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OBJECTIVES FOR PUBLIC EXPENDITURE - THE LONGER TERM AND THE 1983 SURVEY

Memorandum by the Chief Secretary, Treasury

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INTRODUCTION

In our Manifesto for the General Election we promised firm control over public spending and borrowing, because "less spending by Government leaves more room to reduce taxes on families and businesses". On taxation we said that "further improvements in allowances and lower rates of income tax remain a high priority, together with measures to reduce the poverty and unemployment traps".

2. This continues the economic strategy on which we embarked in 1979, aimed to promote sound growth in the private sector. We have achieved a major and sustainable reduction in inflation. Reductions in the Public Sector Borrowing Requirement (PSBR) have played a major part in this. But we have not been successful in achieving our taxation objectives. Rather than falling, tax as a percentage of Gross Domestic Product (GDP) has risen from some 34 per cent in 1978-79 to 40 per cent in 1983-84. If we are to achieve more growth and a sustained reduction in unemployment, we must reduce this burden.

3. The main obstacle to the achievement of our tax objectives is the continuing high level of public expenditure, which - contrary to popular mythology - actually rose as a proportion of GDP during the last Parliament. If we wish to reduce taxes, we must first reduce the programmes of expenditure which taxation will otherwise have to finance. Increased borrowing is not the answer: it will simply push up interest rates and revive the inflationary pressure which we have fought so hard to get down. Lower interest rates and lower taxation are essential for the soundly based and sustained growth which the country will now expect to see.

LONGER-TERM OBJECTIVES

4. Hence we must relate our public expenditure planning to our tax objectives. In particular we need to consider now what level of taxation we should aim to achieve by 1988-89 - the last possible Budget of this Parliament.

5. In the long term it would be a reasonable objective to bring the proportion of tax to GDP back at least to the level we inherited in 1978-79 - that is, back from around 40 per cent now to some 34 per cent. This should broadly enable us to reduce the basic rate of income tax to 25 per cent, and to bring personal allowances up to the levels of the 1960s in relation to earnings. Because indirect taxes and national insurance

contributions would still be larger than in the 1960s the ratio of tax to GDP would still be high by historic standards.

6. How far we can go towards that objective by 1988-89 depends essentially on two things: the rate of growth of GDP and the path of public expenditure. If the PSBR continues at its planned 1985-86 level (2 per cent of GDP) and we achieve annual growth averaging  $2\frac{1}{2}$  per cent - which would be a good performance in current world conditions - we could hope to reduce the tax:GDP ratio to about  $36\frac{1}{2}$  per cent by 1988-89. But even that would be possible only if we continue to hold public expenditure to its present level in real terms throughout the period. If economic growth falls short of  $2\frac{1}{2}$  per cent on average then public expenditure would have to be contained at an even lower level or taxes would have to be higher.

7. I do not think we can reasonably aim for less than that on the tax front. I propose therefore as a longer-term expenditure target up to 1988-89, to hold the total of public expenditure, in cost terms, at the level of about £103 billion (1980-81 prices) which it reached in 1982-83, and which the present White Paper projects for 1985-86. I have to say that to achieve this target will require determination. The projections of existing plans to the end of the decade which were carried out by officials last summer implied figures substantially higher than this, because they allowed for substantial continuing real growth in several programmes. Such growth does not show up in the aggregate White Paper figures for 1984-85 and 1985-86, because we are still feeling the benefits of the hard decisions taken in 1979 and 1980. But it could begin to appear in 1986-87 - the final year of the new Survey, for which there are already substantial additional bids. If we are to achieve the progress towards our tax objective proposed above for the end of this Parliament, we need to get on the right path by taking now the necessary decisions relating to 1986-87. That is why consideration of the Survey, covering the medium term, cannot be separated from these longer-term considerations.

8. If my colleagues are willing in principle to work towards this expenditure target, I will aim to circulate projections in September, setting out a possible path up to 1988-89 both for the total of expenditure and in broad terms for the main programmes. Since this will involve difficult decisions about priorities it will require considerable discussion. Cabinet may want to allocate more resources to one programme by reducing others. Once agreed in broad terms, these projections would provide a starting point for discussion with colleagues in the bilaterals. I would hope final agreement could be reached in Cabinet in the late autumn. It will be for consideration whether they should be published; but they would set broad policy guidelines within which longer-term Departmental planning could proceed and would also provide a framework for future Public Expenditure Surveys.

