislation is not yet planned in detail, but could be brought forward within a few months. The savings in public expenditure and PSBR terms would not free an equivalent amount of real resources.

#### British Rail - other

7. Given the better trading opportunities offered by the Budget and the limited reductions on passenger support grant proposed, major cuts in the network or in services should be avoided. Fare increases of about 5% pa in real terms on commuter services and 3% on inter-city would however be necessary. The RPI effect would be about 0.1% by 1982/83. The price of an annual season ticket from Surbiton, for example, would rise from £246 to about £380. There would be dangers that mounting public opposition would make the target difficult to reach, particularly in the later years.

#### New Bus Grants

8. The savings would be achieved by phasing out the grant more quickly than planned, either generally or in specified areas, starting in August 1980. This could result in real fare increases of up to 10% (RPI effect about 0.1%) or 7% mileage cuts. The accelerated withdrawal of the grant would be fiercely resisted by operators and local authorities.

#### Port investment

9. To operate the rationing system necessary to effect a reduction, the level at which the Minister's approval is required for investment projects would have to be drastically reduced - by affirmative resolution. The rationing would inevitably be on a very arbitrary basis, would be resented by the ports and would increase civil service costs, in addition to the damaging economic effects of the reductions themselves.

#### Freight facilities grants

10. At present the provision is sufficient to cover all the eligible schemes which come forward. The reduction of £3m a year would mean the rejection of worthwhile schemes, and the opportunity to promote greater use of rail for freight would be lost.

#### Transport research

11. Some trimming of government expenditure on less essential

activities would be made.

Administration

12. It is assumed the savings will be identified in the present CSD exercise. In the event that these do not prove to be possible corresponding cuts will be required in other services.

Increases: Assistance to the Port of London Authority

13. Pending decisions on the future of the PLA which could involve additional expenditure, provision is made for continuing the existing policy of assistance towards severance costs of staff. The figures shown do not include the severance costs of dockworkers.

## TAX AND RATE COLLECTION

## DRIVER AND VEHICLE LICENSING

£ million at 1979 Survey prices

	1977 -78	1978 -79	1979 -80	1980 -81	1981 -82	1982 -83	1983 -84
1 Cmdnd 7439 revalued	51	46	48	49	49	50	-
2 Survey baseline	51	46	47	50	50	53	53
3 Budget cuts, etc	-	-	-	-	-	-	-
4 Options for reductions	-	-	-	4	6	9	9
5 Line 4 as percentage of line 1	-	-	-	7½	12½	17½	-
6 Additional bids							
(a) Post Office agency services	-	-	-	3	3	1	-
(b) Computers	-	-	-	2	1	4	2

Options for reductions

Savings of the required size would entail either major changes in the operation of Vehicle Excise Duty (VED) or its abolition. Small savings would be feasible by reducing enforcement but the resulting loss of revenue would be likely to more than offset these. A review of the whole operation of VED is in hand and until this is completed it is not possible to say whether savings of this order could be achieved.

Additional bids

- (a) The baseline does not cater fully for revised forecast liabilities for the demand-led Post Office agency services.
- (b) The Central Computer Agency have agreed that the original transfer of funds following the decision to move from allied services was inadequate as it did not cover the completion of planned programmes including replacement of mainframe and data-capture equipment.

## DEPARTMENT OF THE ENVIRONMENT : HOUSING

£m at 1979 Survey prices

	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84
1. Cmdnd 7439 revalued	4550	4432	4944	5177	5294	5387	5387
2. Survey baseline:							
1a Cmdnd 7439 revised revaluation	4617	4504	5022	5266	5385	5483	5483
2a Survey baseline revised revaluation							
3. Budget cuts etc			430				
4. Options for reductions				1444	1869	2315	2429
5. Options as % of baseline (2a)				27.4	34.7	42.2	44.3
6. Additional bids (implied by DOE text)				300	296	260	374

## OPTIONS FOR REDUCTIONS

1. "Scale" Cuts (i.e. 7½, 12½, 17½, 17½ per cent)

2. The following options for achieving scale cuts take account of Manifesto commitments and the policies adopted in the Budget cuts, but are illustrative at this stage: adjustments are bound to be necessary in the light of policy developments and demand.

Additional sales of council houses (assuming a rise to a peak over two years of 100,000 sales p.a. at a price (after 40% discount) of £6600 with 33% private financing after the Housing Bill has been passed)

-40                      -100                      -100                      -75

Municipalisation reduced to the post Budget level of 1979/80

-130                      -130                      -130                      -130

Similar but tapering reductions in land acquisition, obliging local authorities to draw on land banks

-78                      -78                      -60                      -40

Local authority new housebuilding held to current post war low of 50,000 approvals p.a.

-445                      -503                      -532                      -547

Subsidy savings from new housebuilding net of other estimating changes

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2. Some additional provision is however required

- to sustain the local authority improvement programme, essential to rescue substandard estates from irreversible decline (though some offsetting savings may be available from private sector improvement grants)
- to redeem the Manifesto commitment to worthwhile reforms of the first time buyers scheme
- to ease the supply of funds for downmarket lending at acceptable rates by some increase in the derisory provision in Cmnd 7439 local authority mortgage lending
- to provide for increased rent allowances and supplementary benefit as a consequence of changes now agreed in the fair rent system.

3. In 1980/81 and 1981/82 scale cuts could be achieved by an appropriate mix - to be determined by DOE Ministers - of the reductions and offsetting additional requirements noted above: reductions in subsidy could however be necessary in 1981/82 and would certainly be required in later years. These would require significant rent increases over and above those necessary to keep abreast of increases in earnings (as already assumed in Cmnd 7439). If for example rents were to rise by 10% more than earnings from 1981/82 onwards, PESC savings (net of additional requirements for rent rebates ) would arise

	1980/81	1981/82	1982/83	1983/84
	-	-100	-200	-330

£M

These savings could complete the scale cuts but would, on present economic assumptions, imply a cash increase in average unreputed rent from the present level of £6.50 to some £12.60 by 1983/84.

4. All told the scale cuts would make for an austere housing programme - one on which the needs of households on substandard accommodation, and the disadvantaged generally for whom only the public sector can often cater, would have to be carefully protected.

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B "Opposition" Cuts (PESC(79)18 Appendix C)

5. The Opposition cuts amount to more than double the scale cuts throughout the period. / Short of catastrophic reductions in the capital programme they would be attainable (as indeed was evidently envisaged) only by massive rent increases. Rents would certainly need to reach well over 3 and possibly 4 times their present level by 1983/84 (ie over £25 a week gross in cash terms) with 60% of tenants by then receiving rebates. Specific powers would undoubtedly be necessary to avoid major increases in rate fund contributions: and such patent discrimination against tenants would undoubtedly call in question the existing system of mortgage interest tax relief for homeowners.

## TREASURY OBSERVATIONS

6. The Treasury note that:

- (a) The net amounts agreed by Ministers as the DOE's housing contribution to the total of options for reductions were:

£M			
1980-81	1981-82	1982-83	1983-84
-1144	-1573	-2055	-2055

- (b) Implementation in full of the savings identified by the Department in para 1 above, would save

-694	-969	-1220	-1334
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- (c) No savings are offered from increases in rents faster than earnings in 1980-81. If Ministers are prepared to commit themselves to implementation of the proposed new subsidy system in 1980-81 and a consequent increase of rents by £1 a week above earnings, (as agreed in Opposition), this would save about £200 million in 1980-81, net of increases in rebates for low income tenants. Gross rents at some £8.50 a week or about 7½% of average earnings would still be more than £1 a week in real terms below their 1973-74 level. Raising rents by £1 a week above earnings throughout the period might save (over and above the savings identified in para 3 above)

-200	-300	-400	-470
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/(d)

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- (d) Para 1 implies that land acquisition will be permitted to rise above the 1978-79 level despite the greatly reduced building programme and existing local authority land holdings which the Department estimates as sufficient for 320,000 dwellings. If provision were reduced by £120 million a year, to the 1978-79 level, there would be further savings of

1980-81	1981-82	1982-83	1983-84
-42	-42	-60	-80

- (e) No quantified reductions for realism have been identified in e.g. Option Mortgage Subsidy (OMS), as a result of reductions in the basic rate of tax, and private sector improvement grants and the First Time Purchasers scheme, as a result of slow take up. Such adjustments might save:

-130	-150	-150	-150
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7. The Treasury further note that para 2 above implies substantial additional expenditure on policies to which the Government has no immediate Manifesto commitment. If this expenditure were postponed or forgone, increases of up to the following would be avoided:

300	296	260	374
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and the measures outlined in para 6 b-e above would provide the following savings

- 1066	-1461	-1830	-2034
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leaving to be found to meet the target in paragraph 6a:

78	112	225	21
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8. In the light of these considerations, the Treasury consider that the level of expenditure reductions agreed in Opposition is achievable in 1980-81. The extra £78 million of savings required might be sought by adjustments in the housing association and new town programmes - totalling £675 million - and/or by further reductions in the OMS rate. To the extent that additional provision were made, for example, for increases rent allowances, compensating offsets might also be sought in these areas. In future years also it should be possible in principle to make the reductions agreed in Opposition, though the measures would require further examination.

Office and General Accommodation Services (Programme 14.1)

	£m 1979 Survey Prices						
	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84
Cond 7439 revalued	370	357	378	386	394	394	394
Survey baseline	370	357	376	386	393	392	392
Budget cuts etc			33				
Option Reductions				44	65	86	86
Line 4 as percentage of line 1				11½%	16½%	22%	22%
Additional bids				-	-	-	-

Expenditure authority is a central government department. The expenditure to meet the office accommodation needs in the UK of government departments and the furnishing, maintenance and running costs of specialised civil accommodation such as courts, together with the cost of administering these estates and their associated building programmes. No legislation would be required to achieve the reductions discussed below.

Options for reductions

Options to scale level would be allocated as follows:

	1980/81	1981/82	1982/83	1983/84
Major Works and Furniture	- 7	- 9	-11	-11
Estates	-	- 2	- 6	-10
Maintenance, Fuel, Transport etc	- 2	- 4	- 6	- 8
<b>RUNNING COSTS</b>	<b>- 9</b>	<b>-15</b>	<b>-23</b>	<b>-29</b>
<b>MAJOR NEW WORKS AND ACQUISITIONS (LESS DISPOSALS)</b>	<b>-19</b>	<b>-31</b>	<b>-43</b>	<b>-37</b>
<b>DEPARTMENTAL ADMINISTRATION</b>	<b>- 1</b>	<b>- 3</b>	<b>- 3</b>	<b>- 3</b>
	<b>-29(7½%)</b>	<b>-49(12½%)</b>	<b>-69(17½%)</b>	<b>-69(17½%)</b>

Running costs - apart from some trimming these cuts would be achievable if:-

- (i) Government Departments reduced their staffs housed in PSA's office estate by about 40,000 (ie 10%) by April 1982.
  - (ii) Departments regrouped promptly their remaining staffs to produce disposable units of leased accommodation.
  - (iii) PSA were able to unload this leased accommodation quickly.
- Shortfall would have to be added to cuts on major new works.



