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C(84) 18

COPY NO 31

2 July 1984

CABINET

1984 PUBLIC EXPENDITURE SURVEY

Memorandum by the Chief Secretary, Treasury

The first stage of the 1984 Public Expenditure Survey has now been completed with the preparation of the detailed Survey Report.

2. This paper summarises the position and proposes public expenditure planning totals for the three years 1985-86 to 1987-88, together with revised manpower plans for the same period. It proposes, too, a new emphasis on the control of Departments' running costs.

EXPENDITURE BASELINE

3. The starting point is the Survey baseline. For 1985-86 and 1986-87 this represents the figures in the last White Paper (Cmnd 9143) less the savings resulting from abolition of the National Insurance Surcharge. For 1987-88 it was agreed to construct the baseline by adding 2½ per cent to the 1986-87 provision (excluding the Falkland Islands and local authority unallocated margin). The figures are -

	£ billion		
	1985-86	1986-87	1987-88
	131.7	136.3	139.0

DEPARTMENTAL EXPENDITURE BIDS AND OPTIONS

4. Colleagues have put forward substantial bids for additional provision in all three years. The details are in Annex A. In total, net of reduced requirements and including local authorities and nationalised industries' External Financing Limits (EFLs), the bids rise from £5 billion in 1985-86 to £8½ billion in 1987-88. That is equivalent to nearly 4 per cent of the baseline in 1985-86 rising to 6 per cent in 1987-88. Acceptance of the bids would totally undermine our achievements of the last few years in reining back the growth of public spending.

5. Colleagues have also prepared material on options for reduction equivalent to 3 per cent of programmes in each year (although the possibilities have not, regrettably, in all cases been properly displayed or ranked in order of acceptability).

PROPOSALS FOR EXPENDITURE TOTALS

6. We have laid great emphasis, in the Green Paper "The next ten years" and elsewhere, on the importance of firm control of public spending and of holding to our published plans. For 1985-86 and 1986-87 that means that we must stick to the baseline. Given the bids that colleagues have put forward this will be a formidable task. But we can do no less if we are to maintain the credibility of our economic strategy, and to give ourselves some room for easing the tax burden.

7. For 1987-88 we have now to establish a planning total figure for the first time. As indicated in the Chancellor of the Exchequer's paper on the economic prospects, there are of course uncertainties in looking three years ahead. But the overriding requirement is to set a public expenditure total we are sure we can afford.

8. One option would be to uplift the 1986-87 total by 2½ per cent, as agreed for programme baselines. But I recognise that these baseline figures were intended to establish a margin to allow the adjustment of priorities between programmes.

9. I therefore propose that we should allow the planning total to increase by 3 per cent in 1987-88, giving a figure of £140.4 billion. We could not prudently adopt a higher figure.

10. I must warn colleagues now that we will face considerable difficulties in holding public expenditure to these totals. Some of the additional bids are virtually irresistible and the options available to make room for these are limited. There is therefore little or no prospect of accommodating any other additional bids. In addition to the bids by Departments our published plans are under heavy pressure from local authority expenditure, the nationalised industries, the pay increases of the Review Body groups, and European Economic Community budget contributions (which will be higher than the stylised assumptions in Cmnd 9143).

THE RESERVE

11. Cmnd 9143 provided Reserves of £2.75 billion, £3.75 billion and £4.75 billion respectively for the forward years. There are already very substantial pressures on the £2.75 billion Reserve in 1984-85, for example local authority current expenditure seems likely to take up £1.8 billion - two-thirds of the total - and we have just learned that in addition, local authority capital expenditure poses a new and substantial threat to the Reserve.

12. In the light of this year's experience there is a strong case for now providing substantially larger Reserves for the three forward years than in Cmnd 9143. It is essential for the credibility of our control over public expenditure to ensure spending is held within the planning total. The pressures for higher spending show no sign of abating. On the other hand, the required level of Reserves depends on how tightly the system is managed. If colleagues accept that the Reserve arrangements should be operated as stringently as possible, with every possible effort to offset

unavoidable increases from within programmes, then I think we could risk setting the Reserve provisions at £3 billion, £4 billion and £5 billion respectively for the forward years.

CIVIL SERVICE MANPOWER

13. Last autumn Cabinet agreed manpower plans for the years up to 1 April 1988 (CC(83) 30th Conclusions, Minute 4) on the understanding that every attempt would be made to improve on them. Departments were therefore asked in this year's Public Expenditure Survey to aim for lower manpower figures than those published in Cmnd 9143.

14. The prospect in the Survey so far for total Civil Service numbers, allowing for Departmental bids and reduced requirements, is -

	<u>1.4.85</u>	<u>1.4.86</u>	<u>1.4.87</u>	<u>1.4.88</u>
Cmnd 9143	608,208	605,255	600,554	592,723
1984 Survey	<u>608,243</u>	<u>605,442</u>	<u>600,614</u>	<u>592,610</u>
	<u>+35</u>	<u>+187</u>	<u>+60</u>	<u>-113</u>

15. These figures are net of reductions of 190, 2,404, 2,701 and 4,068, which are more than offset by bids for additional staff. Within the totals the figures for the Ministry of Defence and Property Services Agency (together one-third of the total) are the same as those in Cmnd 9143 because these two Departments are still further reviewing their manpower requirements and have not yet felt able to submit fresh figures.

16. As they stand the figures do not show the improvements we had hoped for. Moreover, claims already made on the contingency margin of 7,500 which we agreed last year suggest that a bigger margin will be needed to see us through to 1988. I suggest a figure of 10,000.

