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C(85) 23

COPY NO

31

1 October 1985

CABINET

PUBLIC EXPENDITURE SURVEY 1985

Memorandum by the Chief Secretary, Treasury

The Cabinet agreed on 11 July to public expenditure planning totals of £139.1 billion, £143.9 billion and £148.2 billion respectively for the three years 1986-87 to 1988-89. I was invited to hold bilateral discussions with the Ministers responsible on individual expenditure programmes and to report back.

2. I have now held one or more meetings with colleagues on all the major programmes and some progress has been made. But we are still a long way from achieving the agreed targets.

THE EXPENDITURE POSITION

3. Agreements have been reached for some programmes. Details are shown in Annex B. In some other cases colleagues have reduced their proposals for extra provision. More meetings are taking place this week and I may be able to report further progress orally.

4. In the non-agreed programmes colleagues are in total seeking additions to programmes which would imply overshoots on the agreed planning totals of £3 billion in 1986-87 rising to over £5 billion in 1988-89. The details are shown at Annex A. I should stress that these implied overshoots are after taking credit for the higher sales of special assets and the transfer to programmes from the Reserve noted at the 11 July discussion.

5. It is therefore essential for colleagues greatly to reduce their demands in order to meet our expenditure objectives; and in some areas I must continue to press for substantial reductions below baseline. It is essential that as a Government we not only set limits for public expenditure within what can be afforded but also take the decisions on individual programmes necessary to adhere to those limits.

NATIONALISED INDUSTRIES

6. The Ministerial Steering Committee on Economic Strategy, Sub-Committee on Economic Affairs (E(A)(85) 14th Meeting) agreed that the aggregate external financing requirements of those nationalised industries included in this year's Investment and Financing Review should be kept at

baseline in 1986-87, and held £250 million and £150 million below the baseline for the following two years. The Prime Minister described these objectives as relatively modest. Although Annex A takes as an assumption that they will be achieved, the gap remaining is large and major issues remain to be resolved in the case of some industries.

RUNNING COSTS

7. We have told Parliament that we will set and announce limits for departmental running costs and in his minute to the Prime Minister of 25 September the Chancellor of the Exchequer proposed that these should be totals set without disaggregation into separate components for pay and other costs, and without recourse to a centrally determined pay assumption. I will be seeking to agree limits with colleagues on this basis. We agreed in Cabinet that the Survey aim would be to keep increases to half a percentage point below the rate of inflation (ie 4 per cent in 1986-87). The limits have to be tight, as demanding targets for administration; they have to be realistic, so that we do not face wholesale breaches during 1986-87.
8. The aggregate of departmental bids in 1986-87 represents an increase over the provision for 1985-86 of about 7 per cent. One factor is that Departments are bidding for additional manpower, some of which may be justified by the Government's emphasis on extra staff for detecting fraud, for fee-paid services or to implement policy changes such as the Crown Prosecution Service. The manpower bids are already threatening our published target for 1988 and there will be a large bid from the Department of Health and Social Security yet to be considered.
9. If we are to meet the target of getting running costs below the rate of inflation - and our announced manpower targets for Civil Service numbers - I must ask colleagues with whom I have not yet settled running costs to look carefully at their bids and scale them down. The transition to running costs limits needs careful presentation. There must be no suggestion that the Government is going soft on pay or that there is any change in the Government's wish to see pay settlements coming down with the expected fall in inflation. This makes it essential to achieve the lowest possible figures for the increase in running costs.

SURPLUS LAND AND EMPTY HOUSING

10. We have made satisfactory progress on this initiative. Discussions are still proceeding in some cases, but I presently expect aggregate targets for disposal well in excess of £100 million for both 1986-87 and 1987-88 to be agreed; with a further £100 million in 1988-89.

NEXT STEPS

11. I believe it will be possible to make some further progress in continuing bilateral exchanges, particularly in relation to running costs limits. But given the substantial gap between colleagues' expectations and the total expenditure limits to which the Government has publicly committed itself, the Cabinet will now wish to take stock of the position

SECRET

and to consider whether, as in recent years, a small group of Ministers should be convened under the chairmanship of the Lord President of the Council to examine outstanding differences and to make recommendations on how they might be resolved.

