



Content, subject to the
views of colleagues?

PLS 29/1

PRIME MINISTER

Yes mt

PUBLIC EXPENDITURE WHITE PAPER: VOLUME 1

We shall once again be publishing the Public Expenditure White Paper at Budget time.

2. I attach a draft of Part 1 of the White Paper. The timetable is tight and I would ask you and our Cabinet colleagues, to whom I am copying this minute and enclosure, for any comments by next Tuesday, 2 February, at the latest.

3. The draft, which reflects the decisions Cabinet have already taken, has been largely cleared with other Departments at official level as regards the references to particular programmes.

4. I am having the White Paper printed in two volumes this year, as it has been in some previous years, because I am introducing into Part 1 some improvements in lay-out, including some charts, and so it will take a little longer to prepare for printing.

5. I shall circulate a draft of Volume 2 shortly. That will include the usual chapters about individual programmes (Part 2) and about the nationalised industries (Part 3), further general tables (Part 4) and the technical addendum (Part 5).

6. The two volumes will of course be published simultaneously.

7. The contingency reserve for next year is lower, at £2 $\frac{1}{4}$ billion, than this year (1981-82, £2 $\frac{1}{2}$ billion). That is tight, but I think we can and should manage within it. The reserve in the

later years is higher, to allow for the greater uncertainties (it is not an operational total for those years; we shall fix the operational total for 1983-84 in the next survey).

8. The resulting planning totals are a little over £115 bn in 1982-83 (broadly as announced in December) and £121 bn and £128 bn respectively in 1983-84 and 1984-85. The outturn for 1981-82 now looks like being under £106½ billion, rather than £107 billion as we thought in December. But this could change again; and there may be small changes to come on the figures for 1982-83 onwards.

9. Estimates of the ratio of public expenditure to GDP up to the current year are included as usual, together with an indication that the ratio is likely to fall next year. An estimate of the ratio next year may be included in the FSBR, which is printed later and can take account of the assumptions for the growth of GDP over the medium term when these are decided for the purpose of the Budget.

10. I am sending copies to members of Cabinet and Sir Robert Armstrong.

L.B.

LEON BRITTAN

26 January 1982

PART ONE

THE EXPENDITURE PLANS

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DRAFT 26.1.82

MAIN POINTS FROM THE WHITE PAPER

1. The Government's revised expenditure plans for 1982-83 onwards are higher than the cash equivalent of those in the March 1981 White Paper. For 1982-83, as already announced, the planning total is £115 billion, some £5 billion more than the earlier plans. For 1983-84 and 1984-85 the provisional planning totals are £121 billion and £128 billion respectively. These plans are in cash, not in the constant prices used in previous White Papers.
2. The main increases for 1982-83 are for local authority current expenditure (£1.3 billion), nationalised industries' total net external finance (£1.3 billion), employment services (£0.8 billion) and defence (£0.5 billion).
3. Total public sector capital expenditure in 1982-83 is planned to be about the same (nearly £12 billion) as expected in 1981-82. Expenditure on construction is expected to rise by over 10½% to £10¼ billion. The number of houses started and improved in 1982-83 should be higher than in 1981-82. There should be a slight increase in the work done on water and sewerage projects in 1982-83 compared with 1981-82. Nationalised industries' investment is planned to be over £7½ billion in 1982-83, 23% higher than expected in 1981-82 and 40% higher than in 1980-81.

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PART 1: THE EXPENDITURE PLANS

Introduction

1. The main features of the Government's plans for expenditure in 1982-83 were announced by the Chancellor of the Exchequer on 2 December 1981. This White Paper now gives a full account of the plans for the years 1982-83 to 1984-85. The plans are summarised in table 1.1. Chart 1.2 shows the planning total for each year.

2. The planning total for 1982-83 is £115 billion, some £5 billion higher than the cash equivalent of the programmes set out in the last White Paper (Cmd 8175 of March 1981), and some £9 billion higher than the expected outturn for 1981-82. The planning totals for 1983-84 and 1984-85, £121 billion and £128 billion respectively, are provisional and will be reviewed in the 1982 survey.

3. In 1981-82 the total outturn is expected to exceed plan by some [£1 billion], chiefly because local authorities have overspent on current expenditure. This has been taken into account in deciding the appropriate figures in this White Paper for 1982-83 onwards. The plans have also been increased in other areas, notably nationalised industries' finance, employment services and defence. These increases have been partly offset by reductions elsewhere.