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## 2. Major New Works and Acquisitions - these cuts would be achievable if:-

- (a) the Government cut substantially the following uncommitted expenditure on dispersal schemes and does not disperse 21,000 civil service posts to Regional destinations:-

1980/81	1981/82	1982/83	1983/84
26	33	33	30

- (b) we found the rest by -

(i) cutting expenditure on regional and local offices not required for works in progress, to replace existing accommodation, which cannot be retained, or to meet urgent operational needs of Departments (ie cutting schemes needed to overcome overcrowding or sub-standard conditions)

4	10	8
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(ii) or cutting expenditure on the programme for building or buying instead of leasing which will mean providing Government offices in a less economic and businesslike way

7	9	12	12
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## 3. Departmental Administration - these cuts could be achieved if the office new works programme were cut as indicated, and there were no offsetting increase in the courts and prisons programmes.

Further cuts to 'Opposition' level would be allocated as follows:-

MAJOR NEW WORKS AND ACQUISITIONS (LESS DISPOSALS)	-14	-15	-15	-15
DEPARTMENTAL ADMINISTRATION	- 1	- 1	- 2	- 2
OVERALL TOTAL (including Scale Cuts)	44(11½%)	65(16½%)	86(22%)	86(22%)

These further cuts could be achieved only if we cut out all the expenditure at (2) above, and also deferred a start on the Parliament Square Conference Centre, which is required by 1987 at the latest to meet the UK's international conference commitments (saving £1m both in 1982/83 and 1983/84) and cut back the programme for improving sub-standard conditions in existing offices including dealing with the problems of traffic noise at DHSS HQ Elephant and Castle (saving £2m in 1982/83 and £1m in 1983/84).

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The construction content of these reductions is as follows:-

1980/81	1981/82	1982/83	1983/84
£33m	£37m	£64m	£60m

The Treasury considers it might be possible to make larger reductions in expenditure on items other than major new works. However, to achieve the level of cuts required by Ministers, it would still be necessary to make substantial reductions in planned expenditure on major new works. A significant part of these reductions would have to fall on the part of that programme allocated to civil service dispersal accommodation. The feasibility of these cuts therefore depends to a considerable extent on the outcome of the current review of the dispersal programme.

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Department of the Environment - Other

£ million, 1979 Survey Prices

	<u>1977-8</u>	<u>1978-9</u>	<u>1979-80</u>	<u>1980-1</u>	<u>1981-2</u>	<u>1982-3</u>	<u>1983-4</u>
1. Grnd 7439 revalued:	2572	2628	2659	2726	2737	2756	2756
2. Survey baseline:							
3. Budget cuts, etc:	-	-	130	-	-	-	-
4. Options for reductions:				250	463	538	537
5. Line 4 as % of Line 1:	-	-	-	9.2%	16.9%	19.5%	19.5%
6. Additional bids:	-	-	-	6	5	4	3

Introduction:

The bulk of expenditure in this block is spent by local authorities. DOE have no control over much of this spending and can only persuade authorities to follow their wishes. To control spending would require legislation.

The following option reductions are briefly discussed in the texts that follow :-

	<u>1980-81</u>	<u>1981-82</u>	<u>1982-83</u>	<u>1983-84</u>
Regional Water Authorities	38	42	42	42
British Waterways Board	2	3	4	4
Local Environmental Services				
- Current	107	283	320	319
- Capital	20	33	55	55
New Towns, Ind. & Comm.	4	6	8	8
Departmental:-				
a) Administration	3	6	8	8
b) Research	2	4	5	5
c) Central Miscellaneous	2	4	5	5
Community Land	57	56	54	54
Urban Programme	11	19	27	27
Development Commission	1	2	3	3
Parliament, etc	1	1	1	1
Miscellaneous items from other programmes	2	4	6	6
Total reductions DOE - other	<u>250</u>	<u>463</u>	<u>538</u>	<u>537</u>

These options in total achieve more than the percentage reductions required to be displayed.

Bids are recorded for research.

Water Industry Investment (Regional Water Authorities)

A 8% cut in each year (as shown above) would be feasible, though it would slow down progress in improving river water quality and work on the replacement of derelict assets. (Larger cuts building up to a 17 1/2% reduction in 1982-83 would depress expenditure to the level of the early 1960s and hazard the ability of the industry to meet its statutory obligations, to maintain existing standards of service, and to satisfy new domestic and industrial development).

If the water industry were treated by analogy with nationalised industries its borrowing requirement rather than its investment would score in PES. Comparable cuts might then in principle be attained by harder pricing policies but this would need close examination. The Treasury point out that action of this sort on prices would be consistent with a requirement on the industry to achieve a specified financial target for the return on net assets employed.

British Waterways Board

Substantial cuts in the amount available to the Board would inevitably fall mainly on their maintenance effort with consequent increased deterioration, danger to the public and operational difficulties.

Local Environmental Services: Current

/but DOE and the Welsh Office recognise that there are possible savings on the following items/all of them present great difficulty and on none of them have policy decisions yet been taken.

i. <u>Refuse Collection</u> : major drive for savings supported by value for money study.	£30m
ii. <u>Recreation and National Parks</u> : increased charges, reduced maintenance and shorter opening hours.	£15m
iii. <u>Building Controls</u> : charge fully to recover costs/abolish - primary/secondary legislation required.	£45m
iv. <u>Planning</u> : reduce scope of development control (£10m); charge for planning applications (legislation required- £10m on basis of one-third recovery of costs); remove planning functions from counties (£20m).	£40m
v. <u>Trading Services, Allotments, Cemeteries and Crematoria</u> : increase charges and abandon some uneconomic facilities.	£10m
vi. <u>Other Services</u> : environmental protection and uncharged central administration (eg finance and personnel departments).	£40m
vii. <u>Cut Smoke Control</u> .	£ 2m
TOTAL	£182m

£174m of this is the corresponding English figure. Even if all these measures were implemented this year, DOE considers the maximum possible saving would only build up gradually as follows:-

<u>1980-81</u>	<u>1981-81</u>	<u>1982-82</u>	<u>1983-84</u>
72	128	160	174

The only further option would be to introduce charging for the domestic refuse service, which would be administratively difficult and politically fearsome. This could save £230m in a full year, but probably not more than £100m in 1980-81.

A small overspend is expected on this programme for 1979-80, and on unchanged policies might persist in future years; allowing for this and the revenue consequences of capital expenditure and other changes in future years the net reductions from the present time achievable by all the savings listed in the paragraphs above would be:-

<u>1980-81</u>	<u>1981-82</u>	<u>1982-83</u>	<u>1983-84</u>
107	283	320	319

Depending on which savings are chosen, they could only be achieved if:-

- i. Where necessary, legislation (primary or secondary) is introduced.
- ii. A tight financial squeeze through RSG is maintained on local authorities.
- iii. Ministers are prepared to support local authority action.

#### Local Environmental Services: Capital

Most of this programme is in the locally determined sector. Expenditure on this uncontrolled programme is expected to exceed the PES provision by about 50% in 1979-80 and an additional bid of £100m a year would be needed on unchanged policies in order to cover similar unpreventable expenditure from 1980-81 onwards. In order to avoid this and to achieve the required saving the only option that has been identified would be to change the statutory framework so as to make all local authority capital expenditure, however financed, subject to control. If in this way LES capital expenditure were reduced by the required percentage below the present PES line it would stop all but continuing commitments and the most essential projects - services particularly affected would be recreation, office building, assistance to industry and town and country planning, eg central area redevelopment.

A small part of this programme is key sector expenditure on coast protection and derelict land. The only option for achieving savings with certainty would be cutting approvals for derelict land clearance.

#### New Town Industrial and Commercial

Reductions at the percentage levels required would require slowing down in the pace of investment with consequent effects on employment.

#### Royal Palaces and Royal Parks; Ancient Monuments and Historic Buildings

No reductions are proposed for these programmes. Offsetting reductions will be found in other programmes within this block.

Environmental Research

Environmental Research falls into two parts, radioactive waste management research (RWMR) and the rest. The Department considers it essential that RWMR should be increased in order to provide a sound basis for unavoidable decisions in the expanding nuclear energy programme and a bid is accordingly made as follows:-

<u>1980-81</u>	<u>1981-82</u>	<u>1982-83</u>	<u>1983-84</u>
6	5	4	3

The Treasury point out however that the need for this research arises from the activities of the electricity generating industry and on the "polluter pays" principle that industry should be required to meet the cost.

Central Miscellaneous

Cuts of the magnitude proposed would for the Sports Council entail substantial reduction in Government support for sporting activities and would be extremely difficult to absorb for the Nature Conservancy Council, Countryside Commission and other miscellaneous bodies without seriously affecting their future viability.

Community Land (Capital and Current)

The Community Land Scheme is being terminated.

Urban Programme (Capital and Current)

These savings will require cuts in new approvals, which would produce a substantial cut in the resources available for new projects. The Treasury note that the cuts envisaged by Ministers when in Opposition included a much more substantial reduction in this programme.

Development Commission

Reductions at the levels proposed would involve a substantial cutback in the Development Commission factory building programme and the credit service to small industries in rural areas.

Parliament and Privy Council

These reductions would eliminate the major new works programme for the whole of the survey period including the provision of additional committee rooms essential for the work of the new Select Committees, heating modernisation, and accommodation for broadcasters.

## £m 1979 Survey prices

HOME OFFICE	1977	1978	1979	1980	1981	1982	1983
	-78	-79	-80	-81	-82	-83	-84
1. Cmdnd 7439 revalued	1958	2049	2094	2126	2171	2211	-
2. Survey baseline	1959	2049	2090	2127	2173	2211	2211
3. Budget cuts	-	-	5	-	-	-	-
4. Options for reduction	-	-	-	28	47	67	65
5. As a percentage of line 1				1.3	2.2	3.0	-
6. Additional bids	-	-	-	49	77	105	153

Options for Reductions

	Spending Authority	1980	1981	1982	1983
		-81	-82	-83	-84
Programme 9					
Fire Service	CG/LA	24	40	57	57
Community Services	CG/LA	2	3	6	6
Prison Building (PSA)	CG	1	2	2	-
Programme 13					
Registration of electors	LA	1	2	2	2
		28	47	67	65

As agreed by Ministers on 24 May the provision for law and order has been exempted from the need to identify options for reductions. For the purpose of this exercise the exempt services are taken to include police, prisons, courts, probation and after-care (which constitute about 80 per cent of the expenditure on the programme and are closely inter-related: increased effort by the police affects the other services), immigration, civil defence and central administration. Options for reductions have therefore only been applied to expenditure on the fire service, community services and registration of electors. An additional option reduction on prison building has been included as the Home Office share of option cuts applied to PSA identified by the Government when in opposition. This however must be balanced by an additional bid to enable work already commenced to continue. The cuts on the fire service (where the shorter working week is being introduced) could only be achieved by substantial manpower reductions, faster than the natural rate of wastage, and by an unacceptable cut in the level of fire cover. Local authorities would face industrial relations difficulties.

Increased risks and losses from fire damage could be expected. The Treasury and the Home Office consider that such cuts in the fire service are not realistic. A greater than proportionate share of the cuts (£8 million in 1980-81 rising to £16 million in 1982-83) in community services could be achieved but only as a result of a decision not to proceed with the extension of expenditure consequent on grants for ethnic minorities; abolition of the Equal Opportunities Commission (legislation would be required) and other savings resulting from eg pruning the cost of the Commission for Racial Equality or from elsewhere in the community services field. The Home Office do not consider these options feasible, although there could be some pruning of the cost of these bodies. On registration of electors, legislation to amend the requirement to produce an annual register of electors would be required to enable the option for programme 13 to be put into effect. The option reduction subsume savings of about £2 million a year that would follow from the reductions in manpower being sought in 1979-80. Other savings from increases and fees and fines in magistrates courts and the sale of prison officers' quarters would be dependent on the acceptance of additional bids.



