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CABINET

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PUBLIC EXPENDITURE SURVEY 1982

Memorandum by the Chief Secretary, Treasury

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1. On 15 July, Cabinet agreed (CC(82) 38th Conclusions) that our aim in this year's Survey should be to hold to the planning totals which we announced earlier this year, that is, for 1983-84 and 1984-85, the aggregate of programmes plus contingency reserve in the 1982 White Paper (Cmd 8494) as modified by the decisions announced in the Budget and with some minor estimating changes. I was invited to hold bilateral meetings with colleagues with a view to securing this objective.

PROPOSALS

2. These meetings have made good progress and I am most grateful to colleagues for their constructive help.

3. I now put forward for the Cabinet's approval the changes in expenditure programmes set out in Annex A to this paper. They achieve the objective which we set ourselves in July and, if accepted, will lead to totals of £120.5 billion for 1983-84 and £127.3 billion for 1984-85 and £133.3 billion for 1985-86. This compares with the totals in the White Paper (as modified) of £120.5 billion for 1983-84 and £127.7 billion for 1984-85 and the Survey baseline of £133.3 billion for 1985-86. In all cases the proposals have been agreed bilaterally with the spending Ministers concerned.

4. On some features of the proposals I should comment further:

a. Defence. Provision has been agreed for real growth in accordance with the Government's commitment to plan to implement in full the NATO aim of 3 per cent growth per annum. In addition, the defence budget has been increased to meet in full the defence costs associated with the Falkland Islands. The latter account for the whole increase in provision of £622 million in 1983-84 and the bulk of the increases of £774 million and £648 million in the later years.

b. Local Authority Current Expenditure. The figures in Annex A reflect the agreements in E Committee and elsewhere, both on the provision to be made for this expenditure and, for 1983-84, on its distribution between services. For Great Britain in 1983-84, a total addition of £1.07 billion has been allowed of which £270 million has been allocated to services. The remaining £800 million is included as an unallocated margin in recognition that local authorities will in reality overspend the service totals which we consider desirable. The margin indicates the extent of the overspend we should reluctantly be prepared to countenance before applying grant penalties.

c. Nationalised Industries. The nationalised industry figures (set out in detail in Annex B) have been agreed with sponsor Ministers. In summary, the totals are approximately at the baseline in 1983-84, £250 million above in 1984-85, and £370 million below in 1985-86. I consider this represents a satisfactory outcome to this year's Investment and Financing Review.

d. Economic Assumptions and Pay. Where necessary, the programme totals have been adjusted to reflect the most recent economic forecast. The overall effect is an increase in expenditure on social security as a result of higher unemployment, partly offset by reductions on export credits and housing as a result of lower interest rates. A general adjustment has been made reflecting our decision to adopt a pay assumption of 3.5 per cent for increases in public service pay compared with the original cash provision of 6 per cent.

e. Special Sales of Assets. The size and shape of our future privatisation programme are being reviewed at present and the figures in Annex A are provisional. Major elements in the current figures are Britoil (part proceeds expected in 1983-84), British Gas Corporation's offshore oil interests (1983-84), and British Telecom (part proceeds expected in 1984-85). My colleagues will note that the proposed planning total for 1984-85 is some £400 million below the baseline total. This results from the much higher level of receipts which is now expected in that year.

f. Contingency Reserve. The proposals envisage that we should retain for unforeseen operational requirements in 1983-84 a contingency reserve of £1.5 billion. The precise figure I shall keep under review until the White Paper is published. There is no operational need to take firm decisions now on the reserves for the two later years. I have included a provisional reserve of £4 billion for each year, but I propose to review these figures when we come to prepare the Public Expenditure White Paper.

MANPOWER

5. The proposals for Civil Service manpower, which have in most cases been agreed bilaterally, are at Annex C. They are within the limits which we agreed on 15 July (CC(82) 38th Conclusions). At 1 April 1984, total Civil Service numbers should be just below our target of 630,000. The figures for later years show a continuing decline but may need to be revised later to reflect our eventual decisions on Civil Service manpower after 1984. I shall be making proposals about this later on.