PLANNING TOTAL

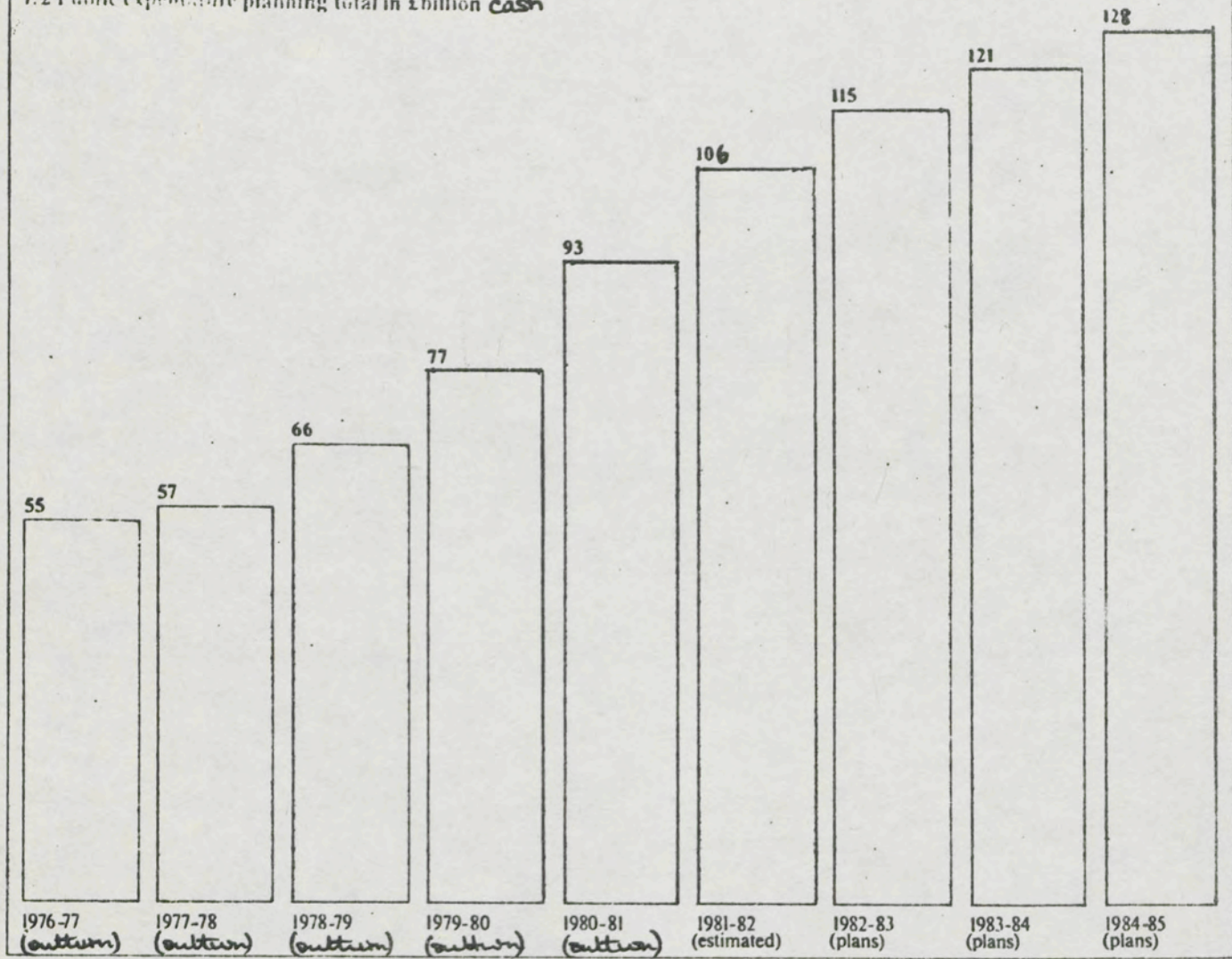
£ MILLION CASH

TABLE 1.1

	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82.	1982-83	1983-84	1984-85
			<i>Outturns</i>			<i>Estimated outturn</i>		<i>Plans</i>	
PUBLIC EXPENDITURE PROGRAMMES.									
1. CENTRAL GOVERNMENT (INCLUDING GOVERNMENT FINANCE FOR NATIONALISED INDUSTRIES)	36,560	39,584	46,560	55,811	67,616	78,015.	84,195	86,130	90,775
2. LOCAL AUTHORITIES	15,718	16,240	17,952	21,511	24,930	26,172.	28,055	30,044	31,070
3. CERTAIN PUBLIC CORPORATIONS. CAPITAL EXPENDITURE	1,069	985	1,018	1,226	1,474	1,485.	1,511	1,435	1,473
ADJUSTMENTS									
4. NATIONALISED INDUSTRIES NET OVERSEAS AND MARKET BORROWING (1)	1,269	923	458	-321	-448	202.	-181	41	-371
5. SPECIAL SALES OF ASSETS (NET)		-548		-998	-362	-50 [400] (2)	-500	-600	-600
6. CONTINGENCY RESERVE							2,250	4,000	6,000
7. PLANNING TOTAL	54,616	57,185	65,988	77,229	93,209	[106,200].	115,328	121,049	128,347
8. PERCENTAGE CHANGE ON PREVIOUS YEAR		+4.7	+15.4	+17.0	+20.7	+13.9	+8.6	+5.0	+6.0
MEMORANDUM ITEMS									
A. DEBT INTEREST - NET (3) - GROSS (3)	1,496	1,909	2,463	3,750	4,542	6,800.	6,800	6,900	7,100
(NOT INCLUDED ABOVE)	6,502	7,239	8,430	10,621	12,518	15,200.	15,800	16,200	16,500
B. NATIONALISED INDUSTRIES TOTAL NET BORROWING (INCLUDED IN LINES 1 AND 4)	1,553	705	1,151	1,536	1,828	2,018.	932	1,297	764

- 1) Including other public corporations accorded similar treatment (see Part 5 & table 5. —).
- 2) Amount remaining is expected to be fully spent by the end of the year.
- 3) See paragraph —.

1.2 Public expenditure planning total in £billion *cash*



Cash Planning

4. As announced by the Chancellor of the Exchequer in his Budget Statement on 10 March 1981, public expenditure is now planned in cash, not in the constant prices used in previous White Papers. The cash plans embody the principle, already well established in the system of cash limits, that levels of service must be determined in the light of the finance available.

5. 1981 was a transitional year. The starting point for the 1981 public expenditure survey was the constant price ('volume') plans of the March 1981 White Paper, Cmnd 8175, converted into cash in the way explained in Part 5 of this White Paper. Part 4 shows the revaluation for 1982-83.

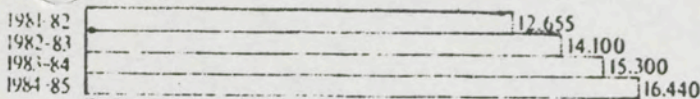
6. The Government then took the decisions resulting in the changes summarised in paragraphs [] below. Some of the changes included allowance for pay and price movements expected to differ from the general factors used to revalue the previous plans. Chart [1.3] and table [1.9] show the main programmes in cash as now planned. The services which can be provided within these cash totals will depend on the actual movements of pay and prices.

7. The starting point for the 1982 public expenditure survey will be the cash plans contained in this White Paper.

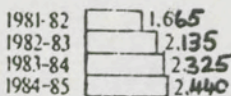
CHANGES SINCE CMND 8175

8. Table [1.13] shows the changes since Cmnd 8175. Further detail is in Volume 2.

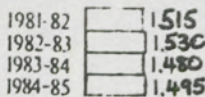
1.3 Public expenditure by programme in ^{cash} million, 1981-82 to 1984-85



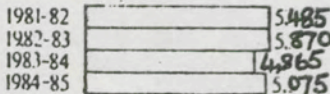
Defence



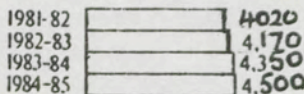
Overseas aid and other overseas services



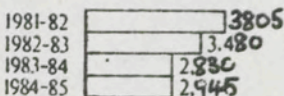
Agriculture, fisheries, food and forestry



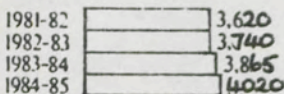
Industry, energy, trade, employment



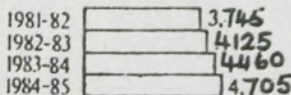
Transport



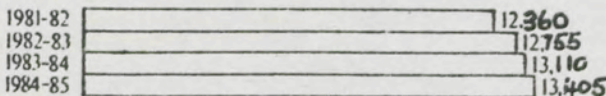
Housing



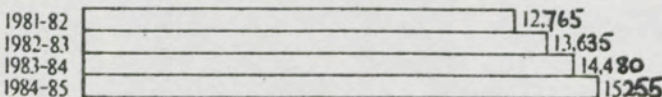
Other environmental services



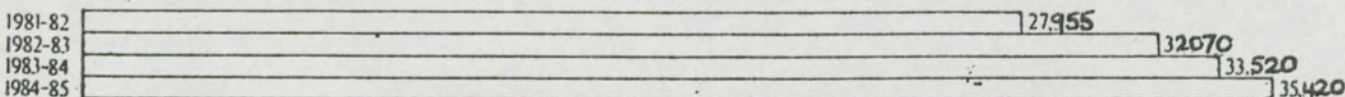
Law, order and protective services



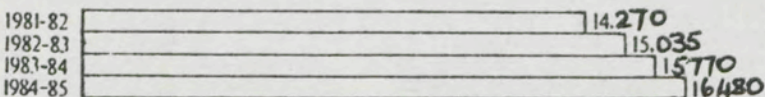
Education, science, arts, libraries



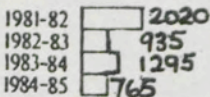
Health and personal social services



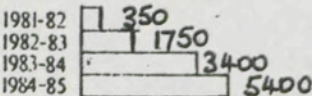
Social security



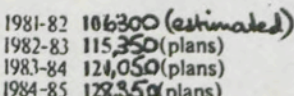
Other programmes including Scotland, Wales, N Ireland



Nationalised industries' total net borrowing



Other (contingency reserve and special sales of assets)



Planning total

9. Since the statement on 2 December 1981, the programme plans for 1982-83 have been adjusted where necessary for revised economic assumptions (chiefly affecting social security - see paragraph 12 below, housing and export credit subsidies) and for subsequent decisions. The planning total remains the same, at £115 billion.