£m 1979 Survey prices

Additional bids

Spending Authority	1980-81	1981-82	1982-83	1983-84
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## PROGRAMME 9

Administration of Justice

Crown prosecutions, legal aid etc	GG	-	-	3	9
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Magistrates Courts

- Running expenses etc	LA	2	2	4	6
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- Building programme	LA	5	5	11	18
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Treatment of offenders

Prisons - Staff	CG	7	7	9	11
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- Rent allowances	CG	-	1	1	1
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- Prison industries etc	CG	5	4	6	4
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- Building programme (PSA)	CG	2	2	2	6
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Probation - Manpower etc	LA	3	3	5	6
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- Building programme	LA	1	1	1	2
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Police

- Police manpower	LA	6	18	28	37
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- Pensions	LA	-	-	-	8
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- Civilian support, goods and services, etc	LA	5	10	12	14
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- Central support services	CG	2	2	6	4
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- Building programme	LA	8	17	13	16
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Other protective services

Fire pensions	LA	-	-	-	3
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Control of immigration etc	CG	1	2	2	3
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Central and misc

Computers etc	CG	1	2	1	4
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PROGRAMME 13 - Registration of electors	LA	1	1	1	1
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		49	77	105	153
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Explanation of additional bidsAdministration of Justice

1. To provide for expected growth in expenditure on Crown prosecutions (about 6 per cent a year) and legal aid (about  $7\frac{1}{4}$  per cent a year); to meet the costs of the increasing workload (about 3 per cent a year) in magistrates' courts, and partly to restore the courts' capital programme to the volume envisaged in the early 1970s. (The running costs of magistrates' courts are more than covered by receipts from fines and fees).

Treatment of offenders (prisons)

2. To maintain existing standards of service, provide staff growth equivalent to 500-600 additional staff a year (mainly prison officers), some improvement in education, prison industry and security, and to continue the revised capital programme with starts on two new prisons in 1983-84. The additional bids do not take account of any recommendations which may emerge from the 'May' Inquiry.

Treatment of offenders (probation)

3. To restore the growth in probation officer numbers (at a higher unit cost) from the present number of about 4800 officers to 5220 by 31 March 1984, with some development of non-custodial measures.

Police

4. To maintain high priority for police manpower by providing for the number of police officers to rise from about 111,200 to a forecast 120,000 (without prejudice to the right of individual forces to recruit up to authorised establishments), and civilians (including cadets and traffic wardens) from about 43,100 to 47,000 over the period; with some increase in supporting staff and services in each year. To restore the police capital programme and meet the needs for operational computer equipment. To cover the cost of police pensions in 1983-84.

Other protective services

5. To provide for firemen's pensions in 1983-84. To enable the immigration control system to cope with increased traffic, and to replace the inadequate detention centre at Harmondsworth. The extra bid does not allow for policy changes such as an immigrants' register.

**SECRET**

HOME OFFICE

Central and miscellaneous services

6. To meet dispersal expenses, and the cost of enhanced ADP capability in 1983-84.

Programme 13. Registration of electors

To maintain the level of expenditure given the increasing electorate and the statutory obligations on local registration officers.

Treasury/CSD Observations

7. The Treasury/CSD consider that until the May Inquiry has reported there should be no substantial additional provision for the prison service, though they recognise that if the Inquiry's recommendations cannot be implemented in time decisions will have to be taken about provision in 1980-81 with consequentials for later years. Total provision will have to be reviewed in the light of the Inquiry's findings. They also question whether, in the light of constraints on local authority expenditure and notwithstanding the announced priority for law and order, individual police authorities will be prepared to increase provision for civilian support cadets and equipment to the extent envisaged. This also affects the bid for capital (where, in particular, the bid includes £6 million for a site to replace Cannon Row even though PSA have no provision for redevelopment of the Palace Chambers site) and for some central support services. They also consider that the planned growth in probation officers may reinforce criticisms that the service is already under-employed. Proposals for increased expenditure on civil service wages and salaries (ie prison staff central support services for the police and immigration staff) will need to be viewed against the options for cuts in the cost of the civil service which Ministers will be considering separately.

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CHANCELLOR'S DEPARTMENT

	£m 1979 Survey Prices						
	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
Item 7439 revalued	117	124	143	154	162	169	
Survey baseline	117	124	143	154	162	169	169
Budget Cuts	-	-	2	-	-	-	-
Options for reductions (offsetting savings)	-	-	-	- 5	- 3	- 1	-
Line 4 as percentage of Line 1	-	-	-	3.2	1.9	0.6	-
Additional bids	-	-	-	2	2	3	8

Options for reductions:

All elements of the Lord Chancellor's programme carry a law and order classification and are therefore exempt from the requirements to provide options for cuts. However the offsetting savings in 1980-81 exceed by £2m but fall short by £2m and £5m in 1981-82 and 1982-83 respectively of the PSA options for reductions apportioned to the Lord Chancellor's building programme. Treasury officials believe that because of slippage in the Court building programme it could be reduced by a further £2 million per year in 1982-83 and 1983-84.

	1980-81	1981-82	1982-83	1983-84
Additional bids				
Current expenditure: Verbatim court reporting (and other current expenditure, 1983-84 only)	1.3	1.3	1.3	1.3
Consolidated Fund : additional judges	0.7	1.0	1.2	1.6
Legal Aid :				3.6
	2.0	2.3	2.5	7.5
Offsetting savings: current expenditure	0.2	0.3	0.3	0.4
Court building	5.0	3.0	-	-
Legal Aid	0.2	-	1.1	-
	- 3.4	- 1.0	+ 1.1	+ 7.1

Additional provision is required to meet the costs of introducing urgently needed revised arrangements for the verbatim recording of proceedings in the higher criminal courts which has been the subject of an interdepartmental study; and to permit some increased recruitment of judges, partly to deal with a rising workload and heavy backlog of cases, and partly to replace some part-time and temporary judges. The larger net additional bid in 1983-84 reflects the continuation in that year of the gradual growth throughout the Survey period in criminal business and the increasing expenditure on the legal aid fund, against baseline figures restricted to the level of 1982-83.

The additional bid for judges salaries would provide for an increase of nearly 50% in the number of circuit judges by 1983-84. The CSD doubt whether this target can be achieved and suggest that the bid be reduced to £0.6, £0.7, £0.9 from 1980-81 to 1983-84. The position is being kept under constant review by the two departments.

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# SECRET

## Department of Education and Science

£m 1979 Survey Prices

	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
1. Cmnd 7439 revalued	8048	8233	8355	8395	8452	8449	-
2. Survey baseline	8048	8232	8355	8403	8461	8458	8458
3. Budget cuts etc	-	-	97	-	-	-	-
4. Options for reductions	-	-	-	630	1060	1510	1530
5. Line 4 as % of line 1				7.5	12.5	17.9	18.1
6. Additional bid					40	55	55

### Notes

1. In the table current expenditure (including that on mandatory awards) is for England and Wales. Capital expenditure is England only. Expenditure on the universities and science is for Great Britain.

2. The main change between lines 1 and 2 arises from a planned increase in expenditure on mandatory awards to compensate parents for the elimination of child tax allowance.

3. The Budget cut amounted to £55m for expenditure controlled by central Government. The effect of the cash limit squeeze on the Department's vote expenditure is estimated to increase this to £97m. The effect of the planned cut in RSG for local authorities on education expenditure cannot be accurately determined at this stage but, taken with the effect of increased prices, could well be at least as much again.

### Options for Reductions:

EDUCATION	1980-81	1981-82	1982-83	1983-84
<u>Schools</u>	Reductions			
1. Halve planned expenditure on under 5s*	70	100	110	115
2. Halve expenditure on school transport from September 1980*	40	60	60	60
3. Halve expenditure on school meals and milk by 1982-83*	70	125	200	200
4. Reduce school standards by employing fewer teachers, less in-service teacher training, cutting non-teaching expenditure; and close more spare places (including whole schools)	100	200	400	400
5. Eliminate all school building except basic need	30	50	50	50
<u>Schools and further education</u>				
6. Introduce tuition fees (means-tested) for 16-18 year olds: £300 a year full-time, pro rata part time, from September 1980*	90	100	130	130

# SECRET

	Reductions			
	£ million 1979 Survey prices			
	1980-81	1981-82	1982-83	1983-84
<u>Higher and further education</u>				
7. Cut back and freeze expenditure on higher education at 1977-78 levels	50	100	150	150
8. Cut back and freeze expenditure on non-advanced further education at 1977-78 levels	20	50	80	85
9. Reduce building programmes by half	10	25	35	35
10. Charge full cost fees to all overseas students in further and higher education from September 1980	65	100	100	100
11. Abandon 16-18's awards scheme: and increase parental contributions to student grants	30	50	40	40
12. Cut expenditure on the Youth Service by $7\frac{1}{2}$ - $12\frac{1}{2}$ - $17\frac{1}{2}$ - $17\frac{1}{2}$ per cent below the present level	5	10	15	15
13. Cut planned expenditure on adult education by half	15	20	20	20
<u>Inspection and Administration</u>				
14. Cut expenditure by $7\frac{1}{2}$ - $12\frac{1}{2}$ - $17\frac{1}{2}$ - $17\frac{1}{2}$ per cent	15	35	50	50
<u>Baseline savings</u>				
15. See paragraph 22 of Chapter 10 of the 1979 PESC Report Part I	-	-	20	30
SCIENCE				
16. Reduce grants to Research Councils by $7\frac{1}{2}$ - $12\frac{1}{2}$ - $17\frac{1}{2}$ - $17\frac{1}{2}$ per cent	20	35	50	50
TOTAL	630	1060	1510	1530

## Notes

\*Legislation required for charging

/ Legislation required for altering service.

- Most of the options for education assume the co-operation of local authorities in their implementation. Under present legislation, concerned with education and local government finance, this cannot be guaranteed. The symbols\* and / identify those options where other specific legislation would be needed, in the current session of Parliament respectively for charging and for altering the service.
- The costings have been calculated as far as possible on the assumption that the complete range of options would be implemented. The figures are subject to variation for individual options implemented on their own. Later year effect of budget cuts is included.

# SECRET

## Commentary on options

### Schools

1. This would exclude some 250,000 young children from (mainly part-time) schooling. It would cause hardship for one-parent families and families with mothers at work. Physical accommodation in nursery and primary schools would lie idle. Many of the 10,000 fewer teachers would be made redundant. Alternatively charging could be introduced to alleviate these effects.
2. This would imply charges or a severe curtailment of the scope of the service. It would cause hardship for children and families particularly in rural areas where parents have pressed for a reduction in the statutory walking distances. There might well be a reduction in school attendance.
3. This would limit the provision of the conventional school meal to certain areas or categories of pupils; or it would mean the introduction in all schools of a limited choice snack system. Many of the 300,000 staff (mainly part-time) would become redundant, and the use of midday supervisors would have to be reviewed.
4. On average, over 2000 surplus school places per constituency (including perhaps 3 or 4 complete schools) would be closed. In addition:-
  - a. As pupil numbers fall there will be diseconomies of scale and an increase in unit costs is needed to maintain standards. As teacher numbers fall the average teacher will become more senior and his salary will rise. The option with over 50,000 fewer teachers than planned in 1983-84 (about 85000 fewer than at present) would lead to redundancies. It would mean larger classes, a reduction in the quality of the curriculum in primary and secondary schools, increases in the shortage of specialist teachers of mathematics, science and technology, and a further increase in mixed-age classes in primary schools where standards are on average lower.
  - b. The option would involve abandoning plans to expand in-service training, to improve the quality of teaching, particularly in language and mathematics skills, and to provide induction support for new teachers.