#### THE SURVEY PERIOD

9. In the meantime, we need to set more specific objectives for this year's expenditure Survey. It is clear from the Chancellor of the Exchequer's memorandum (C(83) 26), which sets the background, that the prospect for next year is much tighter than we thought at Budget time. It is therefore essential at the very least to hold to the expenditure totals published in the last White Paper.

10. Given the uncertainties this is a modest, perhaps too modest, target. Even so it will require restraint by spending Departments. The figures in Annex A show that for 1984-85 Departments have proposed increases in

programmes totalling some £6.1 billion over the existing plans. For 1985-86 they total £6.8 billion; and for 1986-87 £7.0 billion. Some of these, based on statutory entitlements and firm commitments, will have to be accommodated. For 1984-85, approved levels of social security benefits will require an extra £0.25 billion. Agricultural price support needs £0.42 billion more. I estimate that at least £0.5 billion extra will be needed for local authority current expenditure.

11. Moreover I believe it is crucial that we should keep intact for 1984-85 the £3 billion reserve which appeared in the last White Paper. This would be larger than we had for 1983-84, but is roughly the same size, as a proportion of public expenditure, as the reserves for 1981-82 and 1982-83. Although a smaller figure might be sufficient to accommodate the costs of policy changes, we have learnt to our cost this year that it is necessary also to allow a wider margin for changes in programmes like social security and agricultural intervention which are demand-determined. In addition we need to allow next year for the effects of introducing end-year flexibility, and the uncertainty over European budget refunds and the cost of the Common Agricultural Policy.

12. It will be impossible to accept the full £6.1 billion of bids. But within that, the most pressing demands total some £2½ billion. We therefore need to find savings elsewhere of that order (including the savings we hope to secure on the nationalised industries) simply to stay within the published total for 1984-85. Reductions of at least the same order will be needed in order to stay within the published total for 1985-86, and to keep the total at approximately the same real level in 1986-87, including adequate planning reserves for these years.

13. The existing baseline figures make no explicit assumption about pay increases next year. I shall be making proposals to deal with this in September.

#### CONCLUSION

14. I invite my colleagues to agree, therefore, that:

- a. We should work towards the longer-term objectives for taxation, and expenditure described in paragraphs 5-7 above.
- b. I should in September bring forward projections for the total and for programmes up to 1988-89, which would be consistent with achieving these objectives.
- c. We should aim in the 1983 Survey to hold to the published totals for 1984-85 and 1985-86, including adequate reserves, which means finding savings of some £2½ billion in 1984-85 and of at least the same order in 1985-86 to offset unavoidable increases.
- d. We should similarly seek savings of at least the same size in 1986-87 in order to hold total spending constant in real terms.
- e. I should discuss bilaterally with colleagues after the Recess how these savings might best be achieved. I would report back to Cabinet towards the end of October.

P R

Treasury Chambers

18 July 1983

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## SUMMARY OF PES RETURNS

ANNEX A

	1984-85	1985-86	1986-87
1. Planning Total (cmd 8789)	126,370.0	132,260.0	
2. Agreed additions (1)	721.0	1,097.0	
3. Baseline	127,091.0	133,357.0	
Baseline 1986-87			137,500.0
4. Proposed adjustments to programmes			
Ministry of Defence	176.0	362.5	1,238.8
FCO - Overseas Development Administration	59.8	73.9	128.4
FCO - Other	40.5	57.0	67.0
European Community			
Intervention Board for Agricultural Produce	420.0	150.0	210.0
MAFF	30.2	13.1	9.4
Forestry Commission	-0.9	-2.4	-2.5
Department of Trade and Industry	69.8	74.3	15.6
ECGD	4.4	39.6	-133.1
Department of Energy	-1.1	-2.7	-10.8
Department of Employment	99.6	81.3	31.5
Department of Transport	58.0	58.0	62.0
DOE - Housing	540.0	540.0	540.0
DOE - PSA	84.5	96.5	58.0
DOE - OTHER	130.8	151.7	154.7
Home Office	49.5	70.9	98.3
Lord Chancellors Department	-1.6	-0.3	25.0
Department of Education and Science	320.0	390.0	410.0
Office of Arts and Libraries	12.4	19.8	25.1
DHSS - Health and Personal Social Services	570.1	874.5	1,374.7
DHSS - Social Security	514.2	648.9	1,067.0
HM Treasury - Civil Superannuation	27.0		50.4
Scotland	9.9	8.1	8.5
Wales	0.8	1.2	1.7
Northern Ireland			
Territorial departments: formula consequential	368.8	459.6	585.8
Local Authority current expenditure	1,138.8	1,355.6	1,928.3
Nationalised Industries external finance	569.0	165.0	-970.0
Chancellors' Departments	51.4	61.2	59.7
Other Departments	19.4	11.8	12.3
5. Total adjustments to programmes (net)	5,361.3	5,759.1	7,045.8
6. Net changes in Special Sales of Assets	0	0	0
TOTAL NET ADDITIONS TO CMND 8789 AGREED, OR PROPOSED BY DEPARTMENTS. (2)	6,082.3	6,856.1	7,045.8