Social Security

10. By far the largest single programme is social security, which accounts for over one-quarter of the total. Most of this expenditure is on benefits, and over half is state pensions for the elderly.

11. The plans include the decision announced on 2 December that, for those long-term benefits for which the Government have given a pledge of full price protection during the life of the present Parliament, the shortfall of 2% in the 1981 uprating will be made good in the 1982 uprating. There is a switch of expenditure from housing to social security resulting from the Government's proposals to introduce a unified housing benefit.

12. For the social security projections, prices were assumed to rise by 10% between November 1981 and November 1982, and by 6% and 5% respectively in the next two years. It has also been assumed provisionally that unemployment (Great Britain, excluding school leavers etc) would average 2.6 million in 1981-82, and 2.9 million a year thereafter. This is not a forecast or a prediction. If developments on pay and the world economic recovery are favourable, there is a reasonable prospect that unemployment levels in the later years may turn out to be somewhat lower than has been assumed.

Employment

13. The Prime Minister announced on 27 July 1981 an increase

of some £650 million in 1982-83 on special employment and training measures, mainly for young people and the Job Release Scheme. Total spending on these measures will be some £1500 million in 1982-83.

There is also increased provision for the Redundancy Fund in 1982-83, and in future years for the New Youth Training Scheme and other training reforms announced by the Secretary of State for Employment on 15 December 1981.

Defence

14. Provision for defence is in line with the Government's NATO undertaking to aim for real increases in the region of 3% a year. The additional provision in 1981-82 onwards is for the extra cost of armed forces' pay and the transitional costs of restructuring the defence programme as described in the Defence White Paper "The Way Forward", Cmnd 8288.

Health

15. Expenditure on health is being increased by some £80 million in 1982-83, after taking account of savings of £27 million through increased efficiency. This allows for demographic change and some improvement in standards, including advances in technology. The net increase is reduced by receipts from increased charges.

Law and Order

16. The increase of £110 million in 1982-83 reflects the Government's continuing commitment to the law and order services. The plans allow for an increase in police manpower from about 118,000 in March 1981 to virtually full establishment two years later. Extra spending on prison building is also planned.

Education

17. Provision for education is substantially affected by the increase in local authority current expenditure (see below). The programme takes account of the continuing decline in the school population up to age 16. Additional provision is being made for 16-19 year olds in schools and colleges, as announced by the Prime Minister on 27 July 1981, and for the restructuring of higher education.

Local authority current expenditure

18. The increased provision for local authority current expenditure (see paragraph [47] below) involves increases in those programmes which include both local authority and central government expenditure: in particular transport, other environmental services, law and order, education, personal social services, and Scotland and Wales. In some cases - notably transport and other environmental services - the increases have been largely or wholly offset by savings on other services in the programme.

Nationalised industries

19. Total net external finance for the nationalised industries has been substantially increased, by £1.3 billion in 1982-83, about half the increase for which the industries bid. As a result of the increase, the industries' planned investment in 1982-83 is over £7 $\frac{1}{2}$ billion, which is higher than the cash equivalent of the plans in Cmnd 8175, even though they expect substantially lower internal resources than then forecast. (Table 1.13 shows separately the increase in their total borrowing only; the increases in grant are included in the changes shown for the relevant programmes.)

Reductions

20. A general cut has been made in almost all expenditure subject to cash limits, mostly of at least 2% and in some cases substantially more. The main exception is defence.

21. As part of this cut, savings have been made on central Government staff and other administrative costs, including accommodation, and by increased efficiency in the NHS. The reductions in civil service staff numbers already planned (see paragraph - below) will contribute towards these savings.

22. The cut in cash-limited expenditure includes reductions on capital expenditure, mostly in transport and other environmental services. But keener tender prices mean that these cuts should have no significant effect on the construction of motorways and trunk roads, water and sewerage works, etc.