OVERALL EFFECT OF THE PROPOSALS

6. If my proposals in Annex A are accepted, we shall have succeeded in keeping within our published expenditure plans. This has not been done by any Government since 1977, when the reduction followed the intervention of the International Monetary Fund in the previous year.

ANNOUNCEMENT OF DECISIONS

7. I propose that the announcement of these decisions as part of the autumn Statement by the Chancellor should, as last year, contain brief descriptions of the changes to programmes, together with a summary, for 1983-84 only, of the revised programme and planning totals and such other statistical information as can be provided in the time available. Full details of the revised programmes for all years will be provided in the Public Expenditure White Paper, which we hope to publish rather earlier than last year, at the end of January or early in February.

CONCLUSION

8. I believe the solutions arrived at in our bilateral discussions are reasonable, striking a fair balance between competing demands. We shall be able to show that we have met the most urgent needs and fulfilled our commitments, while sticking to the expenditure plans we announced last year.

9. I therefore invite my colleagues:

a. to approve, subject to any technical revisions of detail, the expenditure programmes in Annex A, the external financing limits for the nationalised industries in Annex B and the proposals for Civil Service manpower in Annex C; and

b. to agree that our decisions should be announced as above (paragraph 7).

LB

Treasury Chambers

29 October 1982

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ANNEX A

£ million

| Department*  | 1983-84           |                      | 1984-85           |                      | 1985-86            |                      |
|--|-------------------|----------------------|-------------------|----------------------|--------------------|----------------------|
|  | Revised Programme | Change from baseline | Revised Programme | Change from baseline | Revised Programme  | Change from baseline |
| Defence  | 15,900            | +622                 | 17,199            | +774                 | 18,244             | +648                 |
| Overseas Development   | 1,162             | +26                  | 1,215             | +22                  | 1,264 <sup>+</sup> | +24                  |
| Foreign & Commonwealth Office  | 533               | +9                   | 551               | -                    | 574                | +1                   |
| European Community   | 430               | -150                 | 514               | -86                  | 687                | +63                  |
| IBAP   | 740               | +45                  | 738               | +18                  | 759                | +11                  |
| Agriculture  | 974               | +16                  | 986               | +18                  | 1,014              | +8                   |
| Forestry Commission  | 61                | -2                   | 60                | -3                   | 62                 | -4                   |
| Industry/  | 1,126             | +49                  | 1,086             | +123                 | 1,085              | +83                  |
| Energy/  | 448               | +44                  | 462               | +29                  | 482                | +32                  |
| Trade/   | 260               | +1                   | 262               | -3                   | 278                | +2                   |
| ECGD   | 102               | -85                  | 38                | -274                 | -36                | -361                 |
| Employment   | 2,947             | +177                 | 3,310             | +399                 | 3,322              | +288                 |
| Transport/   | 3,316             | -2                   | 3,411             | -8                   | 3,546              | -10                  |
| Housing  | 2,800             | +49                  | 2,980             | +125                 | 3,099              | +130                 |
| PSA  | 460               | +5                   | 484               | +10                  | 482                | -6                   |
| Other Environmental Services/  | 3,042             | -65                  | 3,137             | -90                  | 3,266              | -90                  |
| Rome Office  | 4,025             | +107                 | 4,126             | +18                  | 4,294              | +21                  |
| Lord Chancellor's Department   | 438               | -12                  | 482               | -22                  | 521                | -2                   |
| Education  | 12,571            | +87                  | 12,791            | +32                  | 13,303             | +33                  |
| OAL  | 563               | +5                   | 581               | +1                   | 604                | +1                   |
| Health   | 14,634            | +80                  | 15,343            | +84                  | 16,017             | +147                 |
| Personal Social Services   |                   | +62                  |                   | -                    |                    | -                    |
| Social Security  | 34,131            | +616                 | 35,453            | +48                  | 37,393             | +562                 |
| Civil Superannuation   | 970               | -5                   | 1,010             | -53                  | 1,111              | +5                   |
| Scotland/  | 6,038             | +16                  | 6,230             | -3                   | 6,491              | +9                   |
| Wales  | 2,416             | +8                   | 2,501             | -2                   | 2,603              | +3                   |
| Northern Ireland   | 3,827             | +54                  | 4,020             | +31                  | 4,192              | +44                  |
| Smaller Departments  | 2,039             | +16                  | 2,121             | -4                   | 2,221              | +10                  |
| Nationalised Industries  | 3,080             | -                    | 2,790             | +250                 | 2,260              | -370                 |
| Local Authority Current unallocated  | 794               | +794                 | 1,000             | +1,000               | 750                | +750                 |
| Agreed adjustments to baseline   |                   | +158                 |                   | +144                 |                    | +167                 |
| Clawback for 3½% pay factor (to be allocated to programmes before publication) | -120              | -120                 | -125              | -125                 | -130               | -130                 |
| Special Sales of assets  | -750              | -150                 | -1,500            | -900                 | -500               | +124                 |
| Contingency Reserve  | 1,500             | -2,500               | 4,000             | -2,000               | 4,000              | -2,240               |
| <b>Total</b>   | <b>120,457</b>    | <b>-43</b>           | <b>127,266</b>    | <b>-434</b>          | <b>133,258</b>     | <b>-42</b>           |
| <b>Total (15 July Cabinet remit)</b>   | <b>120,500</b>    |                      | <b>127,700</b>    |                      | <b>133,300</b>     |                      |