SECRET

SECRET

c. There would be a further deterioration of buildings through inadequate repairs and maintenance, and redundancies of non-teaching staff. Provision for books and equipment, already at an unsatisfactory level, would be cut back still further.

5. A recent assessment of Her Majesty's Inspectorate has highlighted the present poor condition and unsuitability of many school buildings. Eliminating improvements would preserve this situation.

#### Schools and further education

6. This would be seen as "turning the clock back" to 1945 when tuition fees in maintained secondary schools were abolished. They are not charged for 16-18 year olds in further education to maintain parity of treatment with schools. There would be a sharp contraction in the numbers remaining in full-time education after 16 and a restriction of educational opportunities even with a meanstest. The Treasury is very doubtful about the feasibility of this option and would regard further general cuts in standards as somewhat less unrealistic.

#### Higher and further education

7. This would mean holding the numbers of students in universities (including the Open University) and polytechnics at or below their present level at a time when the numbers in the relevant age-group are still increasing. The proportion of the 18 year old age-group entering higher education, already low in comparison with other industrialised countries, would fall. There would be a brake on all new appointments and no opportunity to appoint young teachers and research workers thus reducing the quality of scholarship and learning.

8. This represents a reduction in volume terms of some 14% in non-advanced further education (excluding adult education), leading to a contraction of vocational education in all areas. Opportunities for both school leavers and those already at work to take courses with a view to employment or re-employment would be curtailed and the supply of skilled manpower especially at technician level would be at risk.

9. Part of this reflects the lower number of places needed in non-advanced further education if Option 8 is implemented. In higher education a reduced programme would hold up plans in universities and polytechnics to provide for a more effective use of buildings.

SECRET



10. Fees for overseas students, increased by over 30% this year, would be more than doubled. There would be strong reactions from student and race relations bodies in this country, and heavy criticism from overseas governments, and especially from the EEC, differential fees being contrary to agreed EEC policy. Whether the cost of bursaries offered by the FCO would increase or their numbers would have to be reduced.

11. This would mean the elimination of the minimum maintenance payment of £300 to all award holders (which is actually compensation for the withdrawal of Child Tax Allowance), charges for fees (up to about £700) and a general increase in the parental contribution of £70 in addition. For some parents this would mean increased expenditure of over £1000 annually.

12. Facilities for 14-18 year olds in youth service, much of it run by voluntary organisations, would be sharply cut at a time when numbers in these age-groups are still rising.

13. Evening classes (at present providing for 2 million adults) would disappear in many areas - elsewhere charges would be doubled or trebled.

Inspection and administration

14. This would bring a cut in the number of inspectors and advisory staff at a time when the number is already inadequate to check standards.

SCIENCE

15. This cut (however it is applied) would do serious permanent damage to an essential activity in which Britain has the highest international standing.

Additional Bid:

EDUCATION

Schools

		<u>Addition</u>			
		£ million 1979 Survey prices			
		1980-81	1981-82	1982-83	1983-84
Assisted place scheme	up to	-	40	55	55

The manifesto stated that "the Direct Grant principle will therefore be restored with the Assisted Places Scheme. Less well off parents will be able to claim part or all of their fees at certain schools from a special government fund". The details of the scheme are being considered for implementation (following the necessary legislation) in 1981-82. The scale of the bid matches the total cost of the last full year of the direct grant scheme updated to present prices.

# SECRET

## OFFICE OF ARTS AND LIBRARIES

	£m 1979 Survey prices						
	77-78	78-79	79-80	80-81	81-82	82-83	83-84
Cmd 7439 revalued	343	360	368	371	376	385	385
Survey baseline	343	360	368	378	378	388	388
Budget cuts £3m, cash limits squeeze £1m:†			4				
Options for reductions				28	47	67	67
Line 4 as percentage of line 1				7.5	12.5	17.5	17.5
Additional bids	Nil						

Options for reductions	1980-81	1981-82	1982-83	1983-84
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### Central Government

Programme 10.3, item 1				
*Postpone new British Library building	4½	7	7	7
Programme 10.3, item 2				
Reduce British Library services	1½	2½	4	4
Programme 10.6, item 1				
Reduce level of Arts Council etc support	3	4	5½	5½
Programme 10.6, item 2				
*Reduce capital for museums and galleries building programme		1½	3½	3½
Programme 10.6, item 3				
Reduce museums and galleries purchase grants and other current expenditure	2	2	7	7
Programme 10.6, item 4				
*Reduce capital provision for South Bank Theatre Board & Housing the Art		1½	½	½

### Local Authorities

Programme 10.3, item 3				
Reduce current and capital expenditure on libraries	15	25	34½	34½
Programme 10.6, item 5				
Reduce current and capital expenditure on museums	2	3½	5	5
*construction items.				

There could be reductions in Civil Service manpower from option 5 above. The Civil Service manpower implications of options 1 and 4 would be for the Department of the Environment to comment on; there could be consequent implications on the staffing of some of the institutions concerned, but this would depend on the method chosen by the institutions to implement the cuts.

In addition the relevant local authority expenditure is subject to the reduction imposed on the RSG.

SECRET

## DESCRIPTION

The effect of these reductions cannot be assessed in detail because each recipient body would have to make its own decisions on their distribution. But the Office of Arts & Libraries believe the overall effect would be <sup>to cripple</sup> the country's main cultural institutions in the ways described below:

### Option 1

The new building <sup>for the</sup> British Library would be postponed and with the consequential break-up of the design team might have to be abandoned. There would be consequent offsetting costs later as the present inefficient arrangements continued.

### Option 2

The services provided by the Library, estimated to earn income in 1979-80 of £6 million, much of it from abroad, would be deeply cut with consequent damage to services to industry and technology as well as scholarship.

### Option 3

The Arts Council would have to reduce its support of arts activities; and either correspondingly reduce the scale and standard of activity across the board or take action which would call into question the future of one or more of the larger national companies eg English National Opera (North). The remaining national companies would have severely to curtail their touring programmes.

### Option 4

There would be a complete stop to new building and other development both in London and outside, much of which is intended to put on show objects not at present on view; and there would be great difficulty in maintaining the structure of existing buildings.

### Option 5

The national museums and galleries, in order to minimise reductions

in opening times, might have to stop all, or nearly all, new acquisitions, including those made for the protection of the national heritage. Substantial closures of sections of museums could hardly be avoided, with greatly reduced access both for the general public and specialist students, without additional risk to the security of some collections.

Option 6

The Housing of the Arts fund assists construction projects in the arts. It is already committed 3 years ahead. These reductions would involve cancellation or deferment of commitments and of much work in progress.

Option 7

Local public libraries would suffer substantial reductions in opening hours and many branch libraries would have to be shut. Books purchases are likely to be particularly hard hit and this would do permanent damage to the effectiveness and attractiveness of the public library system.

Option 8

Many local authorities already neglect their museums. Further neglect would jeopardise important elements of the national heritage and reduce the access which the public has to them.

SECRET

Department of Health and Social Security; Welsh Office.

Programme: Health and Personal Social Services (HPSS).

	1977-78	1978-79	1979-80	£million. 1979 Survey Prices	1980-81	1981-82	1982-83	1983-84
Cmd. 7439 revalued	7776	8049	8235	8339	8506	8684	-	
Survey baseline	7776	8005	8235	8339	8506	8684	8684	
1979-80 Cuts - Health <sup>(i)</sup>	-	-	133	-	-	-	-	-
- P.S.S. <sup>(ii)</sup>			7	-	-	-	-	-
Options for reduction								
Health	-	-	-	88	166	163	117	
P.S.S.	-	-	-	93	159	231	231	
Line 4 as percentage of line 1	-	-	-	2.2	3.8	4.5	-	
Additional bids		-	-	10	11	19	103	

(i) Income from higher charges £31 million.  
Cash Limit Squeeze £102 million.

(ii) Estimate as at 21.6.79.

Options for reductions

	1980-81	1981-82	1982-83	1983-84
<b>HEALTH</b>				
Later effects of Budget increase in prescription and dental charges	49	45	43	-
Revised estimates of net expenditure on general medical and ophthalmic services	2	2	2	-
Increase prescription charges <sup>(1)</sup>				
45p inflation linked annually	7	13	17	20
45p to 60p	20	19	18	18
45p to 70p	34	33	32	31
Welfare Milk <sup>(1)</sup>	3	3	3	3
Road Traffic Act <sup>(1)</sup> <sup>(2)</sup>	2	3	3	3
-	-	60	60	60
Charge to foreign visitors	-	23	23	23
<b>PERSONAL SOCIAL SERVICES</b>				
Effects of 1979-80	10	10	10	10
a. Cut to leave only "demographic" growth	8	17	35	11
b. Formula cut	93	159	231	231

(1) Subordinate legislation required.

(2) Main legislation required.

Notes:  
Welfare Milk. Withdrawal of benefit from large young families not needing it on income grounds.

SECRET

# SECRET

5. Road Traffic Act. Subordinate legislation would permit a limited increase on the maximum collected:

	<u>Present</u>	<u>Proposed</u>
In-patient	£200	£1250
Out-patient	£ 20	£ 125
Emergency fee	£ 1.25	£ 5.75

Main legislation would be required to recover the full cost of treating road traffic victims: extensive consultation would be needed with insurance companies and there would be considerable opposition. The Department is looking for ways of overcoming objections to similar proposals in the past; this option should be regarded as provisional at this stage. Depending on the details of the scheme this may have to be counted as a tax measure rather than treated as negative expenditure.

6. Charge to Foreign Visitors. A Health Insurance charge to all visitors not exempt under special arrangements (eg EEC) would be a new departure for this country. DHSS is undertaking a detailed study of feasibility and yield. If a scheme is launched it is unlikely that it could be introduced before 1981-82.

7. Full year effect of the 1979-80 estimate.

8. a. Cuts that would leave only minimum growth of 2 per cent annually needed to maintain standards in the face of demographic change.
- b. Formula cuts required by ground rules. These would have severe consequences eg serious deterioration in essential services for the elderly, the disabled (including the mentally handicapped), and children in need of special care, which would also throw additional burdens on health care and on law and order.

## Further comment

Departments expect that by more effective use of resources eg by a restructuring of the NHS administrative system and by better procurement arrangements, resources will be released with the Health programme for more direct forms of patient care.

## Retail price index

Of the options listed only the increase in prescription charges would affect the retail price index. A further increase to 70p would add about 0.05 percentage points to the RPI.

## Additional bids

### HEALTH

	1980-81	1981-82	1982-83	1983-84
1. FPS - Pharmaceutical and general dental services	-	-	-	3
2. FPS - General medical and ophthalmic services	-	-	-	6
3. Centrally financed services	3	3	10	9
4. Hospital & Community Health - "demographic" growth	-	-	-	50

### PERSONAL SOCIAL SERVICES

5. Children and Young Persons Act 1969 (amendment)	7	8	9	10
6. Demographic growth	-	-	-	25

## Notes.

1. Estimated growth in expenditure on demand-led services.
2. Estimated growth in expenditure on demand-led services.
3. Centrally Financed Services.
  - Revised estimates of cost of transfer to HPSS programme of Microbiological Research Institute, Porton.