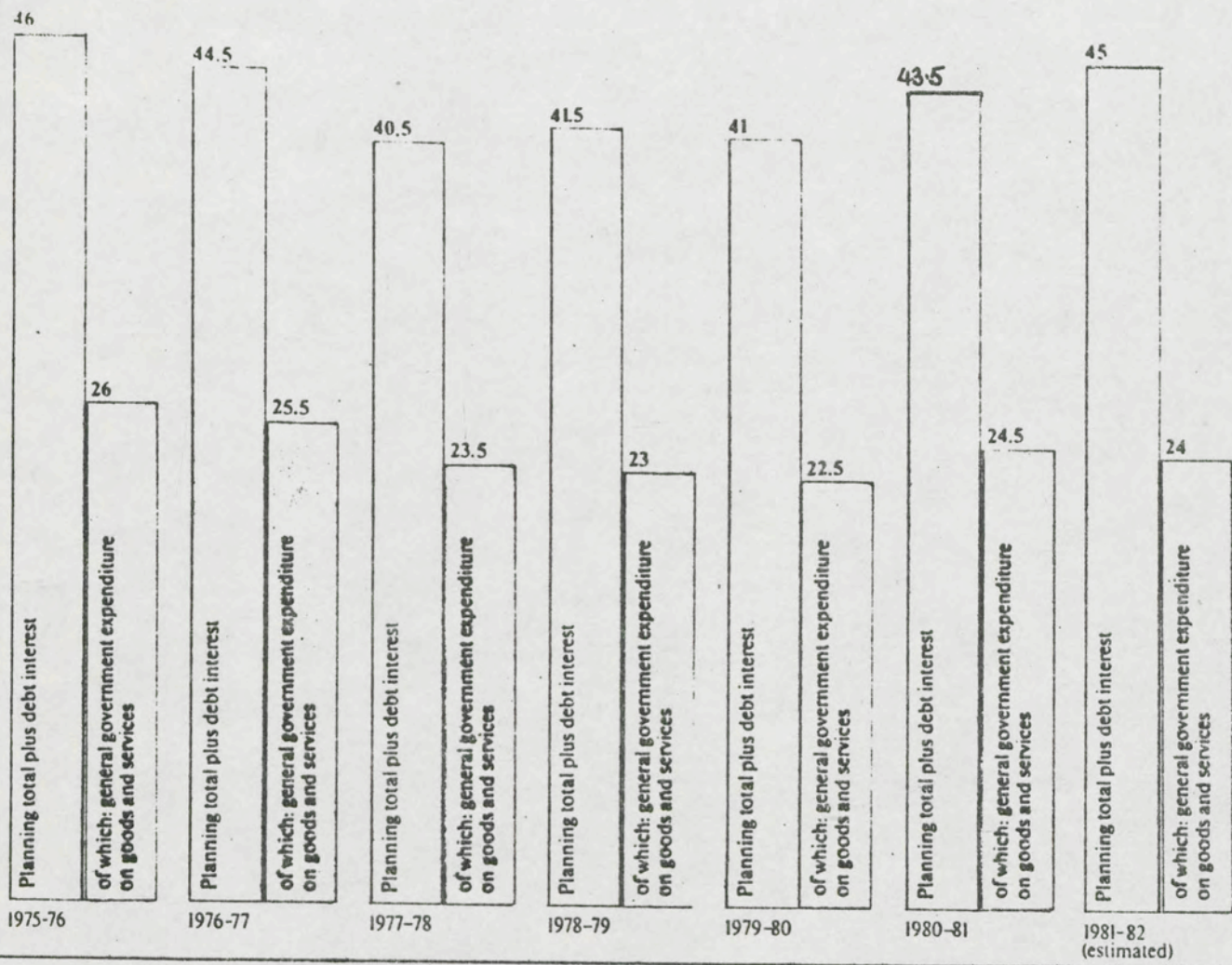
PUBLIC EXPENDITURE AND GDP

23. The ratio of total public expenditure (including debt interest) to GDP in 1980-81 was $43\frac{1}{2}$ per cent. For 1981-82 the ratio is expected to be higher (see chart [1.4]), reflecting the further real fall in GDP and the increase in public expenditure (especially in social security). In 1982-83 the ratio is expected to fall because of the expected real rise in GDP and the curbing of public expenditure.

CASH LIMITS

24. For the first time, the White Paper plans for the year ahead (1982-83) can be translated directly into cash limits. Part 4

1.4 Percentage ratios of public expenditure to GDP at market prices



gives a full list of the limits. The vast majority are on voted expenditure and published in the Estimates.

25. Cash limits are the control figures for the coming year. They will not normally be revised during the year. Any increase in expenditure which is decided will be charged to the contingency reserve.

26. 40% of public expenditure is directly cash-limited. Another 40% consists of "demand-determined" services where, once policy and rates of payments have been determined, expenditure in the short-term depends on the number of qualified applicants: eg social security benefits. The remaining 20% is local authority current expenditure: the rate support grant, the Government's main contribution to the financing of such expenditure, is subject to a cash limit, but not the expenditure itself.

CONTINGENCY RESERVE

27. The plans include a reserve for contingencies and other requirements which cannot be quantified at this stage. The reserve is a control figure for the year ahead: any fresh decisions to incur expenditure which cannot be accommodated within existing programmes will be contained within the reserve. For 1981-82 the reserve was £2,500 million. It is now expected to be underspent by some [£ million], a partial offset to the large overspend by local authorities.

28. For 1982-83 the reserve is set at £2250 million. For the later years the greater uncertainty requires a bigger reserve to make the planning total realistic. Contingency reserves of £4 billion and £6 billion respectively have been provided in 1983-84 and 1984-85. These figures will be reviewed in the 1982 survey, before the control total is set for 1983-84.

STAFFING

29. The Government intend a continuing saving in public service manpower. The Civil Service has been reduced from 732,000 in April 1979 by 7% to [679,800 in October 1981], the smallest total for over 14 years. A further reduction is planned, to 630,000 by the end of 1983-84, a total reduction of 14%. The Civil Service will then be smaller than at any time since 1945. Manpower in the armed forces is to be reduced by up to 19,500 by 1986 (6% less than in 1982), as announced in Cmnd 8288.

30. An increase in services to patients in the NHS implies some increase in manpower. Between 1979 and 1981, total manpower in the NHS (full-time equivalents), is estimated to have increased by some 40,000, ie about 5%. A breakdown by manpower category is not yet available for 1981, but nearly 80% of the increase between 1979 and 1980 was for manpower directly involved in patient care.

31. Local authorities' manpower in Great Britain has been reduced by over 70,000 (full-time equivalents), or 3%, between March 1979 and September 1981. Further savings are envisaged in the expenditure plans. The largest reduction has been in the education service: manpower fell by nearly 60,000, or 5%, but this service continues to employ half of local government workers. The staff employed on law, order and protective services increased by 11,000 (4%) over this period, and further slight increases are planned. The net saving so far in local authorities' manpower is, proportionately, less than half the reduction in the Civil Service.

PAY

32. Pay accounts for some 30% of total public expenditure; in many programmes the proportion is much higher. Labour costs are also an important component in the cost structure of the nationalised industries. Within a framework of cash planning, excessive expenditure on pay reduces the money available to finance investment or services to the public.

CAPITAL AND CURRENT EXPENDITURE

33. Tables [1.10, 1.11 and 1.12] provide an analysis of total public expenditure by spending authority and economic category. Table [1.15] shows the expected expenditure on construction. The Government have not taken decisions about the allocation of expenditure in the later years in sufficient detail for the analysis to be extended beyond 1982-83. The Government continue to give priority to worthwhile capital projects wherever this can be done within the overall public spending totals.

34. The main changes in current expenditure between 1981-82 and 1982-83 are a fall in housing subsidies, and the increase in social security benefits ("current grants to persons") chiefly as a result of increases in pension payments. Provision in 1982-83 for pay and related costs reflects the saving in public services manpower mentioned above, and the general allowance of 4% for pay increases.

35. Capital expenditure in 1982-83 (which is defined to include nationalised industries' borrowing for whatever purpose it is used) is planned to be nearly £12 billion, about the same as in 1981-82. Total construction expenditure, including investment on construction planned by the nationalised industries, is expected to rise from £9 $\frac{1}{4}$ billion to £10 $\frac{1}{4}$ billion, an increase of over 10 $\frac{1}{2}$ %.

36. Because current expenditure, and hence the total, will increase, capital expenditure in 1982-83, as defined in table 1.10, is expected to account for [10 $\frac{1}{4}$ %] of total spending, compared with [1.1%] in 1981-82. But by maintaining the level of capital expenditure,

- Local authorities should be able both to start more new houses and to improve more existing dwellings in 1982-83 than in 1981-82.

- There should be a slight increase in the work done on water and sewerage projects in 1982-83 compared with 1981-82.

- Nationalised industries' investment (including installation of System X equipment in telephone exchanges and completion of the Heysham II and Torness power stations) is planned at over £7½ billion in 1982-83, 23% higher than expected in 1981-82, and 40% higher than in 1980-81.

ANALYSIS BY SPENDING AUTHORITY

Central Government and nationalised industries

37. Central Government expenditure accounts for nearly three-quarters of total programmes. Of this:

- a) rather less than half is on goods and services, mainly for defence and the national health service; this includes the pay and related costs of the civil service, which amount to just under one-tenth of central government expenditure;
- b) slightly over a third is social security benefits;
- c) the remainder is other transfer payments, such as housing subsidies, industrial support and lending to the nationalised industries.

The figures are summarised in table [1.5].

