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CABINET

PUBLIC EXPENDITURE SURVEY 1985

Memorandum by the Lord President of the Council

At their meeting on 11 July the Cabinet decided that the public expenditure planning totals should be £139.1 billion for 1986-87, £143.9 billion for 1987-88, and £148.2 billion for 1988-89, and invited the Chief Secretary, Treasury to pursue bilateral discussions of expenditure programmes with the Ministers responsible. On 3 October the Chief Secretary, Treasury reported progress. The Prime Minister invited me to be the Chairman of the Ministerial Group on Public Expenditure (MISC 120) to consider and make recommendations on those issues which had not been resolved by the Chief Secretary, Treasury and the spending Ministers concerned (CC(85) 24th Conclusions, Minute 4; CC(85) 28th Conclusions, Minute 4).

2. This memorandum sets out the recommendations of MISC 120. I should like to express my gratitude both to the members of the Group and the spending Ministers who have appeared before us for the care and thoroughness which they have brought to the task.

3. A large number of programmes were agreed in bilateral discussions between the Chief Secretary, Treasury and the spending Ministers concerned. The effects on the Survey baseline are set out in Annex A; brief descriptions of the policy implications are in Annex B. MISC 120 were, however, left with an unprecedentedly large number of programmes to consider, with aggregate bids above the agreed baseline in the three years remaining at some £3.4 billion, £4.7 billion and £5.7 billion respectively, after allowing for the lower Reserves and large additional asset sales proposed by the then Chief Secretary, Treasury in July and for changes agreed bilaterally between the Chief Secretary, Treasury and spending Ministers.

4. In order to assist the Group's substantive discussions on the individual programmes, the Chief Secretary, Treasury reconsidered the prospects for receipts from asset sales and the size of the contingency Reserve it would be prudent to keep in hand. He also considered whether it would be appropriate, in the light of the latest projection of inflation, to make some small adjustment to the planning total for 1988-89 consistently with the Government's determination to hold that total broadly constant in real terms. He concluded that the following changes, though not without risk, would be possible.

	£ billion		
	1986-87	1987-88	1988-89
Reduction in Reserve	0.5	0.25	0
Increase in receipts from asset sales	0	0.75	0.5
Increase in planning total	0	0	0.5

5. I am glad to report that the Group have made major strides towards removing the outstanding excesses. The total agreed reductions in the additional bids amount to nearly £2 billion in each of the first two years, and a little over £3 billion in the third. Changes in the economic projections reduced the social security additional bids by about £0.2 billion, £0.7 billion and £0.7 billion in each of the three years, so somewhat reducing the extent of the Group's task. On the basis of the Group's proposals there would be excesses of about £0.1 billion in each of the first two years. However, the housing programme is still under discussion and excesses of the order of £1 billion would remain in each Survey year if the additional bid by the Secretary of State for the Environment were allowed. I will report the position orally to the Cabinet. Since the Group discussed the social security programme it has also become clear that later estimating changes reflecting later assessments of claimant numbers and of the rate of take up of benefits will add further to our problems, perhaps by as much as £½ billion by the third Survey year. There thus remain difficulties in holding to the agreed public expenditure planning totals.

6. The recommendations on the agreed programmes are summarised in paragraphs 7-21. All figures are in £ million unless otherwise stated, and further details are provided in Annexes C to L. A particular question arises about Scotland which is summarised in paragraph 15.

#### AGREED PROGRAMMES

##### Defence

7. The Survey baseline is as follows -

18,560	18,859	19,033
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The Secretary of State for Defence had proposed the following additions to baseline -

+ 422	+ 595	+ 897
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In discussion with the Group he accepted that, with the ending of the NATO commitment to 3 per cent real annual growth, there need be no question of further real increase in the defence programme. In these circumstances the future size of the defence programme should reflect on the one hand the requirement to maintain a defence capability sufficient to meet the United Kingdom's obligations, and on the other hand, the relative priorities to be attached to defence and to social and economic programmes in the civil field, within the overall constraint of the agreed aggregate provision for public expenditure. The Group made clear their view that, following the very substantial real increases of recent years in the provision of equipment for the armed forces, it was now time to tilt Government priorities more towards health, housing and social security; they saw a strong case for reducing the defence programme below baseline in order to make room for more expenditure in these other areas. They acknowledged, however, the difficulties the Secretary of State for Defence would face if provision for defence were reduced in cash terms below the previously published figures, and they therefore agreed with him that the programme should remain at baseline for the first two years. For the third year they agreed with the Secretary of State for Defence that the - as yet unpublished - Survey baseline figure should be maintained, but that the costs of the Falklands should be contained within that total for 1988-89.