SECRET

- Latest forecast of additional costs arising from EEC arrangements for the provision of medical treatment to UK nationals.
- Additional costs flowing from Part III of Medicines Act 1968.
- Nurse training. Additional tutors to permit implementation of Briggs Report on Nurse Training from 1982-83.

4. Provides in 1983-84 for the minimum growth of 1 per cent a year in current expenditure for demographic change and to make some allowance for medical development. A further £35 million would be needed to continue the planned Cmnd 7439 growth of 1.7 per cent a year in current expenditure which Health Departments consider necessary to make progress in remedying gross deficiencies in particular services and in particular parts of the country.

5. This increase in expenditure would be required to fulfil the Manifesto commitment to introduce secure care and residential care orders, and would form part of the Government's programme on law and order.

6. This provides in 1983-84 for the minimum 2 per cent growth needed to keep pace with demographic change.

<u>Manpower Implications</u>	1980-81	1981-82	1982-83	1983-84
<b>HEALTH</b>				(Whole Time Equivalent)
Additional bid 1983-84				+12,000
<b>PERSONAL SOCIAL SERVICES</b>				(Numbers)
Cut to leave only demographic growth	-800	-2,400	-4,900	-1,000
Formula cut	-14,800	-25,600	-37,000	-37,000
Additional bid 1983-84	-	-	-	+ 4,000

Social Security

£ million, 1979 Survey prices

	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
Cmd 7439 revalued	15,916	17,466	18,402	18,662	18,872	19,044	
Survey base line	15,916	17,456	18,399	18,662	18,872	19,044	19,044
Cmd 7439 revalued (revised revaluation)	16,595	18,226	19,204	19,477	19,697	19,875	
Survey base line (revised revaluation)	16,595	18,212	19,201	19,477	19,697	19,875	19,875
Budget cuts	-	-	-11	-	-	-	-
Social security changes, 13 June	-	-	+194	+332	+335	+332	+332
Option for reductions	-	-	-	-1586	-3190	-4148	-4401
Estimating changes resulting from post-Budget economic assumptions, etc	-	-	-328	-329	-381	-277	+72
line 4 as % of line 1A	-	-	-	8.1	16.2	20.9	
Additional bids	-	-	-	205	464	473	512

OPTIONS FOR REDUCTIONS

1980-81      1981-82      1982-83      1983-84

1. Legislation will be introduced in the current session to amend the uprating formula from one by which long-term benefits are increased by the greater of the forecasts of earnings or prices to one where they are increased by reference to the forecast movement of prices only. The figures below assume that no real improvement in benefits is made in the survey period. They therefore maximise the savings that could be expected on present forecasts. Savings would be reduced by any uprating that went beyond price protection.

Manpower effect: nil

Expenditure effect:                -84                -265                -380                -505

2. Redeployment to benefit-saving activity (eg fraud investigation, unemployment review) of staff.

Manpower effect: nil

Expenditure effect:                -20                -20                -20                -20

3. From April 1981, remove entitlement to sickness benefit for the first 6 weeks of a spell of sickness with a corresponding reduction in contributions with statutory obligation on employers to provide sick pay and only a residual state scheme. Legislation required.

Manpower effect: save 5000 staff

Expenditure effect:                -                -300                -300                -300



1980-81          1981-82          1982-83          1983-84

4. Limit from November 1980 the uprating of child dependency allowances to the minimum statutory obligation, rather than, as now, uprate by reference to total child support (ie child benefit + CDA).

No legislation required.

Manpower effect:	-10	-30	-45	-55
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5. Raising the pension age for women from age 60 to 61 in April 1980, 62 in April 1982, 63 in April 1984, etc until it is 65 and equal to the pension age for men.

Legislation required.

Manpower effect: save 100 staff in 1980-81 and 1982-83, but cost 10 staff in 1981-82 and 1983-84.

Expenditure effect:	-30	-50	-80	-100
	<u>1979-80</u>	<u>1980-81</u>	<u>1981-82</u>	<u>1982-83</u>

6. Abolition of earnings related supplement paid with unemployment and sickness and other short-term benefits. Legislation required.

Manpower effect: save 150 staff

Expenditure effect:	- 280	- 260	- 260	-260
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7. Holding the earnings limit for pensioners' wives at £45 until the married couple pension rate reaches this figure. Legislation will be introduced in the current session. Saving earmarked for bid arising from EEC Directive on Sex Equality see below.

Manpower effect: nil

Expenditure effect:	-8	-13	-18	-18
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8. In addition there are the following minor items:-

i. Continuation of 79/80 cash limit squeeze on manpower.

Manpower effect: save 2000 staff

Expenditure effect:	-8	-8	-8	-8
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ii. Abolish maternity grant from April 1980, but allow the existing supplementary benefit provision for the contingency to continue.

Manpower effect: save 300 staff

Expenditure effect:	-13	-12	-11	-10
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iii. Abolish death grant as in item ii above.

Manpower effect: save 600 staff

Expenditure effect:	-13	-12	-11	-10
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iv. Extend waiting days for unemployment benefit from 3 to 6:

Manpower effect: nil, but some Department of Employment savings

Expenditure effect:	-10	-10	-10	-10
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SECRET  
**SECRET**

1979-80                      1980-81                      1981-82                      1982-83

Abolish preferences in maintenance benefits except the war widows' one, ie industrial injury benefit, industrial injury widows benefit preferences, and unemployment supplement preference.

Empower effect: nil

Expenditure effect:                      -10                      -10                      -5                      -5

The total expenditure effect of all the items listed in paras 1-8 is:-

- 486                      - 990                      - 1148                      - 1301

The above reductions are well short of target, and across-the-board cuts in the value of benefits would be inescapable. For example, besides reducing the upratings to prices only, it would be necessary to have no uprating at all until November 1982, by which time the real value of the retirement pension will have been cut by over £4. In order to achieve the required reduction in 1980-81 it will also be necessary to make a temporary cut in a benefit, eg £1 reduction in child benefit for one year from April 1980. Alternatively upratings could be at half the increase in prices with the balance found from reductions in CB. Other such packages could be constructed, though all would be equally contrary to the Government's stated policies and commitments.

Empower effect: nil

Expenditure effect:                      -1100                      -2200                      -3000                      -3100

Most of the proposals above would present major political problems but the required reductions cannot be achieved without this sort of action. Note also that, in so far as the pace of reduction envisaged in other programmes is not reflected in the economic assumptions, this will almost certainly produce severe knock-on effects for social security, eg increased unemployment benefit.

ADDITIONAL BIDS

1980-81                      1981-82                      1982-83                      1983-84

**EARNING RULE.** The Social Security Act 1979 provides for affirmative orders phasing out the retirement pensioners' earnings rule by reducing the age at which a person is deemed to have retired, currently 70 for a man and 65 for a woman. The earnings rule would then apply only between pensionable age and the new deemed retirement age. (Alternatively the rule could be uprated faster than earnings so as to phase it out over 4 years.) There is a manifesto commitment to phase out the rule over the course of the next Parliament.

Empower effects: 30 staff extra initially but long-term savings of 100

Expenditure effect: (based on GAD assumptions)                      +30                      +60                      +100                      +150

**EEC DIRECTIVE.** Implementation of the EEC Directive on Sex Equality requires changes to the social security system by 1984 and in order to maintain a consistent approach certain other non-obligatory changes are also necessary (cost of latter shown below in brackets). The cost will be met from the savings recorded at item 7 in the options for reductions.

Empower effect: up to 150

Expenditure effect:                      +1(-)                      +3(1)                      +3(1)                      +12(3)

1980-81

1981-82

1982-83

1983-84

3. CHILD BENEFITS. Child benefit was last increased in April 1979 and the Government will come under increasing pressure in 1980 for its value to be restored, particularly in view of the indexing of tax allowances, remembering that the benefit in part replaced child tax allowance. This would be done in November 1980 by reference to price movement since the last increases in April 1979, but no commitment to price protection afterwards. Manpower effects would be negligible.

Expenditure effect:	+170	+400	+370	+350
---------------------	------	------	------	------

4. MATERNITY GRANT. It is proposed that maternity grant should be made non-contributory. The contribution test excludes several thousand women each year, who tend to be single parents and to present higher than average health risks. Extending entitlement to these women would provide a small, but useful, financial inducement to come forward and attend ante-natal clinics. (They need medical advice of pregnancy in order to claim.)

Manpower effect: negligible

Expenditure effect:	+2	+2	+2	+2
---------------------	----	----	----	----

5. ADMINISTRATIVE CHANGES. Payment of benefit direct into bank accounts monthly in arrears would lead to overall savings, though requiring extra staff. The figures given assume  $\frac{1}{2}$  million pensioners and 1 million child benefit recipients opt to receive this benefit this way. There may be repercussive effects on other areas of the public sector. Work is in hand to quantify this. The figures below relate to direct costs and savings in the social security programme.

Manpower effect: cost 400 staff

Expenditure effect:	+2	-1	-2	-2
---------------------	----	----	----	----

#### Contingent Expenditure

6. Three issues were referred by the previous Government to independent advisory bodies and the Government will have to decide how to react to their reports when received. The items are, with an indication of their possible cost:

i. The National Insurance Advisory Committee will report later this year on the incapacity for household duties test involved in the award of housewives' non-contributory invalidity pension (HNCIP). Cost £30m to £60m.

ii. The same Committee will also report probably in late 1979, on the possible extension of invalid care allowance to categories of non-relatives. Cost not more than £2m.

iii. The Industrial Injuries Advisory Committee is likely to report in 1980 on whether occupational asthmas should become prescribed illnesses. Cost about £10m.

#### Supplementary Benefit/Industrial Injuries

7. Both schemes have recently been reviewed. A nil cost package of supplementary benefit changes is currently being considered with a view to legislation this session. Consultations have yet to be held with interested bodies on the industrial injury changes but a similar nil cost package can reasonably be expected.

# SECRET

## HER MAJESTY'S STATIONERY OFFICE

£m 1979 Survey prices

	77-78	78-79	79-80	80-81	81-82	82-83	83-84
1. Cmnd 7439 revalued	89	99	98	100	99	100	-
2. Survey baseline	90	99	99	100	99	100	100
3. Budget cuts, etc							
4. Options for reductions				7.5	12.5	17.5	17.5
5. Line 4 as % line 1				7.5	12.5	17.5	17.5
6. Additional bids				6	6	6	7

### Options for reductions

80-81 81-82 1982-83 83-84

1. Reductions in the volume/standard of HMSO services to Parliament and government departments.	7.5	12.5	17.5	17.5
---	-----	------	------	------

Reductions of the magnitude indicated would entail a corresponding reduction of the departmental demands to be brought about by HMSO imposing rationing or otherwise.

### Additional bids

80-81 81-82 82-83 83-84

1. More frequent printing of tax tables	1	1	1	1
2. Modification of certain office machines; purchase and maintenance of additional machines and associated consumables.	5	5	5	6

Consequent on decisions taken by the last administration, income tax tables now need to be printed approximately monthly instead of annually. Provision is sought for replacing worn-out office machines and for new schemes for office mechanisation. However the additional bids for office machinery are subject to a review now being conducted by CSD and may be modified when the results of the review are available.

A joint study into the suitability of repayment and trading fund financing for HMSO's services is being carried out by HMSO in conjunction with the Treasury and GSD. If a decision is reached in favour of repayment or a trading fund, implementation could occur during the period of the Survey.