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## Footnotes to Annex A

- \* All figures are rounded down to the nearest £ million. Totals may not precisely reconcile due to rounding error.
- + Includes £15 million for Commonwealth Development Corporation not yet agreed.
- + Excludes expenditure considered in the Investment and Financing Review: this expenditure is included in the nationalised industries line.

## Notes on lines in Annex A

### Defence

Includes increase for all Falklands costs as well as provision for real growth in accordance with the NATO aim of 3% per annum.

### European Community & IBAP

Estimating changes. These figures are subject to change in the light of later forecasts of likely expenditure.

### Industry

Increases in assistance for industry, particularly shipbuilding, steel & aerospace, partly offset by estimating reductions in expenditure on regional development grants.

### Energy

Increases mainly on miners' redundancy payments and pensions.

### ECGD

Net reductions resulting from lower forecast interest rates.

### Employment

Increased expenditure, mainly on community programme and job splitting subsidy, partly offset by reduced requirements and other savings.

### Housing

Increased provision for local authority capital spending, partly offset by reduced subsidy costs as a result of lower interest rate assumptions.

### PSA

Includes additions of £15 million in 1983-84 and £20 million in 1984-85 and 1985-86 for improving civil service efficiency by remedying substandard accommodation, partly offset by a 2% reduction in cash limited expenditure in each year.

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## Other environmental services

Although a general reduction has been made in the programme, additional receipts from the sale of local authority fixed assets will permit a substantial increase in gross expenditure, particularly in urban capital programmes.

## Home Office

The main increases are for the net costs of extra police and the prisons.

## Education

The main increase is for local authority current expenditure on education.

## Health

The increase of some £80 million (England)/year is for health authority services, Welfare milk and new central initiatives for service improvements. This is in addition to an extra £60 million already agreed for the cost in 1983-84 of the March pay offer. There is also an increase in 1985-86 for family practitioner services.

## Social Security

Includes revised estimate of benefit provision reflecting latest information on expenditure and revised forecasts of unemployment and inflation.

## LA current

For 1983-84, expenditure has been allocated to programmes on the basis agreed by Ministers on 16 September: this line shows the remaining unallocated balance. For later years no expenditure has been allocated to programmes and all expenditure is included in this line. The figures are based on the Chief Secretary's proposals for England, and are heavily rounded.