38. The nationalised industries' external finance is shown in Table 1.6. Part 3 of this White Paper shows the External Financing Limits for individual industries in 1982-83. As in previous White Papers, no comparable financing breakdown is shown for subsequent years. The finances of trading bodies such as nationalised industries are inevitably subject to uncertainty, and there may be

TABLE 1.5

CENTRAL GOVERNMENT EXPENDITURE

	<i>£million cash</i>	
	1981-82.	1982-83
DEFENCE <i>aid & other overseas</i>	12,654.	14,103
OVERSEAS SERVICES	1,608.	2,093
AGRICULTURE FISHERIES	.	.
FOOD AND FORESTRY	1,239.	1,246
TRADE, INDUSTRY, ENERGY	.	.
AND EMPLOYMENT	5,317.	5,687
TRANSPORT	1,765.	1,927
HOUSING	2,098.	1,508
OTHER ENVIRONMENTAL	.	.
SERVICES	324.	323
LAW, ORDER AND	.	.
PROTECTIVE SERVICES	969.	1,084
EDUCATION AND SCIENCE	.	.
ARTS AND LIBRARIES	2,015.	2,308
HEALTH AND PERSONAL	.	.
SOCIAL SERVICES	10,890.	11,671
SOCIAL SECURITY	27,954.	31,390
OTHER PUBLIC SERVICES	1,346.	1,356
COMMON SERVICES	1,514.	1,633
SCOTLAND	2,697.	2,744
WALES	1,092.	1,110
NORTHERN IRELAND	2,718.	2,896
GOVERNMENT LEADING TO	.	.
NATIONALISED INDUSTRIES	1,816.	1,114
TOTAL	72,015.	84,195
EXCLUDING ADJUSTMENTS	.	.

(see table 1.1)

NATIONALISED INDUSTRIES' EXTERNAL FINANCE

Table 1.6

£ million cash

	1981-82 estimated outturn	1982-83	1983-84 plans	1984-85
Borrowing from Government (net)	1820	1110	1250	1150
Market and overseas borrowing (net)	180	-200	-	-400
Grants	1390	1830	1300	1350
Total external finance	3390⁽¹⁾	2740	2550	2100

i) including effect of gas levy (433)

large swings in either direction for individual industries.

39. These figures need to be seen in the context of the industries' aggregate capital requirements, shown in Part 3, which includes both the individual industries' investment plans and their other capital requirements. The industries' plans for fixed asset spending total over £7½ billion in 1982-83, nearly one-third by British Telecommunications.

40. The figures for all three future years exclude the external financing of the National Freight Company Limited, in which the Government hope to have sold all their shares by the end of 1981-82. The figures for 1983-84 and 1984-85 exclude the external financing of the British National Oil Corporation (BNOC) and the British Transport Docks Board (BTDB): this is on the assumption that shares in BTDB and in the upstream business of BNOC will be sold in 1982-83 and that control of these bodies will pass to the private sector.

41. Because of uncertainties about timing, no allowance has been made in the nationalised industry figures for the effects of other sales in the special disposals programme. Allowance for these is made in line 5 of table 1.1.

42. Almost all the industries expect to have substantially lower internal resources than forecast in Cmnd 8175, largely because demand and therefore revenue have been lower. The industries' aggregate external financing needs are still expected to decline over the survey period, but from a higher base and more gradually. Even so,

the industries will continue to finance two-thirds or more of their investment from internally-generated funds.

43. These plans depend on the industries making major efforts to bring current costs, above all wage costs, under control, in the way that private sector companies are having to do. Failure to do this is likely to mean either higher prices or less investment.

Local Authorities

44. Public expenditure by local authorities in Great Britain is shown in table [1.7]. The figures for 1980-81 are estimates of actual outturn while those for 1981-82 are local authorities' own budgets.

45. The Government pay grants including Rate Support Grant (RSG) and specific and supplementary grants, to subsidise relevant expenditure. This includes most current expenditure and finance for capital expenditure. The RSG settlements for 1982-83 were based on relevant expenditure figures consistent with table [1.7]: the details are in Part 4. Rate support grant and the supplementary grants are cash-limited.

46. In 1980-81 local authorities in Great Britain spent £1,050 million (6 per cent) more than the Government's plans for current expenditure relevant for grant. In 1981-82 local authorities' budgets totalled £1,700 million (9 per cent) above the Government's plans. As a result the Secretaries of State for the Environment and for Scotland have proposed to reduce RSG for 1981-82 by some £250 million; the precise amount will depend

Table 1.7

Public expenditure by local authorities in Great Britain

£ million *cash*

	1980-81	1981-82	1982-83
	(outturn)	(estimated)	(plans)
<i>Current expenditure</i>	10568	11646	11931
Education and science, arts and libraries ...	2484	2631	2717
Local environmental services ⁽¹⁾ ...	2552	2926	3218
Law, order and protective services ...	1900	2146	2223
Personal social services ...	1658	1910	1758
Transport ...	763	723	503
Housing ...	228	268	973
Other programmes ...			
Total (current) ...	20153	22250	23323
<i>Capital expenditure</i>	597	488	427
Education and science, arts and libraries ...	886	660	805
Local environmental services ⁽¹⁾ ...	64	113	127
Law, order and protective services ...	93	88	127
Personal social services ...	798	763	921
Transport ...	1906	1211	1664
Housing ...	127	147	167
Other programmes ...			
Total (capital) ...	4371	3470	4237
Total (capital and current) ...	24523	25720	27560

⁽¹⁾ Included in other environmental services programmes.

on the eventual overspend. In Wales spending is estimated to be close to plans, and the Secretary of State for Wales will consider whether RSG should be reduced there when actual expenditure by Welsh local authorities in 1981-82 is known.

47. Local authority current expenditure in 1982-83 in this White Paper is some £1.3 billion higher than the cash figures based on Cmnd 8175. Overspending by local authorities in 1981-82 meant that they would not be able to get down to the levels previously planned for 1982-83. The new higher plans for 1982-83 are 2 per cent more than local authorities' latest budgets for 1981-82. Allowing for pay and price increases, local authorities will have to make significant real economies to keep within the new plans.

48. The Government attach the utmost priority to achieving these targets for local government current expenditure. The rate support grant settlements for 1982-83 and this White Paper set out the Government's views on the levels of expenditure on local authority services which can and should be achieved. In taking the necessary steps to realise these plans it is for local authorities to make their own choices between services within the limits of their statutory obligations; and also choices between provision for higher pay and prices on the one hand and the level of services on the other.

49. Taking account of the £250 million grant reduction proposed in respect of 1981-82 (see paragraph 46), exchequer grants will be £850 million (6½ per cent) more for 1982-83 than for 1981-82. But ^{this} represents a lower proportion of relevant expenditure in each of ^{the} three countries. For example, in England it falls from 59.1 per cent in 1981-82 to 56 per cent in 1982-83. The block grant systems in England and in Wales ensure that if local authorities spend excessively they get proportionately less grant. Similarly, Scottish local authorities which spend too much may

have their RSG cut or they may be required to reduce their rates.

50. Local authority capital expenditure in 1981-82 is likely to turn out about £ $\frac{1}{2}$ billion less than the cash limits. Some shortfall is common in capital expenditure, but this year it is unusually large. This may be partly because local authorities have reacted cautiously to the new capital control arrangements begun this year in England and Wales. Capital receipts also seem likely to be about 40 per cent higher than the £1 billion or so allowed for in the cash limits.

51. The 1982-83 plans for local authority capital expenditure are 1% more than the cash limits for 1981-82, or 16% more than expected outturn.

52. Table [1.9] shows how local authorities have paid for their expenditure and how they might do so in 1982-83 provided that they spend in line with the plans in table [1.8]. If local authorities were to overspend the excess spending would have to be met by the rates or by borrowing.

53. The plans imply that local authority relevant current expenditure rises in cash by 4 per cent in 1983-84 and 3 per cent in 1984-85, and capital expenditure, excluding housing, by 2 per cent in 1983-84 and 3 per cent in 1984-85. The further economies required will be discussed with local authorities in the normal way.