SECRET

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£million, 1979 survey prices

	1977	1978	1979	1980	1981	1982	1983
	-78	-79	-80	-81	-82	-83	-84
1. Cmdnd 7439 revalues	377	401	433	465	497	526	-
2. Survey baseline	377	401	436	465	497	526	526
3. Budget cuts, etc			-				
4. Options for reductions				-	3	2	-
5. Line 4 as % of line 1					0.64	0.38	-
6. Additonal bids				-	-	-	32

Options for reductions

This programme is related to the numbers of people eligible for benefits under the existing provisions of the Civil Service pension scheme. The bulk of the expenditure in each year is in respect of the continuing payment of pensions awarded to people who have retired in the past and any change in the basis of calculation for staff retiring in future would produce only the smallest savings in the Survey period. Such a change would also mean that the Civil Service scheme would no longer meet the minimum standards for contracting-out under the Social Security Pensions Act 1975. Clearly, therefore, any significant change in the level of expenditure on Civil Service pensions would require major retrospective legislation and is not a viable option. The programme includes £152.5 million in 1979-80 rising to £169.0 million in 1982-83 in respect of the lump sum benefits payable to civil servants at the time of retirement or resignation and to their personal representatives if they die in service. This benefit is not essential for contracting-out purposes but it does represent about a quarter of the aggregate benefits of individual civil servants and the cost of it has been taken into account in determining their pay. Retrospective legislation would be required to take the benefit away from existing staff in respect of their past service. A change for future service only would not produce substantial savings in this programme in the Survey period but it would lead to pressure for a renegotiation of the pay settlement and an immediate increase in Civil Service pay.

In this programme, pensions already in payment are assumed to continue at the levels to which they were increased on 1 December 1978 and new pensions and lump sums for people retiring in the Survey years are based on current salaries. These constant price figures would not therefore be reduced if either pay or pensions were to be increased in future by something less than the percentage increase in prices. (The conventions governing the presentation of public service pensions are currently being reviewed by officials). The provisions for increasing pensions in line with increases in the cost of living apply directly to all the public services including policemen, firemen and other local government employees; doctors, nurses and other NHS staffs; judges, teachers and civil servants) and to Members of Parliament and they are also applied to members of the Armed Forces and to the staffs of the nationalised industries and various fringe bodies. A decision to amend the inflation-proofing arrangements would therefore affect a wide field. Moreover, the existence of the pensions increase arrangements has been taken into account in determining Civil Service pay and the recent pay agreement would, once again, come into question. The options for reductions identified in the table are therefore limited to estimating savings.

Additional bids

The unavoidable net addition of £32.1 million in 1983-84 is described in the separate report. Additional, but at present unquantifiable, amounts of expenditure might need to be incurred in each of the Survey years if reductions in the size of the Civil Service cannot be achieved by natural wastage and involve the payment of lump sum and annual compensation allowances to people retired prematurely.

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# SECRET

CENTRAL OFFICE OF INFORMATION

£M      1979 SURVEY PRICES

	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
Cmd 7439 revalued	24	28	30	28	28	28	28
Survey baseline	24	28	32	28	28	28	28
Budget cuts etc	-	-	-0.2	-	-	-	-
Options for reductions	-	-	-	-2	-4	-5	-5
Line 4 as percentage of line 1	-	-	-	7½	12½	17½	17½
Additional bids	-	-	-	-	-	-	-

OPTIONS FOR REDUCTIONS

	1980-81	1981-82	1982-83	1983-84
Programme 14.4, Publicity (Home and Overseas)	-2	-4	-5	-5

Reductions would necessitate large cuts in publicity services for all Home Departments and would particularly affect the larger continuing campaigns carried out in respect of Services Recruitment, Road Safety, Energy Conservation, Prison Officer Recruitment, Fire Crime Prevention, Metrication Board. Cuts of about £1.7m by 1983-84 would also need to be made in Overseas Publicity services for the Foreign and Commonwealth Office which are largely in support of Trade Promotion.

SCOTTISH OFFICE

It has been agreed that most Scottish Office programmes will be dealt with under a block arrangement whereby the total expenditure on these programmes will be adjusted in proportion to the total changes finally agreed for comparable English programmes using a ratio of 85:10 (90:10 if the comparable programme covers England and Wales). The Scottish programmes excluded from this "block" arrangement are Trade, Industry, Energy and Employment (except Tourism which is within the block), Agriculture, Fisheries, Forestry and Food, Other Public Services and Common Services.

For the programmes covered by the block arrangement the Secretary of State will secure a reduction of the total expenditure on these programmes as in Cmnd 7439, adjusted, proportionate to the savings finally agreed for the comparable English and Welsh programmes.

<u>"Comparable" programmes</u>	£ million, 1979 Survey price						
	1977 <u>-78</u>	1978 <u>-79</u>	1979 <u>-80</u>	1980 <u>-81</u>	1981 <u>-82</u>	1982 <u>-83</u>	1983 <u>-84</u>
1. Cmnd 7439 revalued	3436	3536	3637	3705	3756	3792	-
2. Survey baseline	3453	3506	3640	3705	3756	3788	3792
3. Budget cuts	-	-	-52	-	-	-	-
4. Options for reductions			-	315	455	593	602
5. Line 4 as % of line 1			-	8.5	12.1	15.6	15.9
6. Additional bids			-	41	44	42	67

SECRET  
**SECRET**

"Non-Comparable" programmes

£ million, 1979 Survey prices

	1977	1978	1979	1980	1981	1982	1983
	<u>-78</u>	<u>-79</u>	<u>-80</u>	<u>-81</u>	<u>-82</u>	<u>-83</u>	<u>-84</u>
1. Cmnd 7439 revalued							
Agriculture etc	92	101	106	107	106	101	
Trade, industry etc	84	119	137	134	132	134	
Other public services	41	42	44	45	49	44	
Common services	1	1	1	1	1	1	
	<u>218</u>	<u>263</u>	<u>288</u>	<u>287</u>	<u>288</u>	<u>280</u>	
2. Survey baseline	<u>218</u>	<u>254</u>	<u>284</u>	<u>287</u>	<u>288</u>	<u>280</u>	<u>276</u>
3. Budget cuts							
Trade, industry etc	-	-	-27	-	-	-	-
4. Options for reductions							
Agriculture etc				-15	-19	-26	-28
Trade, industry etc				-29	-36	-38	-37
Other public services				-	-	-	-
Common services				-	-	-	-
				-44	-55	-64	-65
5. Line 4 as % of line 1				15.3	19.1	22.9	23.2
6. Additional bids							
Agriculture etc				5	7	8	5
Trade, industry etc				8	2	1	4
				13	9	8	9

Agriculture, Fisheries, Food and Forestry

The bids and options for agricultural support are broadly the same in all three countries. Some variations appear in the options on other support and services, including fisheries.

Trade, Industry and Employment

Of total options proposed, most is on Scottish Development Agency. Of additional bids, most is for the smelter deficit. Previous administrations have accepted that no part of this should fall on the electricity consumers in the NSHEB area which would be the outcome if this bid is not accepted. Liability for some items of compensation is still in dispute and there may be a requirement for further cover.

**SECRET**



WELSH OFFICE

	£ million, 1979 Survey Prices						
	1977	1978	1979	1980	1981	1982	1983
	-78	-79	-80	-81	-82	-83	-84
1. Cmnd 7439 revalued*	1079	1139	1186	1209	1225	1241	
2. Survey baseline*	1126	1111	1187	1211	1227	1242	1242
3. Budget cuts, etc	-	-	35	-	-	-	-
4. Options for reductions**			-	126	185	22	225
5. Line 4 as % of line 1			-	10.5	15.1	18.0	18.0
6. Additional bids			-	21	21	22	30

The table above summarises the options for reductions and additional bids for expenditure within the responsibility of the Secretary of State for Wales. Immediately below are notes on the options and additional bids for the individual programmes.

<u>Programme 3</u>	1980	1981	1982	1983
	-81	-82	-83	-84
<u>Options for reductions</u>				
End price guarantees for sheep	1.8	1.8	1.8	1.8
Reduce rates of capital grants	2.6	4.4	4.4	3.7
Reduce rates of guidance premiums	0.2	0.2	0.1	0.1
Reduce LFA allowance in January 1982	-	1.7	2.1	2.0
Reduced requirements	0.9	1.4	1.6	1.6
	<u>5.5</u>	<u>9.5</u>	<u>10.0</u>	<u>9.2</u>
<u>Additional bids</u>				
Increased hill livestock compensatory allowance for sheep (by £1)	1.8	1.7	1.5	1.5
Sea fisheries protection and restructuring of fishing industry	<u>1.0</u>	<u>2.0</u>	<u>2.0</u>	<u>1.0</u>
	2.8	3.7	3.5	2.5

These options and bids correspond exactly to those put forward by MAFF and DAFS.

Programme 4(a) Options for reductions

Welsh Development Agency	11.3	12.4	12.5	12.5
Section 7 Assistance	0.2	1.0	1.6	1.7
Wales Tourist Board	0.2	0.4	0.6	0.6

\* Excludes local authority current expenditure on education

\*\* Excludes other reductions identified by DES which affect education current expenditure and applied to England and Wales.

SECRET

	1980	1981	1982	1983
Balance of programme	-81	-82	-83	-84
Reduced requirements	0.6	1.0	1.3	1.3
	<u>0.1</u>	<u>1.6</u>	<u>0.9</u>	<u>0.2</u>
	12.4	16.4	16.9	16.3

Welsh Development Agency

The reduction represents the WDA share of the 'Opposition Cut', revalued to 1979 survey prices.

The Welsh Office predicts that reductions of the order required would:

- (i) entail abandonment of the environmental improvements programme;
- (ii) slow down the rate of land reclamation;
- (iii) reduce the provision of investment finance for industry.

Section 7 Assistance

This reduction is the Welsh Office share of the total GB cut proposed by the Department of Industry.

Wales Tourist Board

Cuts would be borne on tourist projects and would amount to a third of the planned programme in later years.

Balance of programme

Included by Treasury direction although the Opposition cuts exceed the scale cuts on this programme.

	1980	1981	1982	1983
(b) <u>Additional bids</u>	-81	-82	-83	-84
Development Board for Rural Wales	5.7	6.2	7.2	7.0
Welsh Development Agency	-	2.1	1.9	1.9
	<u>5.7</u>	<u>8.3</u>	<u>9.1</u>	<u>8.9</u>
Offsetting savings included in the options) for reductions (in addition to the ) 'Opposition' and percentage cuts) )	0.1	1.6	0.9	0.2

The first bid is sought to increase the scale of activity of the Development Board for Rural Wales.

The second bid seeks to increase the Welsh Development Agency expenditure from the pre-option cut level for 1980-81 for all years. Thus acceptance of this bid would involve forgoing the option cut on the Welsh Development Agency. This would enable the factory building programme to be maintained at its present rate outside the Steel Closure areas. No account is taken in the bid for any additional expenditure that may arise from 'steel closures' at Shotton.

<u>Programme 6</u>	1980	1981	1982	1983
(a) <u>Options for reductions</u>	-81	-82	-83	-84
Motorways and Trunk Roads (Central Government)	6	10	14	14
Local Transport (Local Authority)	7	12	17	17
	<u>13</u>	<u>22</u>	<u>31</u>	<u>31</u>

Savings would mean that some major trunk road schemes, and almost all of the smaller ones would have to be deferred in order to give priority to the improvement of road communications across Wales (particularly A55 in the North and links with M4 in the

SECRET

# SECRET

South) and to schemes designed to benefit industry. Maintenance would also be curtailed. Some small reductions in Welsh Office staff should be possible in the latter part of the period.