Footnotes

1. Budget changes and revised economic assumptions
2. Shortfall: none now forecast

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1. Defence

The most important policy question is whether the UK should continue to plan to increase defence spending by 3 per cent per annum in real terms after 1985-86. To do so would be to comply with the NATO real growth target that was recently extended to 1990; but would be costly (some £600 million in 1986-87).

The other MOD bids (some £1,200 million) are intended to maintain the "volume" of the defence programme by compensating for the effects of 1983 Armed Forces pay awards and of forecast inflation up to 1986-87. The MOD figures also include some £575m to cover 1986-87 Falklands costs.

2. Overseas Aid

The growing volume of aid stemming from past commitments to multilateral agencies (especially to the EC institutions and the World Bank Group) means that, on present plans aid given directly to developing countries would decline in cost terms over the survey period, having already fallen by at least a third since 1979-80. The Government attaches importance to maintaining substantial bilateral country programmes. Existing commitments can be accommodated within present plans. The additions proposed would:-

- i. maintain aid direct to countries at its 1982-83 level in cost terms (including an increase in the Aid Trade Provision from £66m at present to £80m in 1986-87);
- ii. maintain the aid programme at about 0.38 per cent of GNP.
- iii. allow a larger UK contribution to the of seventh IDA replenishment than currently provided for.

3. Foreign and Commonwealth Office

The main proposals for adjustment to the programme are:-

- i. provision to maintain or increase the level of activity of the British Council;
- ii. additional provision for the BBC External Services to cover inter alia the effects of this year's BBC pay increase, the modernisation of the monitoring service and the purchase of Bush House;
- iii. certain increases in FCO administrative expenditure including an allowance for predicted increases in overseas inflation in excess of PES factors and certain capital improvements (including the purchase of Hanslope Park);
- iv. an allowance for predicted increases in the sterling costs of international subscriptions in excess of PES factors.

4. Net payments to European Community Institutions

Projections of UK net payments to the Community Budget are subject to a wide margin of forecasting error since the Government has only an indirect influence on the size of the Budget. The major factor affecting payments during the survey period will be the decisions taken following the major review agreed by the European Council in Stuttgart. The European Council will meet in Athens on 6 December to consider the outcome of that review.

5. IBAP

The Department's programme covers market regulation under the Common Agricultural Policy, almost all mandatory under EC Regulations. A large part is 100% funded from the EC Budget, with receipts credited to the EC programme.

Programme expenditure is unpredictable, and dependent on agricultural market conditions. Following recent large increases in production, particularly for milk products, support expenditure is now expected to be substantially higher than the baseline. For 1984-85 current estimates point to expenditure of some £1230m compared to baseline provision of some £800m. About two thirds of the increase represents extra intervention purchases, financed initially by the Exchequer. EC receipts in respect of financing and other incidental costs are received while the goods are in store and reimbursement for losses is made when stocks are sold. The remainder of the increase is in respect of expenditure pre-funded by the EC. Smaller additional bids are also likely for the later years.

The revised forecasts are prepared in conjunction with estimates of total expenditure under the EC budget, and the UK net contribution towards it. The estimates are subject to substantial variation as that broader exercise proceeds.

6. MAFF/DAFS/WOAD

This combined programme covers expenditure by the Agriculture and Fisheries Departments in England, Wales and Scotland (including expenditure in Northern Ireland resting on MAFF votes). The total baseline, including some expenditure prefunded from the EC budget, is £1030m in 1984-85 rising to £1088m in 1986-87.