## Contingency Reserve/ Provisional Reserve

The reductions represent that part of each reserve allocated to programmes.

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ANNEX B

INVESTMENT AND FINANCING REVIEW 1982

Summary of Outcome

TOTAL EXTERNAL FINANCE AND CHANGE COMPARED WITH BASELINE

|  | 1983-84      |              | 1984-85      |              | 1985-86      |              |
|--|--------------|--------------|--------------|--------------|--------------|--------------|
|  | Total        | Change       | Total        | Change       | Total        | Change       |
| NATIONAL COAL BOARD                              | 1130.0       | +170.0       | 949.0        | 0            | 987.0        | 0            |
| ELECTRICITY (ENGLAND AND WALES)                  | -300.0       | +162.0       | -175.0       | +368.0       | -400.0       | +165.0       |
| NORTH OF SCOTLAND HYDRO-ELECTRICITY BOARD        | 7.0          | + 4.7        | 16.0         | +21.8        | 23.0         | + 29.0       |
| SOUTH OF SCOTLAND ELECTRICITY BOARD              | 284.0        | + 54.0       | 280.0        | +62.0        | 225.0        | -2.0         |
| BRITISH GAS CORPORATION                          | .0           | -115.0       | -20.0        | +100.0       | -200.0       | -75.0        |
| BRITISH STEEL CORPORATION                        | 200.0        | .0           | 100.0        | +90.0        | 85.0         | + 75.0       |
| BRITISH TELECOM                                  | 120.0        | -195.0       | 120.0        | -195.0       | 0            | -328.0       |
| POST OFFICE                                      | -20.0        | + 18.0       | -20.0        | +18.0        | -20.0        | + 20.0       |
| NATIONAL GIROBANK                                | 0            | 0            | 0            | 0            | 0            | 0            |
| BRITISH AIRWAYS BOARD                            | 8.0          | -84.0        | -85.0        | -175.0       | -90.0        | -184.0       |
| BRITISH AIRPORTS AUTHORITY                       | 33.5         | -2.5         | 16.5         | -2.5         | 17.5         | -2.5         |
| BRITISH RAILWAYS BOARD                           | 973.0        | -20.0        | 1032.0       | -10.0        | 1074.0       | -10.0        |
| BRITISH WATERWAYS BOARD                          | 41.9         | .4           | 45.3         | .7           | 47.0         | -1.0         |
| NATIONAL BUS COMPANY                             | 69.0         | -2.3         | 71.1         | 0            | 74.0         | 0            |
| SCOTTISH TRANSPORT GROUP                         | 19.6         | -3.8         | 20.2         | -4.7         | 25.7         | -3           |
| BRITISH SHIPBUILDERS                             | 150.0        | + 52.0       | 90.0         | + 33.0       | 70.0         | + 11.0       |
| CIVIL AVIATION AUTHORITY                         | 16.5         | -2.0         | 12.7         | -2.0         | 12.8         | -2.6         |
| <b>Total Nationalised Industries (excl RWAs)</b> | <b>2730</b>  | <b>+ 40</b>  | <b>2450</b>  | <b>+300</b>  | <b>1930</b>  | <b>-310</b>  |
| <b>REGIONAL WATER AUTHORITIES</b>                | <b>345.0</b> | <b>-40.0</b> | <b>335.0</b> | <b>-50.0</b> | <b>325.0</b> | <b>-60.0</b> |
| <b>Total Industries</b>                          | <b>3080</b>  | <b>-</b>     | <b>2790</b>  | <b>+250</b>  | <b>2260</b>  | <b>-370</b>  |

Notes

1. Totals rounded
2. British Shipbuilders figures provisional pending decisions on Corporate Plan
3. Electricity figures provisional in later years