J MCG

Treasury Chambers

1 October 1985

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PES 1985: POSITION REACHED AT 1 OCTOBER 1985
CHANGE FROM BASELINE

1/10/85

£million

Survey baseline and proposed changes	1986-87		1987-88		1988-89	
	Baseline	DEPT BIDS	Baseline	DEPT BIDS	Baseline	DEPT BIDS
MOD	18,558	422	18,861	595	19,033	897
FCO-ODA	1,296	64	1,317	82	1,350	98
FCO-OTHER*	603	36	619	39	635	57
EC*	640	10	830	320	850	100
IBAP/AFF CAP	1,277	338	1,304	346	1,337	346
AFF domestic	713	9	699	7	717	5
FORESTRY*	53	0	54	0	56	0
TRADE/INDUSTRY*	1,162	-13	980	12	1,004	-25
ECGD*	78	207	-43	219	-44	126
ENERGY	294	27	293	37	300	40
EMPLOYMENT*	3,704	-74	3,901	-207	3,999	-125
TRANSPORT*	1,955	25	1,995	34	2,045	53
DOE-HOUSING	2,424	744	2,526	1028	2,589	957
DOE-PSA*	-120	7	-128	0	-131	0
DOE-OTHER	848	135	860	130	882	128
HOME OFFICE	1,061	87	1,104	77	1,131	94
LCD*	574	21	610	39	625	72
DES	3,418	168	3,505	182	3,593	198
DAL	333	15	342	23	350	27
HEALTH & PSS	14,945	409	15,622	484	16,012	870
SOCIAL SEC.	41,547	1203	43,553	1579	44,642	1771
CIVIL SUPER.*	1,114	65	1,226	86	1,257	147
SCOTLAND	4,300	7	4,373	20	4,482	12
WALES*	1,708	-2	1,735	-1	1,779	-4
N. IRELAND*	4,464	53	4,603	76	4,717	105
Territorial conseq.	0	300	0	400	0	520
CHANCELLOR'S DEPT	1,825	165	1,842	168	1,888	144
OTHER DEPTS	366	56	396	46	406	51
(1) LA REL CUR(UK)(ELA) teachers pay	26,032	601	26,301	600	26,959	240
(2) NAT IND E(A) target ind	0	228	0	300	0	400
Coal	171	0	-207	-250	-210	-150
RMPS & SRPS	382	508	392	333	402	198
BGC, BAA, NBC	309	194	318	-41	326	-50
SPECIAL SALES OF ASSETS	-470	272	-390	390	-400	400
RESERVE	-2,250	-2250	-2,250	-1250	-2,250	-1250
3 per cent increase in 1988-89 total	6,000	-1000	7,000	-1000	7,000	0
less double counting(3)	0	0	0	0	1,127	-1127
TOTALS	-252	0	-249	0	-258	0
	139,062	3037	143,894	4903	148,200	5325

- * Agreement reached in bilaterals
 (1) The E(LA) figure for 1986-87 is agreed. For later years the figures are the CSTs proposals for England plus the usual territorial consequences.
 (2) The E(A) target industry figures are those agreed by E(A) on 3 July.
 (3) DAFS and WOAD are in the baselines of both IBAP/AFF domestic and Scotland/Wales.

BRIEF NOTES ON AGREEMENTS REACHED IN BILATERALS

£ million

1. <u>FCO Other</u>	+ 36	+ 39	+ 57
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The settlement includes increased provision to offset increases in overseas costs, and for BBC external services. In the last year an extra £20m is included to compensate for the ending of loan repayments by Yugoslavia.

£ million

2. <u>EC</u>	+ 10	+320	+100
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The figures reflect higher forecast UK contributions to the European Communities.

£ million

3. <u>D/Trade and Industry</u>	- 13	+ 12	- 25
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The net changes include increases for aircraft and aeroengine projects, assistance to the shipbuilding and steel industries; and reduced requirements for the Government Emergency Communications, aircraft and aeroengine projects and manpower. The settlement also includes offsetting savings on regional policy.

£ million

4. <u>ECGD</u>	+207	+219	+126
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The agreed bids cover the higher forecast costs of the interest support programme and cost escalation scheme. Offsetting savings will be achieved by reducing banks' margins and making increased use of the capital markets.

£ million

9. Civil Superannuation + 65 + 86 +147

The figures reflect higher forecasts of the cost of payments to civil service pensioners and their dependants.

£ million

10. Wales - 2 - 1 - 4

The Welsh block will be settled according to the usual formula. On other spending net reductions have been agreed for the Welsh Development Agency and the Development Board for Rural Wales. These savings are partially offset by increases for housing revenue account interest payments.

£ million

11. Northern Ireland + 53 + 76 +105

The Northern Ireland block will be settled on the basis of the normal block/formula arrangements. The agreed additions represent higher forecast costs of social security and housing revenue account interest payments.