Foreign and Commonwealth Office: Overseas Development Administration

8. MISC 120 and the Foreign and Commonwealth Secretary have agreed to recommend the following increase in the baseline provision for the overall programme -

21

29

37

This will accommodate the estimated increase in the Aid and Trade Provision agreed by the Ministerial Committee on Exports (EX(85) 3rd Meeting, Item 1; EX(85) 4th Meeting Item 1). Part of the cost of the latter will be met during the Survey period by transfer from the Votes of other Departments interested in promoting the new facility.

Energy (Departmental Programme)

9. MISC 120 and the Secretary of State for Energy have agreed on savings of £5 million per annum from the nuclear research and development programme which will be found across the whole programme.

Department of the Environment: Other

10. Following discussions with the Group, the Secretary of State for the Environment and the Chief Secretary, Treasury have agreed the following reductions below baseline in the Department of the Environment (DOE) "Other" programme -

- 20

- 20

- 15

These figures are net of a substantial increase in receipts from the sale of new town assets. The urban programme which is an element in the DOE "Other" programme is assumed to remain at baseline, pending further discussions among Ministers of possible Government policy responses to the recent disturbances in inner cities.

#### Education and Science

11. MISC 120 have agreed with the Secretary of State for Education and Science to recommend that the following additions should be made to his Department's Survey baseline -

Changes agreed bilaterally	28.5	23.5	8.0
Science and universities	25	25	25
Local authority capital	27	25	25

The changes agreed bilaterally primarily reflect spending on mandatory student awards and (in the first two years) expenditure on the "switch" transferred from other programmes to enable universities to increase their output of graduates in science and technology. The other additions will enable the Secretary of State for Education and Science to allocate some additional resources to key areas in science and the universities without relaxing the pressure on the latter for greater efficiency; and also provide some greater flexibility in essential local authority capital expenditure.

#### Arts and Libraries

12. MISC 120 have agreed with the Minister of State, Privy Council Office (Minister for the Arts) on the following net additions to the baseline provision for the arts and libraries -

7	9	12
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These figures include additional provision for the Arts Council of

14	9	8
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The Minister of State, Privy Council Office, believes that this will be sufficient to meet the requirements and political pressures arising from the abolition of the Greater London Council and Metropolitan Councils, and to maintain the Arts Council's regional development strategy. The larger addition in 1986-87 reflects the need to ensure that there are no immediate adverse effects through abolition. In later years the Minister of State, Privy Council Office expects to be able to secure more substantial contributions from the successor authorities towards the costs of the performing arts.

Health and Personal Social Services

13. There were large bids for additional expenditure on both the cash-limited parts of the programme (principally the hospital and community health services) and the demand-determined family practitioner services, which are not at present subject to a cash limit. They total -

409	487	870
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14. Following a re-examination of these bids the Secretary of State for Social Services has identified further savings that could be made by intensifying the campaign for increased efficiency in the hospital and community health services; and changes in provision for certain centrally financed services and for family practitioner services administration. These changes yield the following savings on the bids set out above -

159	184	270
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MISC 120 and the Secretary of State for Social Services jointly recommend them. The agreed additions to baseline then become -

250	300	600
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This will allow an increase of 2 per cent in real terms on hospitals and community health services current spending in 1986-87.