## CIVIL SERVICE MANPOWER

| DEPARTMENT  | 1.4.83         | 1.4.84         | 1.4.85         | 1.4.86         |
|---|----------------|----------------|----------------|----------------|
| Ministry of Defence   | 210,000        | 200,000        | 198,000        | 197,000        |
| Foreign & Commonwealth Office/<br>Overseas Development Administration | 11,421         | 11,126         | 10,934         | 10,908         |
| Intervention Board for Agricultural<br>Produce                        | 588            | 588            | 588            | 588            |
| Ministry of Agriculture, Fisheries and<br>Food                        | 12,059         | 11,520         | 11,520         | 11,520         |
| Department of Industry  | 7,864          | 7,306          | 7,306          | 7,306          |
| Department of Energy  | 1,155          | 1,111          | 1,111          | 1,111          |
| Department of Trade   | 6,965          | 6,711          | 6,708          | 6,708          |
| Export Credits Guarantee Department                                   | 1,845          | 1,840          | 1,840          | 1,840          |
| Department of Employment  | 59,490         | 57,964         | 57,712         | 56,715         |
| Department of Transport   | 12,890         | 11,630         | 11,630         | 11,600         |
| Property Services Agency  | 29,486         | 28,161         | 27,661         | 27,161         |
| Department of the Environment   | 8,000          | 7,000          | 7,000          | 7,000          |
| Home Office   | 35,260         | 36,160         | 36,160         | 36,160         |
| Lord Chancellor's Department  | 9,925          | 9,900          | 9,900          | 9,900          |
| Dept of Education & Science   | 3,511          | 2,465          | 2,465*         | 2,465*         |
| Dept of Health & Social Security                                      | 95,213         | 89,247         | 89,970         | 89,596         |
| Scottish Office   | 10,300         | 9,800          | 9,800          | 9,800          |
| Dept of the Registers of Scotland                                     | 709            | 761            | 756            | 756            |
| Welsh Office  | 2,225          | 2,195          | 2,195          | 2,195          |
| Northern Ireland Office   | 206            | 200            | 200            | 200            |
| Chancellor's Departments  | 118,290        | 113,295        | 112,476        | 112,651        |
| <b>OTHER DEPARTMENTS</b>  |                |                |                |                |
| Cabinet Office  | 552            | 529            | 529            | 529            |
| Charity Commission  | 330            | 330            | 330            | 330            |
| Crown Office/Procurator Fiscal<br>(Scotland)                          | 930            | 966            | 966            | 966            |
| Land Registry   | 5,850          | 5,850          | 5,850          | 5,850          |
| Management and Personnel Office                                       | 1,309          | 1,183          | 1,183          | 1,183          |
| Ordnance Survey   | 2,986          | 2,815          | 2,815          | 2,815          |
| Paymaster General's Office  | 921            | 953            | 990            | 1,039          |
| Privy Council Office  | 34             | 34             | 34             | 34             |
| Public Record Office  | 406            | 406            | 406            | 406            |
| Public Trustee Office   | 295            | 225            | 225            | 225            |
| Office of Fair Trading  | 313            | 313            | 313            | 313            |
| Office of Population, Censuses and<br>Surveys                         | 2,310          | 2,130          | 2,120          | 2,120          |
| Treasury Solicitors Department  | 461            | 460            | 460            | 460            |
| Scottish Courts Administration  | 895            | 879            | 879            | 879            |
| General Register Office (Scotland)                                    | 305            | 283            | 283            | 283            |
| Scottish Record Office  | 139            | 144            | 144            | 144            |
| Crown Estate Commissioners  | 114            | 114            | 114            | 114            |
| Director of Public Prosecutions                                       | 233            | 238            | 238            | 238            |
| Law Officers' Department  | 22             | 22             | 22             | 22             |
| Lord Advocate's Department  | 20             | 21             | 21             | 21             |
| <b>TOTAL</b>  | <b>655,827</b> | <b>626,875</b> | <b>623,854</b> | <b>621,151</b> |
| <b>TARGET<br/>1.4.84</b>  | <b>-</b>       | <b>630,000</b> | <b>-</b>       | <b>-</b>       |

\* Still under discussion