Following a procedure agreed in the 1982 survey, adjustments to the baseline are made in respect of prefunded EC expenditure and estimated changes in take up under demand determined agricultural support schemes. Latest estimates, subject to review in September point to net additions of £40m in 1984-85, £29m in 1985-86 and £29m in 1986-87.

Departments propose a number of self balancing changes within the adjusted baseline, involving reduced requirements, estimating increases and policy changes. The Treasury has reserved its position on these various adjustments.

In addition, Departments have proposed further additional bids totalling £24m in 1984-85 rising to £29m in 1986-87. Some £22m per annum relates to assistance to farmers in marginal areas, £1m per annum for increased superannuation charges for commissioned research and £1m rising to £4.2m for the effects of the cash squeeze on volume provision. Additional manpower provision of 45-55 for MAFF is sought after taking account of efficiency savings. The Treasury has reserved its position on the policy changes concerned and does not accept the case for additions to total provision in respect of any of them; and considers that net manpower savings could be achieved through increased efficiency.

7. Department of Energy

Excluding support for the nationalised industries no major new items of expenditure are proposed. A reassessment of requirements under existing energy conservation programmes and the Offshore Supplies Interest Relief grants Scheme, and Ministers' decision to reduce Voted expenditure on the fast reactor results in reduced requirements compared to the baseline.

8. Department of Trade and Industry

The largest items in the total proposals for adjustment are an additional bid for Launch Aid (+£70m, +£75m, +£80m), increases in R and D and additional administrative expenditure. The increases proposed are partly offset by a reduction on Regional Development Grants (-£61 million, -£69 million, -£83 million)

9. Export Credits Guarantee Department

Net receipts of refinance are expected to cease during 1983-84 until after the end of the survey period. This is mainly because transfers of outstanding refinance to the private sector have been completed while ECGD are still making advances on existing commitments. Forecasts for the interest support and cost escalation programmes are tentative since they are demand responsive and highly sensitive to changes in assumptions about market interest rates and cost increases. On current assumptions, interest support costs are expected to fall significantly during the survey period and by 1986-87, for the first time, net receipts of interest equalisation from the banks are expected, even allowing for possible reduction in Consensus interest rates. The forecast for cost escalation guarantees shows a sharp fall in 1985-86 and 1986-87 due to lower inflation assumptions and a reduced number of agreements. The mixed credit matching facility has yet to be utilised.

10. Department of Employment

The principal increases proposed are for an extension to the Enterprise Allowance, to maintain levels of service in the general careers service and to meet the expected higher costs of providing sheltered employment. The increases are partly offset by estimating reductions in expenditure on demand led measures and redundancy payments.

11. Department of Transport

Three quarters of the increase proposed are for the motorway and trunk roads programme, to maintain recent levels of new construction and structural maintenance. There are also major additional bids for administration, and for re-equipping the DVLC; and minor bids for shipping and civil aviation. There are additional bids for 98 staff in 1984; 441 in 1985; 556 in 1986.

12. Department of the Environment - Housing

The Department has made additional bids for 1984-85 totalling £540 million and for similar sums for the later years of the survey, primarily to maintain the current increased level of expenditure on home improvement grants and to meet the additional costs of dealing with defective public sector housing.

13. Department of the Environment - Property Services Agency

The main increases proposed are: purchase of accommodation in the Millbank area to enable savings in the rental bill in later years (£25m in 1984-85, £40 million in 1985-86 and £7 million in 1986-87); expenditure on cost saving measures such as energy conservation and estate rationalisation (£10m in each year); and additional expenditure on maintenance of the civil estate (£35 million in each year).

14. Department of the Environment - Other

The major increase proposed is £63 million for the urban Programme and UDCs. The other relatively small individual bids relate to refuse disposal investment, control of hazardous developments, derelict land grant, historic buildings, and additional grant in aid for the Sports Council and other environmental bodies.

15. Home Office

Proposals for increased provision for police and prisons account for more than 70 per cent of the bids in 1984-85. Of the police bid, some £30m a year is required for the additional cost of the 1983 pay award, expected to be 8 per cent. There is no bid for additional police manpower but some provision (£4.4m) is sought in the final year of the survey to maintain



strength at the level assumed in Cmnd 8789 (122,500). For prisons, additional expenditure of £31.8m rising to £82.9m is sought. This is to enable strength to rise by 5,171 to 32,109 by April 1987, to meet new commitments arising mainly from the opening of new prisons, to enable the introduction of the common working agreement, and to allow some reduction in levels of overtime. provision is also sought for an increase, mainly in 1986-87 to allow some acceleration of the building programme.