SPECIAL SALES OF ASSETS

54. Special asset sales in 1980-81 reduced the PSBR by £360 million, compared with the announced target of £500 million. Details

TABLE 1.8

Financing of Local Authority Rate Fund Expenditure in Great Britain

£ million cash

	1979-80	1980-81	1981-82 (latest budgets)	1982-83 (settlement)
Total net rate fund expenditure ⁽¹⁾	18070	21380	24610	24960
Financed by				
Government grants	10820	12760	13560	14240
Local rates and rate rebate grants	7060	9080	11160)))))) 10720
Other - including borrowing and additions to (-) and drawings from local balances	+ 190	+ 40	- 110)

1) net of local income from fees and charges. It includes a small element of expenditure met from rates which is not relevant for grant purposes.

in Table [4.8]. Receipts from the sale of commercial and industrial property owned by New Towns were less than expected, and sales of motorway service area leases scheduled for 1980-81 were delayed. Sales in 1981-82 included Cable and Wireless shares, further motorway service area long leases and the Government's shareholding in the British Sugar Corporation. Total gross proceeds are estimated at £600m (including the sale of the NFC shares mentioned above) compared with a forecast in Cmnd 8175 of £500m. Net proceeds, at about £50m, are lower principally because of a reduction in receipts from earlier advance payments for oil and because it was decided not ^{to} pursue a further programme of advance oil payments, while the oil market was depressed.

55. Sale proceeds in 1982-83 are expected to total some £500m. This assumes that proceeds from the disposal in 1982 of 51 per cent of BNO's upstream business, provided for in the Oil and Gas (Enterprise) Bill, will be received in two instalments: the first in 1982-83 and the second in 1983-84. Further special asset sales are intended for later years.

56. The net benefit to the PSBR from the asset disposals programme is shown in line 5 of table 1.1. The figures for future years include, in addition to the proceeds of the sales themselves, the effect on the public sector borrowing requirement of reclassifying bodies sold from the public to the private sector, and any changes in the public sector's net cash flow, for example as a result of lower public sector receipts following the sale of a Government shareholding.

DEBT INTEREST

57. Table 1.1 shows two figures of debt interest. The net definition of debt interest represents broadly interest payments financed from taxation or further Government borrowing. **Gross debt interest** represents total payments of debt interest by the public sector, including

also interest payments matched by interest receipts or by provision for interest in the accounts of public trading activities.

PUBLIC EXPENDITURE IN 1980-81 AND 1981-82

58. Total public expenditure (planning total) in 1980-81 was about £93 $\frac{1}{4}$ billion, just below the estimate in Cmnd 8175. This is about £2 billion above the plans (revalued to cash) in the preceding White Paper, Cmnd 7841 of March 1980, chiefly because of overspending by local authorities on current expenditure, and higher expenditure than expected on benefits for the unemployed; shortfall elsewhere was less than expected.

Expenditure in 1981-82

59. Total expenditure in 1981-82 is now estimated at £106 $\frac{1}{4}$ billion compared with £105 billion, the cash equivalent of the Cmnd 8175 plans (adjusted for classification changes etc), chiefly because of the large excess expected on local authorities' current expenditure (see above). The announced increases in the defence cash limit (see Part 2) and in the external financing limits of some nationalised industries (see Part 3) were met from the contingency reserve, and thus contained within the planning total. Local authorities spent less on capital account than had been provided for.

PUBLIC
TOTAL EXPENDITURE BY PROGRAMME

TABLE 1.9

	£ MILLION CASH									
	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82.	1982-83	1983-84	1984-85	
			<i>Outturns</i>			<i>Estimated</i>		<i>Plans</i>		
DEFENCE	6,183	6,820	7,495	9,226	11,182	12,654.	14,103	15,298	16,439	
OVERSEAS AID AND OTHER OVERSEAS SERVICES										
OVERSEAS AID	502	601	727	801	921	1,005.	974	1,043	1,095	
NET PAYMENTS TO EC INSTITUTIONS	220	555	731	851	288	45.	500	580	600	
OTHER OVERSEAS SERVICES	316	426	378	453	507	613.	661	704	745	
AGRICULTURE, FISHERIES, FOOD AND FORESTRY	995	884	830	1,038	1,384	1,514.	1,530	1,478	1,497	
INDUSTRY, ENERGY, TRADE AND EMPLOYMENT	3,073	2,248	3,048	2,887	4,217	5,483.	5,872	4,863	5,077	
TRANSPORT	2,349	2,273	2,452	2,972	3,490	4,018.	4,172	4,351	4,498	
HOUSING	3,935	3,758	3,924	4,906	4,937	3,805.	3,478	2,832	2,944	
OTHER ENVIRONMENTAL SERVICES	2,101	2,217	2,510	2,955	3,470	3,622.	3,740	3,864	4,022	
LAW ORDER AND PROTECTIVE SERVICES	1,678	1,798	2,041	2,586	3,197	3,747.	4,126	4,461	4,707	
EDUCATION AND SCIENCE										
ARTS AND LIBRARIES	6,982	7,338	8,094	9,350	11,364	12,361.	12,754	13,108	13,406	
HEALTH AND PERSONAL SOCIAL SERVICES	5,937	6,540	7,425	8,899	11,476	12,766.	13,633	14,480	15,254	
SOCIAL SECURITY	11,389	13,646	16,165	19,106	23,057	27,954.	32,069	33,521	35,420	
OTHER PUBLIC SERVICES	735	761	824	973	1,219	1,357.	1,368	1,442	1,502	
COMMON SERVICES	708	765	852	1,007	644	1,514.	1,633	1,803	1,930	
SCOTLAND	3,073	3,260	3,701	4,447	5,345	5,793.	6,054	6,260	6,467	
WALLES	1,259	1,323	1,500	1,783	2,141	2,339.	2,426	2,498	2,601	
NORTHERN IRELAND	1,627	1,815	2,134	2,452	2,904	3,267.	3,554	3,766	3,979	
GOVERNMENT LENDING TO NATIONALISED INDUSTRIES ADJUSTMENTS	284	-218	693	1,857	2,276	1,816.	1,114	1,256	1,135	
NATIONALISED INDUSTRIES: NET OVERSEAS AND MARKET BORROWING (1)	1,269	923	450	-321	-448	202.	-181	41	-371	
SPECIAL SALES OF ASSETS		-548		-998	-362	-50.	-500	-600	-600	
CONTINGENCY RESERVE						[400].	2,250	4,000	6,000	
PLANNING TOTAL	54,616	57,185	65,900	77,229	93,209	[106,200].	115,328	121,049	128,347	

1) Including other public corporations accorded similar treatment (see Part 5 and table 5. —).