Scotland

15. The Group would like to have secured savings on the Scottish block of the order of -

100	150	200
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reflecting their judgment that public service provision in Scotland is now generally too high in relation to comparable provision in England and Wales. For example Scottish local authority rents are 30 per cent lower as a proportion of average earnings than those charged in England, and health expenditure per head is over 25 per cent higher than the English average. Furthermore it is noteworthy that the population of Scotland has fallen by 1.5 per cent relative to England since the underlying base for the Scottish block was set in parallel with a needs assessment based on 1976 data. The Secretary of State for Scotland, however, considers that in general no changes can be made in the overall block provision other than as a result of the application to Scotland of variations in English programmes, by means of the automatic "formula" which regulates such marginal changes. The only other reductions the Secretary of State for Scotland will contemplate are those which would not be readily detectable

or which could be justified by reference to particular Scottish circumstances. He has offered reductions in respect of lower rate fund contributions to housing revenue accounts -

8.7	20.7	9.6
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Together with other agreed variations, the overall changes in the Scottish baseline are -

- 16	0	- 17
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The Group believe, however, that even after such reductions the position is unsatisfactory, and should not be allowed to continue indefinitely. There is a clear case for a fresh assessment of need to serve as the basis for the allocation of public provisions as between England, Scotland, Wales and Northern Ireland. The objective would be to establish new baselines for the territorial block provisions, and a new mechanism for adjusting those baselines in the light of future economic, demographic and other relevant changes. The Group recommend that this fresh assessment of need be undertaken in time to be taken into account in decisions on the 1986 Public Expenditure Survey; the work should be undertaken on a confidential basis within Government, but Ministers would need to be ready to explain that the assessment was required to take account of changes over the last decade throughout the United Kingdom and implied no prejudgments about the conclusions.

#### Electricity Industry

16. The Survey baseline is as follows -

- 1,447	- 1,487	- 1,524
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Following substantial reduction of the electricity supply industry's initial bids, the Secretary of State for Energy sought the following changes in the baseline provisions -

+ 169	- 124	+ 568
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After re-examination of the scope for further savings, and some rephasing of working capital requirements from 1986-87 to 1987-88, and given that, on the latest available evidence, the timetable for construction of the Sizewell PWR is likely to slip a year, the Group and the Secretary of State for Energy have agreed to recommend the following changes from the above baseline -

+ 31	- 198	+ 243
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The Chief Secretary, Treasury has agreed that if, contrary to expectations, consent was given to the construction of Sizewell before autumn 1987, any resulting additional expenditure above the baseline should be met from the Reserve.

Water

17. Following discussion with the Group, the Chief Secretary, Treasury and the Secretary of State for the Environment have agreed that there should be no increase in the baseline provision during the Survey period. This is consistent with maintaining planned investment at broadly the same levels as envisaged last year, and an average increase in domestic charges of about 8 per cent next spring. The Group recommend that the figures should be settled on this basis, while noting the concern of the Secretary of State for the Environment at the potential political problems when the House of Commons is asked to approve the necessary Rate of Return Order in December. They also note that a settlement on the proposal basis represents some relaxation of the rate of improvement in the water industry's financial performance sought by the Ministerial Committee on Economic Strategy Sub-Committee on Nationalised Industries last year.

Coal and Gas Industries

18. For the National Coal Board, the Chief Secretary, Treasury and the Secretary of State for Energy have agreed changes to the baseline provision of external finance of -

+ 348

+ 158

- 2

These figures are provisional, pending the availability of the Board's Business Plan, and this will be made clear in the Autumn Statement.

19. For the British Gas Corporation, which is due to be privatised next autumn, the Chief Secretary, Treasury and the Secretary of State for Energy have agreed that the baseline negative external financing requirement in 1986-87 of £470 million should be revised to £420 million to cover the period before privatisation takes place. This figure will not be separately identified in the Autumn Statement or in the forthcoming White Paper.