The balance of the proposals amounts to £24m in 1984-85. This includes some small additional provision for magistrates' courts and the probation service to meet increased workloads. Criminal Injuries Compensation expenditure is also expected to increase.

16. Lord Chancellors Department

The additional bid in 1986-87 reflects the continuing growth in Legal Aid expenditure for which the baseline in 1986-87 makes no provision. The reduced requirements are mainly results of slippage in the Court Building Programme. Manpower is expected to rise in 1984-85 to cope with the continuing increase in workload and start to fall in 1986-87 as a result of various changes (eg. efficiency, computerisation, contracting out etc).

17. Department of Education and Science

The bids are designed in general to offset the effect of actual cost increases, and assumed increases for the future, greater than those assumed in Cmnd 8789; and to make more realistic provision for current expenditure, particularly spending by local authorities in relation to numbers of teachers and lecturers and taking account of the growing numbers of those over 16 within further education.

Improvements are also sought in the level of certain services, including capital investment on rationalisation and improvements of school, college and university premises; the level of educational support staff in relation to pupil numbers; and support for scientific research.

18. Office of Arts and Libraries

The adjustments proposed are designed to minimise serious damage to the present level of activities by restoring in later years the cuts unavoidably imposed in 1983-84 in provision for museums and galleries building and maintenance, and for heritage acquisitions; by accommodating the increasing level of expenditure envisaged on the new British Library building; and by allowing local authorities to satisfy a broadly constant demand for their museums and libraries services.

19. Health and Personal Social Services

The proposed increases are due to:-

1. "realism" on pay and prices,  
the Department considers that the Cmnd 8789 provision implies a cut in real resources in the light of Government assumptions on inflation;
2. demographic change,  
the rising numbers of old and very old people which are expected to occur over the period places increasing demands on the health and social services;
3. Government commitments on services for old, mentally ill, and mentally handicapped people; and on the continuing geographical re-distribution of NHS resources;
4. revised forecast of expenditure on the family practitioner services in the light of the out-turn in 1982-83.

In addition there are bids for a number of specific service improvements relating in particular to the voluntary sector and community care, acute treatment shortages, and capital investment.

The major issue of policy is how far the Government is committed to provide real growth in the resources for health in the face of increasing demand.

20. Social Security

Two thirds of the increases proposed are for demand determined services primarily on retirement pensions - the result of a changed view of life expectancy following the 1981 census, and on housing benefit, the result of an earlier underestimate of the number of beneficiaries and of average payments of this new benefit.

1984-85    1985-86    1986-87

The most significant bids for benefit improvements are:

- |  |   |    |    |
|--|---|----|----|
| i.    New benefits to replace HNCIP<br>and the "household duties test" | 4 | 17 | 26 |
|--|---|----|----|

Following the equal treatment directive a change will be needed during 1984 to Housewives non-contributory invalidity person to remove the discriminatory 'household duties test'. H Committee are to discuss shortly a paper by the Secretary of State for Social Services outlining a number of options. That preferred by the Secretary of State would require additional expenditure as shown and cost 50 staff.

- |   |   |    |    |
|---|---|----|----|
| ii.    Invalid Care allowance for<br>married women caring for<br>elderly relatives. | 4 | 12 | 13 |
|---|---|----|----|

A similar, unsuccessful, bid in last year's Survey proposing a wider extension of ICA to married women would have cost around £60 million in a full year and 250 staff. Restricting the proposal to those married women caring for elderly relative reduces the cost total shown. But would mean married women caring for others - invalid children for instance, would not benefit. The proposal costs 50 staff.

- |   |    |    |    |
|---|----|----|----|
| iii.    Restore 5% abatement of<br>Invalidity benefit | 20 | 61 | 64 |
|---|----|----|----|

The uprating of Invalidity benefit, like unemployment benefit, was reduced by 5% in November 1980, partly as a proxy for tax and partly as a straightforward public expenditure reduction. There is a commitment to the abatement once the benefit is brought into tax - which has been postponed indefinitely. No similar commitment was given for unemployment benefit but that is to be restored from November, following taxation from July 1982. Saves 16 posts.