TOTAL PUBLIC EXPENDITURE BY ECONOMIC CATEGORY

TABLE 1.10

	£ million cash						
	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82.	1982-83
CURRENT EXPENDITURE			<i>Outturns</i>			<i>Estimated outturn</i>	<i>Plans</i>
WAGES AND SALARIES	17,456	18,781	20,905	24,798	31,143	34,321.	35,523
OTHER CURRENT EXPENDITURE ON GOODS AND SERVICES	8,978	10,158	11,624	14,169	16,708	19,593.	22,020
SUBSIDIES	3,738	3,490	3,992	4,937	5,956	6,115.	5,838
CURRENT GRANTS TO THE PRIVATE SECTOR	13,201	15,749	18,510	22,085	26,496	32,828.	37,009
CURRENT GRANTS ABROAD	813	1,239	1,504	1,752	1,350	1,135.	1,568
TOTAL EXCLUDING DEBT INTEREST AND OTHER ADJUSTMENTS	44,185	49,417	56,701	67,740	82,152	93,991.	101,957
CAPITAL EXPENDITURE							
GROSS DOMESTIC FIXED CAPITAL FORMATION	6,363	5,748	5,725	6,556	6,732	5,974.	6,308
INCREASE IN VALUE OF STOCKS	9	62	57	-13	84	68.	114
CAPITAL GRANTS	1,383	1,596	1,703	1,794	2,126	2,107.	2,198
NET LENDING TO PRIVATE SECTOR	335	201	-213	355	557	1,707.	1,881
NET LENDING TO NATIONALISED INDUSTRIES AND SOME OTHER PUBLIC CORPORATIONS (1)	404	-133	1,247	2,316	2,779	1,958.	1,209
NET LENDING AND INVESTMENT ABROAD	642	-95	307	-199	-410	-132.	92
CASH EXPENDITURE ON COMPANY SECURITIES (NET) (2)	25	15	4				
TOTAL EXCLUDING ADJUSTMENTS	9,162	7,393	8,829	10,808	11,868	11,681.	11,802
ADJUSTMENTS							
NATIONALISED INDUSTRIES NET. OVERSEAS AND MARKET BORROWING	1,269	923	408	-321	-448	202.	-181
SPECIAL SALES OF ASSETS		-548		-998	-362	-50.	-500
CONTINGENCY RESERVE						[400].	2,250
PLANNING TOTAL	54,616	57,185	65,908	77,229	93,209	[106,200].	115,328

1) The public corporations are those accorded similar treatment to nationalised industries (see Part 5 and table 5. —).

2) Excludes sales of British Petroleum shares in 1977-78 & 1979-80 which are included under 'special sales of assets'.

TOTAL PUBLIC EXPENDITURE BY SPENDING AUTHORITY AND PROGRAMME

TABLE 1.11

	£ million cash						
	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83
CENTRAL GOVERNMENT			<i>Outlays</i>			<i>Estimated outlay</i>	<i>Plans</i>
DEFENCE <i>aid to other overseas</i>	6,183	6,820	7,495	9,226	11,182		14,103
OVERSEAS SERVICES	1,023	1,571	1,817	2,068	1,677	1,608	2,093
AGRICULTURE FISHERIES FOOD AND FORESTRY	490	760	607	785	1,135	1,239	1,246
TRADE, INDUSTRY, ENERGY AND EMPLOYMENT	3,006	2,175	2,907	2,777	4,086	5,317	5,697
TRANSPORT	1,037	981	1,001	1,246	1,406	1,765	1,927
HOUSING	1,465	1,651	1,873	2,174	2,464	2,098	1,508
OTHER ENVIRONMENTAL SERVICES	120	130	150	182	215	324	323
LAW, ORDER AND PROTECTIVE SERVICES	388	420	496	610	817	969	1,084
EDUCATION AND SCIENCE ARTS AND LIBRARIES	1,200	1,156	1,277	1,542	1,881	2,015	2,308
HEALTH AND PERSONAL SOCIAL SERVICES	5,235	5,559	6,315	7,534	9,782	10,890	11,671
SOCIAL SECURITY	11,389	13,646	16,100	19,106	23,057	27,954	31,390
OTHER PUBLIC SERVICES	733	757	820	968	1,211	1,346	1,356
COMMON SERVICES	704	765	852	1,007	644	1,514	1,633
SCOTLAND	1,243	1,417	1,602	1,961	2,435	2,697	2,744
WALES	500	552	641	780	976	1,092	1,110
NORTHERN IRELAND	1,307	1,442	1,727	1,987	2,372	2,718	2,896
GOVERNMENT LENDING TO NATIONALISED INDUSTRIES	284	-218	693	1,857	2,276	1,814	1,114
TOTAL CENTRAL GOVERNMENT EXCLUDING ADJUSTMENTS	36,560	39,534	46,500	55,811	67,616	78,015	84,195
LOCAL AUTHORITIES							
AGRICULTURE FISHERIES FOOD AND FORESTRY	77	86	114	175	169	186	210
TRADE, INDUSTRY, ENERGY EMPLOYMENT	67	73	60	110	131	166	185
TRANSPORT	1,241	1,215	1,370	1,641	1,990	2,171	2,145
HOUSING	2,267	1,980	1,900	2,830	2,107	1,435	1,676
OTHER ENVIRONMENTAL SERVICES	1,479	1,598	1,830	2,212	2,661	2,584	2,764
LAW, ORDER AND PROTECTIVE SERVICES	1,290	1,378	1,549	1,975	2,380	2,778	3,042
EDUCATION AND SCIENCE ARTS AND LIBRARIES	5,783	6,182	6,817	7,808	9,483	10,346	10,446
HEALTH AND PERSONAL SOCIAL SERVICES	902	981	1,110	1,365	1,694	1,876	1,962
SOCIAL SECURITY							680
SCOTLAND	1,683	1,765	2,010	2,386	2,799	2,999	3,202
WALES	716	726	812	960	1,109	1,178	1,249
NORTHERN IRELAND	212	256	294	349	407	452	495
TOTAL LOCAL AUTHORITIES EXCLUDING ADJUSTMENTS	15,718	16,240	17,952	21,511	24,930	26,172	28,055
CERTAIN PUBLIC CORPORATIONS							
CAPITAL EXPENDITURE (1) (EXCLUDING ADJUSTMENTS)	1,069	985	1,018	1,226	1,474	1,485	1,511
ADJUSTMENTS							
NATIONALISED INDUSTRIES							
NET OVERSEAS AND MARKET BORROWING	1,269	923	458	-321	-448	202	-181
SPECIAL SALES OF ASSETS		-548		-998	-362	-50	-500
GONTINGENCY RESERVE						[400]	2,250
PLANNING TOTAL	54,616	57,185	65,988	77,229	93,209	[106,200]	115,328

1) Corporations whose capital expenditure is included in public expenditure; mainly the water authorities & new town development and housing corporations. These corporations do not include the nationalised industries. A list is given in Part 5.