17. I believe there is scope for significant reductions in the figures proposed by Departments. During the rest of the Survey I intend to press Departments for further manpower savings. I shall be aiming to find offsetting savings for an addition of 2,500 to the contingency margin to take it to 10,000. I hope also that the reviews by the Ministry of Defence and the Property Services Agency will lead to sizeable reductions in their present planned figures, thereby producing a significant reduction below 593,000 in the 1 April 1988 manpower total. My paper on contracting out (C(84) 16) proposes a more vigorous approach to contracting work out from the public to the private sector. The consequent reductions in Civil Service manpower will enable us to reduce the total still further.

CONTROL OF RUNNING COSTS

18. The annual scrutinies of Departments' running costs have shown total costs increasing in each of the last five years faster than general inflation. We must ensure that the growth of these costs is contained.

19. Departments were asked to indicate in the Survey the provision they seek for their running costs in 1985-86. There are some definitional difficulties, and the returns need careful scrutiny and checking. But these figures, which show an aggregate increase of about 3½ per cent over the 1984-85 Estimates provision, are a welcome improvement from the larger increases of earlier years (although running costs in some Departments still seem to be rising too quickly).

20. As a first step to improving our arrangements in this area, I invite colleagues to agree that the present backward-looking annual running costs scrutiny should be replaced by a forward-looking scrutiny during the Survey of the provision which Departments have now proposed for this category of expenditure in 1985-86. The agreed plans would then provide the basis for the detailed Estimates discussions during the winter.

NEXT STEPS

21. Parallel discussions are already under way on expenditure provision for local authorities' relevant current expenditure and nationalised industries' EFLs. We clearly need to conduct these discussions with the utmost stringency: every addition conceded in these areas will mean increased pressures on Central Government programmes and will make our overall task correspondingly harder. I now propose that, as in earlier years, I should have a series of bilateral discussions with colleagues on their Departmental expenditure and manpower programmes, and report back to Cabinet.

22. Against the background of this very difficult overall position colleagues will not be surprised if I ask them to examine very critically all the bids they have put forward. Additional spending must, wherever possible, be contained within existing programmes by reordering priorities. To cover those cases where additional provision for individual programmes proves inescapable, I have to emphasise that it will be essential for me to press for option reductions elsewhere.

CONCLUSION

23. The longer perspective of the Green Paper "The next ten years" shows how persistent and pervasive are the pressures for increased public expenditure and how difficult it will be to avoid successive upward revisions of public spending plans. Nonetheless, if we are to reap the benefits of our overall economic strategy, we must stick to our published plans.

24. I invite colleagues to agree -

a. public expenditure planning totals of £131.7 billion, £136.3 billion and £140.4 billion respectively for the three years 1985-86 to 1987-88;

b. the manpower contingency margin should be increased to 10,000; and, we should aim to reduce Civil Service numbers significantly below 593,000 as at 1 April 1988;

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c. we should adopt the new approach towards controlling running costs set out in paragraph 20 above;

d. I should report back to Cabinet when I have completed discussions with colleagues on individual programme and manpower allocations.

P R

Treasury Chambers

2 July 1984

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SUMMARY OF ADDITIONAL BIDS NET OF REDUCED REQUIREMENTS

	1985-86	1986-87	1987-88
1. Planning Total (cmdn 9143)			
2. Baseline 1987-88 in PES Report	132,080.0	136,680.0	
3. Agreed reductions (NIS etc) (1)			139,004.0
4. Adjustments to baseline (2)	-409.0	-386.0	
5. Baseline (after adjustments)	48.3	-1.7	1.1
6. Additional bids net of reduced requirements	131,719.3	136,292.3	139,005.1
Ministry of Defence			
FCO - Overseas Development Administration	219.6	182.7	1,046.2
Net payments to European Communities	14.2	76.1	156.4
FCO - Other	300.0	125.0	185.0
Intervention Board for Agricultural Produce	36.3	55.0	60.3
Agriculture, fisheries and food	7.6	-44.6	-69.5
Forestry Commission	-43.2	-56.7	-59.0
Department of Trade and Industry	-1.1	-1.7	-1.8
ECGD	205.3	291.0	210.3
Department of Energy	142.4	193.2	131.6
Department of Employment	7.6	6.7	-5.4
Department of Transport	77.6	62.0	30.4
DOE - Housing	41.0	35.0	62.0
DOE - PSA	250.0	350.0	400.0
DOE - OTHER	55.3	11.9	0.8
Home Office	80.3	92.5	75.8
Lord Chancellors Department	43.8	44.4	67.4
Department of Education and Science (3)			36.0
Office of Arts and Libraries	114.0	164.0	175.0
DHSS - Health and Personal Social Services (4)	8.0	9.6	15.7
DHSS - Social Security	502.0	651.3	1,105.9
Civil Superannuation	319.4	387.7	1,515.5
Scotland	-58.5	-55.3	37.7
Wales	4.3		
Northern Ireland	13.5	14.4	14.6
Territorial departments: formula consequential	260.0	300.0	400.0
Chancellors' Departments	28.4	39.3	4.2
Other Departments	16.7	16.3	20.4
Local Authority current expenditure	1,500.0	1,500.0	1,500.0
Nationalised Industries external finance	892.0	1,330.0	1,315.0
7. TOTAL ADDITIONAL BIDS (NET OF REDUCED REQUIREMENTS)	5,036.5	5,779.8	8,430.5

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Footnotes
 1. Budget and other agreed changes.
 2. Adjustments to baselines in AFF, DOE-Housing and territorials.
 3. DHSS includes £10m, £42m, and £42m for the Switch-the Secretary of States' letter of 20 June refers.
 4. DHSS Health includes £271m, 282m and 290m for 1984 NHS pay award.