- |   |    |    |      |
|---|----|----|------|
| iv.    Increase income disregards for<br>Supplementary benefit and Housing<br>benefit | 10 | 26 | 26.5 |
|---|----|----|------|

The proposal is to increase income disregarded when calculating entitlement to Supplementary benefit and housing benefit from £4 a week to £6 a week. A separate disregard of half earnings between £4 and £20 for one parent families would be increased to £6 and £30. Costs 62 staff.

21. Scotland

The bulk of the expenditure is, as in recent surveys, treated as a block. Aggregate provision is adjusted proportionately by reference to changes agreed for comparable English and Welsh programmes. Normally, additional bids on block expenditure are not submitted. But this year, increases are proposed to meet the "knock-on" effects in civil service pay, and for a shortfall following the introduction of Property Repayment Services. On non-block expenditure, there is an additional bid for assistance to industry.

22. H M Treasury - Civil Superannuation

The additional bid for 1984-85 relates to transfer payments to other pension schemes in respect of staff who are being transferred out of the Civil Service with their work as part of the hiving-off and privatisation programme. The additional requirement for 1986-87 derives from the expected rise in the number of pensioners, a factor not allowed for in the straightforward percentage increase method used to construct the baseline for that year.

23. Wales

As in previous surveys, most of the Welsh Office programmes are treated as a block. Aggregate provision is adjusted proportionately by reference to the changes agreed for comparable English programmes.

Additional bids are not generally made for the block because of the formula approach described in paragraph 1. The only exception consists of the Other Public Services programme, where central initiatives apply to pay and general administrative expenditure. On account of the inadequate provision made for the "knock-on" effects of earlier pay awards, an additional bid is necessary to maintain agreed staffing levels. The amounts involved are £0.8 million, £1.2 million and £1.7 million for the years 1984-85 through to 1986-87.

24. Northern Ireland

As in recent Surveys, the block arrangements will apply whereby total provision will be adjusted by reference to changes on comparable programmes in Great Britain by the application of the comparability formula. Allocations within the block will continue to be at the Secretary of State's discretion according to local priorities. There are no additional bids this year.

25. Local Authority Current Expenditure

Local authorities account for over a fifth of total public expenditure but Central Government has no direct control.

Provision for local authority relevant current expenditure in 1983-84 in Great Britain is £23,557 million. Local authority budgets suggest that this provision may be overspent by up to £1 billion. Local authority overspending against their "target" (framed in terms of total expenditure) will be penalised by loss of grant.

The White Paper contains provision for relevant current expenditure in 1984-85 of £23,780 million. That figure did not take account of the Budget decision to reduce the national insurance surcharge from 1½ to 1 per cent. Adjusted for that change, the White Paper provision is £23,698 million, 0.6 per cent growth over 1983-84 provision.

The Secretary of State for the Environment put proposals for the appropriate provision for relevant current expenditure in England in 1984-85 in his letter of 15 July to the Lord President for discussion in E(LA) on 19 July.

26. Nationalised Industries External Finance

As usual, the nationalised industries are discussed in detail in the annual Investment and Financing Review (IFR), which has been submitted to Ministers separately. This covers the industries' investment programmes and all components of nationalised industry external finance included in Departmental programmes. The coverage of this year's IFR is unchanged from last year except that Department of Energy expenditure on the Redundant Mineworkers Payment Scheme (RMPS) is brought within the scope of the IFR for the first time, and the Welsh Water Authority is included in the section on the Water Industry. The Water Industry is now treated as a nationalised industry for all practical purposes.

Total proposed changes to nationalised industries' EFLs are as shown in the table. Details are given in this year's IFR.

27. Chancellor of the Exchequer's Departments

The main increase proposed is for Inland Revenue - £47 million in 1984-85, £57 million in 1985-86 and £54 million in 1986-87 to cover the cost of pay awards, additions to staff to deal with increases in the number of taxpayers and slippage in achievement of savings from computerisation.

For Customs and Excise additional bids of £3.7 million in 1984-85, £3.5 million in 1985-86, and £4.5 million in 1986-87 arise mainly as a result of proposed additional manpower. Other contributory items are the continuing cost of absorbing the 1983 pay settlement, additional computer requirements, and a more cautious view the department has taken of future receipts from merchants' charges.