On local transport, local authorities are free to decide for themselves how to allocate the reductions. It is likely that the major part of the reduction will be on capital, although nevertheless some reduction in maintenance and administration would be necessary. It is not possible to make estimates of the reductions in local authority manpower which might follow,

(b) Additional bids - Nil

Programme 7

(a) Options for reductions (as defined in DOE text)

	1980	1981	1982	1983
	-81	-82	-83	-84

Subsidies: estimating changes	-	-	3.0	2.0
higher rents	-	5.4	11.6	18.9
Option mortgage subsidy	4.0	5.0	5.0	5.0
First time buyers	2.5	-	-	-
Housing associations	3.0	-	3.0	3.0
Local authority housebuilding	18.2	23.1	24.0	24.0
Sales	2.5	6.3	6.3	4.0
	<hr/>	<hr/>	<hr/>	<hr/>
	30.2	39.8	52.9	56.9
 Proposition Cuts (as defined in DOE text):				
Further cuts implied	37.7	46.0	55.9	55.9
	<hr/>	<hr/>	<hr/>	<hr/>
Total	67.9	85.8	108.8	112.8

The effects of these further cuts would be similar to those indicated for England.

(b) Additional bids

(Rent allowances, first-time purchasers, local authority improvements and mortgages)

	10.9	6.8	5.8	9.8
--	------	-----	-----	-----

These bids correspond in general with those put forward by DOE. The figures shown above take no account of the Needs Assessment Study which indicated that the Welsh share of housing expenditure is significantly lower relative to need than that of England and Scotland.

Programme 8

(a) Options for reductions

	1980	1981	1982	1983
	-81	-82	-83	-84

Welsh Water Authority	3.0	3.0	3.0	3.0
Local Authority LES capital (LDS)	1.4	2.3	3.3	3.3
Local Authority LES current	-	12.5	13.8	13.7
Coast Protection	0.2	0.3	0.5	0.5
Community Land	10.2	10.2	10.2	10.2
Urban Programme	0.3	0.5	0.7	0.7
	<hr/>	<hr/>	<hr/>	<hr/>
	15.1	28.8	31.5	31.1

# SECRET

# SECRET

The effect of the cuts in Water Authority expenditure illustrated will be to slow down improvements to the quality of coastal and inland waters, reduce the renewal of assets and delay improvements of service to domestic and industrial consumers.

There is no scope for achieving cuts in capital expenditure by local authorities within LDS without legislation to directly control this expenditure however financed.

LES current expenditure is managed entirely on an England and Wales basis and the cuts are approximations of the reductions which would be made in Wales. The effects of such cuts are described in detail in the DOE text on Programme 8. LES current expenditure is entirely within local authority discretion and cuts can be achieved only by new legislative control and a tight financial squeeze on local authorities through RSG.

Local authority expenditure on coast protection is unpredictable, and savings cannot be guaranteed.

In Wales the Community Land scheme is administered by the Land Authority for Wales whose future role is now under consideration by the Secretary of State. The optional cuts would require income from land sales to cover all expenditure for 1980/81 onwards.

The cuts would result in a substantial reduction in approvals for new urban programme schemes in Wales for 1980/81 onwards.

(b) Additional Bids

Arterial drainage	1.0	0.8	0.7	0.7
-------------------	-----	-----	-----	-----

This is for work on urgently required flood defence schemes already approved and committed.

Programme 10

(a) Options for reductions

School building improvements	1.7	2.8	2.8	2.8
HFE building programme	0.4	1.1	1.1	1.5
National Library of Wales: capital expenditure		0.2	0.3	0.3
National Museum of Wales: capital expenditure and purchase grants	0.1	0.1	0.3	0.3
	2.3	4.3	4.6	4.9

These items represent the Welsh share of the reductions in education building (excluding universities) and in cuts expenditure identified by the DES for England. Other reductions identified by the DES affect current expenditure and apply to England and Wales.

(b) Additional Bid

Assisted Places scheme	-	0.6	1.5	1.5
------------------------	---	-----	-----	-----

This follows a similar bid by DES

Programme 11

(a) Options for reductions

Health	5	10	9	6
Personal Social Services	5	8	12	12

Additional Bids

Health	)			(5
Personal Social Services	)	1	1	(2
	)			(

# SECRET

These options and additional bids correspond to those by DHSS. The manpower implication of the options for reductions in personal social services expenditure would be:-

-865 -1565 -2320 -2105

The additional health bid would add 750 to manpower, and the additional personal social services bid would add 225, both in 1983-84.

## Programme 13

No options for reductions have been identified nor any additional bids registered.

(£m 1979 Survey Prices)

	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
Cond 7439 revalued	1806	1999	2008	1991	2012	2027	2027
Survey Baseline	1824	1995	2008	1995	2027	2043	2043
Cond 7439 revalued (revised revaluation)	1836	2028	2043	2026	2048	2064	2064
Survey baseline (revised revaluation)	- 1854	2024	2043	2030	2062	2079	2079
Budget cuts	-	-	35	-	-	-	-
Options for reductions	-	-	-	130	218	308	308
Line 4 as percentage of line 1a	-	-	-	6.4%	10.6%	14.9%	14.9%
Additional bids	-	-	-	+ 1	-	+ 1	+ 13

## Options for reduction

The figures in line 4 of the above table are derived by the straightforward application of the options formulae and the rules governing the exceptions. However the final figures depend on the size and incidence of the actual reductions imposed in GB.

The totals are therefore subject to review later and their incidence will be a matter for the Secretary of State for Northern Ireland. Parity, particularly in relation to social services, will be an important consideration, but the special needs of Northern Ireland also have to be taken into account. It is expected that a major contribution to the reduction required in Northern Ireland will be found from

- a. the effects in later years of the 1979 Budget cuts and the 1979-80 cash limits "squeeze", and
- b. the various expenditure reviews which are under way, eg civil service functions, QUANGOS, Rayner in all of which Northern Ireland is participating fully.

## Additional Bids

The figures shown in the table reflect the use of revised economic assumptions. No other additional bids are being submitted in respect of Programme 15. This is on the understanding that if additions are agreed for services in GB which have counterparts in Northern Ireland, then corresponding additions will be made to the Northern Ireland allocations.

## PRIMARY LEGISLATION ENTAILLED BY OPTIONS FOR REDUCTIONS

This annex summarises the implications for the legislative programme of the options for reductions identified in the main report. Where an option for reduction requires a fall in the standard of service provided by a spending authority other than a government department, it is possible that further legislation will be needed to alter the statutory responsibilities of the bodies concerned, particularly for the larger cuts identified for later years. Seven of the options would require legislation in the current session which is not already planned. The legislative programme for the current session is already crowded.

	Primary legislation needed		Suitable legislative vehicle planned already
	i in current session	ii in future session	
Ministry of Defence	No		
FCO	No		
MAFF	No		
Forestry Commission			
sales of land and plantations	No	Yes	No
other	No		
D/Industry			
Regional Development Grant	for part of option		Yes
other	No		
D/Trade			
Trade regulation	for part of option		Yes
EOGD	No		
D/Employment	No		
D/Energy	No		
D/Transport			
Support to BR and NFC pension funds	Yes		Yes
DVLC - vehicle excise duty	No	Yes	Yes
other	No		
D/Environment: Housing			
Rent increases faster than earnings	Yes		No
other	No		
D/Environment: PSA	No		
D/Environment: other			
Building controls	Yes		Yes
Planning	Yes		Yes
Capital Expenditure	Yes		Yes
Home Office			
Registration of electors	Yes		No
other	No		

	Primary legislation needed		Suitable legislative vehicle planned already
	i in current session	ii in future session	
Lord Chancellors Department	No		
D/Education and Science			
Halving under 5 - expenditure	Yes		No
Halving school transport from September 1980	Yes		No
Tuition fees for 16-18 year olds from September 1980	Yes		No
other	No		
Office of Arts and Libraries	No		
DHSS: Health and PSS			
Road casualties, recovery of full cost	Yes		No
other	No		
DHSS: Social Security			
Delete real benefit improvement	Yes		Yes
No sickness benefit in first 6 weeks	Yes		No
Raise pension age for women by steps	Yes		Yes
Abolish earnings related supplements to short term benefits	Yes		Yes
Earnings limit for pensioners wives	Yes		Yes
Minor items (option 8)	Yes		Yes
Package of reductions in uprating	Yes		Yes
CSD (superannuation)	No		
HMSO	No		
COI	No		



## EXPENDITURE BY LOCAL AUTHORITIES IN ENGLAND AND WALES

Current Expenditure

1. The central government does not control the current expenditure of local authorities. To do so would require legislation. The main source of central government influence is through the Rate Support Grant which is fixed in November. Once the RSG is fixed, it is not possible to alter its distribution to discriminate against high spending and rating authorities. To do so would also require new legislation.
2. Table 1 below sets out the consequences for local authority current expenditure of the options for reductions discussed separately in the preceding sections.

TABLE 1

OPTIONS FOR REDUCTIONS. CONSEQUENCES FOR  
LOCAL AUTHORITY CURRENT EXPENDITURE (England and Wales)

	£ million 1979 survey prices			
	1980-81	1981-82	1982-83	1983-84
Department of Education and Science	470.0	770.0	1150.0	1190.0
Office of Arts and Libraries	14.2	23.8	33.0	33.0
Department of the Environment -(Housing)	-	31.8	74.2	106.0
Department of the Environment -(Other)	122.0	303.0	347.0	346.0
Department of Health and Social Security	80.6	142.3	209.1	209.1
Home Office	24.7	41.7	59.7	59.7
Department of Trade	4.0	7.0	9.0	9.0
Department of Transport	73.0	127.0	199.0	199.0
Welsh Office	8.5	14.9	21.8	21.8
<b>Total Reductions England and Wales</b>	<b>797.0</b>	<b>1461.5</b>	<b>2102.8</b>	<b>2173.6</b>
<b>Total as a % of inherited plans for local authority current expenditure</b>	<b>6.0</b>	<b>10.9</b>	<b>15.5</b>	<b>16.0</b>

Capital Expenditure

3. Control over capital expenditure by local authorities is stronger than for current expenditure but still not total. Higher capital expenditure in most services may be financed from the rates (and other internal sources). New legislation may be necessary to impose tighter capital expenditure control.

4. Table 2 below sets out the consequences of the options for local authority capital expenditure.

TABLE 2

OPTIONS FOR REDUCTIONS. CONSEQUENCES FOR  
LOCAL AUTHORITY CAPITAL EXPENDITURE (England and Wales)

	£ million 1979 survey prices			
	1980-81	1981-82	1982-83	1983-84
Ministry of Agriculture, Fisheries and Food	0.5	1.0	1.0	23.5
Department of Education and Science	33.0	64.0	72.0	72.0
Office of Arts and Libraries	2.8	4.7	6.5	6.5
Department of the Environment - (Housing)	1400.0	860.0	870.0	840.0
Department of the Environment - (Other)	77.0	94.0	117.0	117.0
Department of Health and Social Security	7.6	8.5	9.4	9.4
Home Office	0.5	0.9	1.3	1.3
Department of Transport	56.0	65.0	94.0	94.0
Welsh Office	17.4	22.1	25.7	59.1
<b>Total Reductions England and Wales</b>	<b>1594.8</b>	<b>1120.2</b>	<b>1196.9</b>	<b>1222.8</b>
<b>Total as a % of inherited plans for local authority capital expenditure</b>	<b>43.1</b>	<b>30.1</b>	<b>32.5</b>	<b>33.3</b>

# SECRET

## General Assessment

5. The reductions put forward on current expenditure are broadly in line with the percentages applied to programmes generally, allowing for the exemption of expenditure on certain Home Office services. Substantially greater reductions are however put forward on local authority capital programmes. They are particularly large in 1980-81 (43%). A large proportion of the capital expenditure reductions are on housing. Education contributes a little over half the total reductions put forward on current expenditure; this is broadly equivalent to its overall share.