TOTAL PUBLIC EXPENDITURE BY SPENDING AUTHORITY AND ECONOMIC CATEGORY

TABLE 1.12

	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82.	1982-83
			<i>Outflows</i>			<i>Estimated outflow</i>	<i>Plans</i>
CENTRAL GOVERNMENT							
CURRENT:							
GOODS AND SERVICES	15,891	17,549	19,672	23,709	29,452	33,655.	36,320
SUBSIDIES AND GRANTS	16,744	19,261	22,726	27,081	32,193	37,685.	41,878
CAPITAL:							
GOODS AND SERVICES	1,362	1,285	1,357	1,511	1,780	2,297.	2,509
GRANTS	1,287	1,493	1,546	1,596	1,907	1,858.	1,791
NET LENDING TO NATIONALISED INDUSTRIES AND SOME OTHER PUBLIC CORPORATIONS(1)	404	-133	1,247	2,316	2,779	1,959.	1,210
OTHER NET LENDING AND CAPITAL TRANSACTIONS	871	130	11	-402	-495	561.	486
TOTAL EXCLUDING DEBT INTEREST AND OTHER ADJUSTMENTS	36,560	39,584	46,560	55,811	67,616	78,015.	84,195
LOCAL AUTHORITIES							
CURRENT							
GOODS AND SERVICES	10,542	11,390	12,937	15,258	18,398	20,259.	21,222
SUBSIDIES AND GRANTS	1,007	1,217	1,307	1,693	2,108	2,392.	2,537
CAPITAL							
GOODS AND SERVICES	4,016	3,570	3,462	3,978	3,922	2,580.	2,796
GRANTS	92	93	141	175	190	245.	394
NET LENDING AND OTHER CAPITAL TRANSACTIONS	61	-29	47	408	311	696.	1,106
TOTAL EXCLUDING DEBT INTEREST AND OTHER ADJUSTMENTS	15,718	16,240	17,952	21,511	24,930	26,172.	28,055
CERTAIN PUBLIC CORPORATIONS(2)							
CAPITAL:							
GOODS AND SERVICES	994	955	963	1,054	1,114	1,164.	1,117
GRANTS	4	10	15	23	29	4.	12
NET LENDING AND OTHER CAPITAL TRANSACTIONS	71	20	39	149	331	317.	381
TOTAL EXCLUDING ADJUSTMENTS	1,069	985	1,018	1,226	1,474	1,485.	1,511
ADJUSTMENTS							
NATIONALISED INDUSTRIES NET OVERSEAS AND MARKET BORROWING	1,269	923	450	-321	-448	202.	-181
SPECIAL SALES OF ASSETS		-548		-998	-362	-50.	-500
CONTINGENCY RESERVE						[400].	2,250
PLANNING TOTAL	54,616	57,185	65,900	77,229	93,209	[106,200]	115,328

1) See note (1) to table 1. — . 2) See note (1) to table 1. — .

(i)
SUMMARY OF DIFFERENCES FROM CMND 8175 BY PROGRAMME

Table 1.13

£ million cash

	1979-80	1980-81	1981-82	1982-83	1983-84
Defence	-	-154	+383	+479	+417
Overseas aid and other overseas services					
Overseas aid	-	+23	-	-9	-4
EEC contributions	-	-	-415	-1	+49
Other overseas services	-	-15	-11	-8	-
Agriculture, fisheries, food and forestry	+5	-9	+160	+100	+64
Industry, energy, trade and employment	-5	+192	+232	+1,527	+1,189
Transport	+17	+130	+239	+136	+57
Housing	+27	-15	-320	+259	+296
Other environmental services	+61	+38	+48	+20	-71
Law, order and protective services	-	-29	+58	+101	+127
Education and science, arts and libraries	-	+143	+583	+568	+450
Health and personal social services	+3	+52	+229	+224	+159
Social security	-	-49	+399	+847	+501
Other public services	+4	+10	+3	-19	-6
Common services	-5	-562	+31	+25	+26
Scotland	+21	+140	+41	+167	+130
wales	-78	-87	+46	+78	+62
Northern Ireland	+3	-8	+44	+128	+141
Government lending to nationalised industries	-	+106	-92	+584	+1,631
Adjustments					
Nationalised industries net overseas and market borrowing	-	-81	+564	-26	+402
Special sales of assets	-	-	+144	-349	-440
Contingency reserve	-	-	[-1,600]	-600	+950
General allowance for shortfall	-	-	+700	+713	+764
	-	-	-	-	-
Planning total	+53	-176	[+1,465]	+4,943	+6,897
Debt interest - gross	+182	-282	+1500	+700	+200
Debt interest - net	-34	-605	+700	+100	-400
Nationalised industries total net borrowing	-	+25	+472	+558	+2,034

1) The Government's Expenditure Plans 1981-82 to 1983-84, March 1981.

(1)

SUMMARY OF DIFFERENCES FROM CMND 8175
BY ECONOMIC CATEGORY

Table 1.14

£ million cash

	1979-80	1980-81	1981-82
Current:			
Goods and services	-93	-172	+1,474
Subsidies and grants	+21	-91	+1,154
Capital			
Goods and services	+117	+119	-550
Grants	+9	+16	-11
Government lending to nationalised industries	-	+106	-92
Net lending to some other public corporations	-	+9	+49
Other net lending and capital transactions	-1	-85	-367
Adjustments			
Nationalised industries net overseas and market borrowing	-	-81	+564
Special sales of assets	-	-	+144
Contingency reserve	-	-	[-1,600]
General allowance for shortfall	-	-	+700
Planning total	+93	-176	[+1,465]

1) The Government's Expenditure Plans 1981-82 to 1983-84,
March 1981.

Table 1.15

CAPITAL EXPENDITURE

	1976-77	1977-78	1978-79
Housing: England	1832	1782	1738
New dwellings and improvements			600
Grants and loans to housing associations and improvement grants	537	581	
Other environmental services	762	725	856
Transport	714	588	598
Education	351	305	273
Health and personal social services	344	278	303
Scotland ⁽¹⁾	649	628	662
Wales ⁽¹⁾	286	262	279
Northern Ireland	99	212	207
Other ⁽¹⁾	419	443	463
Total (excluding nationalised industries) ...	6093	5804	5979
Nationalised industries:			190
Electricity	170	160	160
Gas	170	140	160
Railways	130	130	200
Coal	70	100	160
Other	240	220	230
Total nationalised industries⁽²⁾	780	750	940
Grand Total	6873	6554	6919

⁽¹⁾ Includes grants and loans to the housing associations and improvement grants.

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

⁽³⁾ Certain capital expenditure by the British National Oil Corporation which is classified in the national accounts as new buildings and works has been excluded from this table since little of the work is produced by the construction industry.

1. Table 1.15 gives information about capital expenditure by the public sector on construction work. As decisions have not yet been taken in all cases on allocations within the main programmes, it is not possible to extend this analysis into the later years.

2. With minor exceptions, the figures relate to the construction component of capital expenditure and do not include repair and maintenance work, which now accounts for about 40 per cent of public sector expenditure on construction. The figures consequently understate total public expenditure on construction, but they also include small amounts of expenditure which is not on work done by the construction industry.

ON CONSTRUCTION WORK

£ million cash

	1979-80	1980-81	1981-82	1982-83
	1995	1840	1473	2713
	709	805	799	
	987	1195	1237	1173
	727	860	853	
	319	495	327	280
	369	501	601	
	821	876	1012	1081
	342	410	419	
	232	245	257	484
	668	715	771	
	7169	7852	7749	890
				8592
	200	260	360	390
	210	300	250	330
	150	160	140	150
	220	300	350	340
	220	300	410	440
	1000	1320	1510	1650
	8169	9172	9259	10242

3. No allowance is made for any construction component in the unallocated expenditure provided for in the contingency reserve for 1982-83.

4. The figures include the following elements:

- direct spending on new construction (including architects' and surveyors' fees);
- capital grants and loans to housing associations and improvement grants (line 2 of table 1.15): these go to finance construction work, except that the figures for housing associations also include finance for their expenditure on the acquisition of land and existing dwellings;
- the estimated construction component of nationalised industries' investment programmes.