6. Achievement of reductions on the scale proposed will require specific policy changes and, as necessary, legislative measures to enable local authorities to implement them. Central government's willingness to change statutory requirements will be important, both as a source of savings and as a touchstone to persuade local authorities to make other savings. General pressure can be exerted through stringency in the provision of central government finance through the RSG. Wider changes to the legislative framework governing the financial controls over local authorities would also need to be considered.

## Additional Bids

7. Tables 3 and 4 below set out the additional bids put forward for local authority current and capital expenditure respectively.

TABLE 3

### ADDITIONAL BIDS. CONSEQUENCES FOR

#### LOCAL AUTHORITY CURRENT EXPENDITURE (England and Wales)

	£ million 1979 survey prices			
	1980-81	1981-82	1982-83	1983-84
Department of Health and Social Security	7.0	8.0	9.0	31.8
Home Office	13.0	29.0	44.0	69.0
Welsh Office	1.0	1.0	-	2.0
Total Additional Bids England and Wales	21.0	38.0	53.0	102.8

TABLE 4

ADDITIONAL BIDS. CONSEQUENCES FOR  
LOCAL AUTHORITY CAPITAL EXPENDITURE (England and Wales)

	£ million 1979 survey prices			
	1980-81	1981-82	1982-83	1983-84
Ministry of Agriculture, Fisheries and Food	42.0	3.0	10.0	1.0
Department of the Environment -(Housing)	212.0	212.0	212.0	212.0
Department of Health and Social Security	-	-	-	1.8
Home Office	18.0	29.0	31.0	42.0
<b>Total Additional Bids England and Wales</b>	<b>272.0</b>	<b>244.0</b>	<b>253.0</b>	<b>256.8</b>

## PUBLIC EXPENDITURE ON CONSTRUCTION

Public expenditure on construction accounts for nearly half (46 per cent in 1977) of the construction industry's output. The proportion varies, however, between different sectors of the industry, and is twice as high (90 per cent) in the case of civil engineering. The level and composition of public expenditure is therefore of particular concern to the industry. The industry is also important to the public sector, since nearly all (about 90 per cent) of public sector fixed investment, and over half of total public capital expenditure, is on construction work.

Recent development and prospects

2. Table 1 shows construction output since 1974-75. Total output, which had peaked in 1972-73, fell in successive years to 1976-77. Output recovered slightly in 1977-78 and more strongly in 1978-79. Despite this recovery estimated output in 1978-79 was about 10 per cent below that achieved in 1972-73. The recovery in output since 1976-77 is due to increased work for the private sector. In contrast construction output for the public sector fell in 1977-78, and the recovery in 1978-79 was only to the 1976-77 level. On the inherited plans, output for the public sector is expected to fall slowly in the period to 1983-84. Forecast output for the private sector in 1979-80 is similar to that in 1978-79 but thereafter it is expected to drop due to reduced private investment. As a consequence total output of the construction industry falls over the survey period reaching a trough in 1982-83 when output is expected to be 5 per cent below the level reached in 1978-79.

3. Table 2 gives a broad functional analysis of the construction content of the inherited plans, which updates the construction table (5.2.) in Cmnd 7439. It differs from the public sector component of table 1 in that it relates to the construction component of capital expenditure and does not include repair and maintenance work: for many programmes expenditure in the latter category cannot be identified. The path of expenditure shown by the figures therefore corresponds more to 'total new public work' than to 'total new work' in table 1, though the price basis of table 1 relates to the national accounts and that of table 2 to the survey. There is also a divergence in 1979-80 which reflects the fact that table 1 allows for shortfall and the effect of the Budget measures, whereas table 2 (which

deals with the inherited plans) does not. Nevertheless both tables show the same broad picture of a small gradual decline in public sector demand on the industry from 1980-81.

#### Options for reductions and additional bids

4. Table 3 picks out options for reductions and additional bids with a significant (ie in excess of £5 million in any one year) construction content for those Departments whose total bids and options imply significant (ie in excess of £15 million in any one year) changes in construction expenditure. Up to two thirds of the impact on the construction industry of the options for reductions is accounted for by local authority new housebuilding. The Treasury point out, however, that the level of local authority new housebuilding implied by the inherited plans was unlikely to be achieved, especially in the early years. Moreover, the option reduction in public sector housebuilding implies a switch to private sector housebuilding. On both counts the figures for new housebuilding in table 3 overstate the impact of this option on the construction industry.

5. After housing, the biggest impact is on the roads and transport programme, where the construction content of the options rises to more than £150 million. (This includes Welsh but not Scottish expenditure, because the allocation of the option reductions to Scottish programmes has not been determined at this stage.) Other substantial impacts arise on the Property Services Agency, educational building, and the Regional Water Authorities.

6. The impact of the identified additional bids is relatively very small and is mainly accounted for by police and court building and by drainage. The figures for the Thames Tidal Scheme, including the reduction in 1983-84 reflect changes in the timing of the project. However, there is a major bid for additional defence expenditure, rising to over £800 million in 1983-84. This may well imply some additional construction expenditure, but the Ministry of Defence are not yet able to indicate the precise way in which the additional resources would be applied, so that the construction component cannot yet be identified.

TABLE 1: CONSTRUCTION OUTPUT

£ million at 1975 prices

	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
<b>Private Sector</b>										
Private housing	1590	1595	1590	1607	1777	1725	1700	1670	1640	1650
Private industrial work	1213	1142	1157	1290	1455	1450	1440	1330	1300	1380
Private commercial work	1377	1252	1123	1156	1326	1375	1390	1360	1310	1325
Total private new work	4180	3989	3870	4053	4558	4550	4530	4360	4250	4355
Private housing repairs and maintenance	1030	842	730	806	848	890	900	865	865	865
Other private repairs and maintenance	618	518	529	603	707	685	675	640	625	645
<b>Total private sector</b>	5828	5349	5129	5462	6113	6125	6105	5865	5740	5865
<b>Public Sector</b>										
Public housing	1365	1548	1593	1472	1372	1130	1095	1080	1075	1075
Public works	2609	2527	2456	2330	2344	2300	2375	2360	2315	2300
Total new public work	3974	4075	4049	3802	3716	3430	3470	3440	3390	3375
Public housing repairs and maintenance	827	771	788	873	968	1115	1130	1130	1130	1130
Other public repairs and maintenance	1229	1211	1164	1203	1324	1315	1290	1270	1250	1240
<b>Total public sector</b>	6030	6057	6001	5878	6008	5860	5890	5840	5770	5745
<b>Total new work</b>	8154	8064	7919	7855	8274	7980	8000	7800	7640	7730
<b>Total all work</b>	11858	11406	11130	11340	12121	11985	11995	11705	11510	11610

TABLE 2: PUBLIC EXPENDITURE ON CONSTRUCTION WORK TO 1983-84

£ million at 1979 survey prices

	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
Housing										
New dwellings and improvements	2337	2629	2660	2380	2176	2318	2273	2230	2218	2218
Grants and loans to housing associations and improvement grants	699	655	736	719	728	836	816	830	832	832
Other environmental services	1377	1326	1192	1059	1140	1097	1136	1136	1121	1121
Roads and transport	1147	1241	1123	821	858	934	952	926	919	919
Education	592	540	505	414	324	326	319	311	289	279
Health and personal social services	553	557	507	381	426	444	455	458	465	465
Northern Ireland (1)	201	255	245	235	214	225	231	227	221	221
Other (2)	424	504	484	452	390	505	563	602	620	597
Total (excluding nationalised industries)	7330	7707	7452	6461	6256	6685	6745	6720	6685	6652
Nationalised Industries										
Electricity	198	220	207	173	186	231	164	180	231	231
Gas	236	373	205	157	162	172	213	164	103	103
Railways	200	228	160	143	200	178	174	174	174	174
Coal	44	73	89	106	165	193	221	207	156	156
Other	302	362	298	240	226	268	269	240	242	242
Total nationalised industries (3)	980	1256	959	819	939	1042	1041	965	906	906
GRAND TOTAL	8310	8963	8411	7280	7195	7727	7786	7685	7591	7558

(1) The Northern Ireland figures relate only to spending directly incurred by central government and local authorities on new construction. Other capital construction work is generated by various grants and loans eg to housing associations, universities, certain public corporations etc.

(2) Includes defence new construction expenditure (which is classified as current expenditure on goods and services); trade, industry, energy and employment; law, order and protective services; and office and general accommodation.

(3) British national oil corporation capital expenditure is excluded.

SECRET



3: MAIN NEW CONSTRUCTION ELEMENTS OF DEPARTMENTAL OPTIONS FOR REDUCTIONS AND ADDITIONAL BIDS

£ million, 1979 Survey prices

	1980-81	1981-82	1982-83	1983-84
<u>Options for reductions</u>				
Ministry of Agriculture Thames Tidal Scheme	-	-	-	23
Other arterial drainage	3	5	7	2
Department of Transport Motorways and trunk roads	25	51	56	56
Local transport capital: roads	41	51	68	68
Public transport investment	4	2	13	13
Department of Environment New housebuilding*	445	503	532	547
Property Services Agency	33	37	64	60
Water: RWA's + BWB	40	45	46	46
Local environmental services	12	20	34	34
New towns	4	6	8	8
Urban programme	6	10	15	15
Department of Education and Science School building	20	34	34	34
Higher + further education building	6	15	22	22
Ministry Office Central government transport	4	8	12	12
Local transport	5	7	9	9
TOTAL	648	794	920	949

\*The new housebuilding reductions could be partly offset by additional requirements for construction work arising from any increase in the local authority improvement programme.

/Additional bids

TABLE 3 (Continued)

£ million 1979 Survey prices

	1980-81	1981-82	1982-83	1983-84
<u>Additional bids</u>				
Ministry of Agriculture				
Thames Tidal Scheme	37	2	3	-
Other arterial drainage	9	10	12	12
Home Office				
Police building programme	6	7	11	14
Magistrates' courts building programme	4	4	9	16
Prison building	2	2	2	6
<b>TOTAL</b>	<b>58</b>	<b>25</b>	<b>37</b>	<b>48</b>

# SECRET

## ANNEX D

### ECONOMIC ASSUMPTIONS

These are the post-Budget economic assumptions on which the figures in this report are constructed.

	1979-80	1980-81	1981-82	1982-83	1983-84
	- per cent increase on previous year -				
1. Earnings - financial years	15	15	12	9	6
2. Retail prices - financial years	15	14½	11	8	5
-November to November	17½	13	11	8	5
	- per cent -				
3. Local authorities pool rate	11	11½	11¾	11½	11
	-thousands-				
4. Unemployed, Great Britain					
Unemployed, excl. school leavers	1,350	1,650	1,650	1,650	1,650
School leavers	85	110	110	110	110
Adult students	40	40	40	40	40
Temporarily stopped	25	25	25	25	25
Total register, GB	1,500	1,825	1,825	1,825	1,825