Social Security

20. There are large additional bids stemming mainly from changed economic assumptions and higher take-up of benefits which are inevitable without policy changes. Following the Chief Secretary, Treasury's bilateral discussions, and taking account of further revision to the figures in the light of the autumn economic forecast, the bids above the Survey baseline totalled -

+ 982

+ 459

+ 1,144

21. After a very careful and detailed examination of options for further savings, including possible accelerated implementation of some of the measures in the Social Security Reviews, the Group, with the agreement of the Secretary of State for Social Services, recommend the following further savings -

	1986-87	1987-88	1988-89
No uprating of Child Benefit in July 1986, but full uprating in April 1987. Further savings in 1988-89.	16	- 27	23
A new drive against social security fraud.	25	30	30
Reduction of help with mortgage interest from July 1986.	10	*	*
Further restrictions on single payments.	40	80	160
Delay abolition of retirement pensioners' earnings rule until April 1989.	-	30	105
Require employers to take over payment of maternity allowance on the same basis as Statutory Sick Pay.	-	140	170
Introduce selective provision to replace maternity and death grant.	-	25	*
Adjustment required to reach agreed provisional total for the programme.	-	-	276
<b>Total Savings</b>	<b>91</b>	<b>278</b>	<b>764</b>

\* Saving already scored in base figures

The total for expenditure on social security in 1988-89 has been calculated by adding to the adjusted 1987-88 baseline the £380 million needed to meet the cost of a full  $3\frac{1}{4}$  per cent uprating of benefits in April 1988, reflecting the latest projections of the course of the Retail Price Index, rather than the  $2\frac{1}{2}$  per cent increase assumed in the baseline. It should be emphasised that the 1988-89 figures are provisional, and will depend on decisions still to be taken in the context of the Social Security Review; because of public uncertainty about the timing of changes in social security arising from the Review, the same considerations apply to some extent to 1987-88, and both figures will be presented as provisional in the Autumn Statement.



The agreed changes from baseline on social security are thus -

+ 891	+ 181	+ 380
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## HOUSING

22. The Group have not yet been able to finalise agreement with the Secretary of State for the Environment on the housing programme.

The baseline provision for current and capital expenditure net of capital receipts is as follows -

1986-87	1987-88	1988-89
2,424	2,526	2,589

In discussion with the Group the Secretary of State for the Environment proposed the following net additions to the baseline -

+ 679	+ 968	+ 892
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The Chief Secretary, Treasury sought reductions below baseline of -

- 21	- 227	- 298
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23. Both sets of figures include agreed changes of £104 million, £123 million and £12 million to meet the unavoidable effect of interest rate changes on housing subsidy and rate funds contributions and on option mortgages, and agreed capital savings (improvement grants and other) of £25 million, £55 million and £20 million. The remainder of the Secretary of State for the Environment's bid is made up as follows -

New provision for rent	+ 50	+ 50	+ 50
Renovation of public sector stock	+ 550	+ 850	+ 850

Discussion with the Secretary of State for the Environment is continuing and I will report the outcome orally to the Cabinet.

## LOCAL AUTHORITY CURRENT EXPENDITURE AND THE RESERVE

24. Inevitably a major concern remains about the future course of local authority current expenditure. In general the Government must rely on indirect means to control this expenditure, and the outcome is likely to be influenced also by changes in the political complexion of individual authorities. A major uncertainty remains about whether or when the authorities might be in a position to call on the additional resources held out by the Government for restructuring teachers' pay following an agreement on teachers' duties and on the better management of the teaching force. There is a risk, in the present climate, that any figures put in would only be regarded as a challenge to be exceeded; and to give in the White Paper a breakdown between services of an aggregate the Chief

Secretary, Treasury could accept in advance of negotiation with the authorities would almost certainly show lower expenditure than Government policy would indicate on, for example, police and personal social services. The Chief Secretary, Treasury has therefore agreed with the Secretary of State for the Environment and the Ministers responsible for the main services that the agreed 1986-87 figures (without an addition for teachers' pay) should be projected forward unchanged in cash terms for the following two years, with a clear proviso that future expenditure provision will be determined in the context of each successive year's Rate Support Grant settlement, and that regard has been had to this in determining the size of the Reserve. The Reserve has accordingly been increased above the level at which it would otherwise have stood by £0.25 billion, £0.75 billion and £1.0 billion for the three years, principally on this account. Taking into account the other changes set out in paragraph 4 above, the Reserve thus now stands at £4.75 billion, £6.5 billion and £8 billion for the three years.

## AUTUMN STATEMENT

25. The Group understand that the Chancellor of the Exchequer intends to give total figures for each programme for each of the three Survey years in his forthcoming Autumn Statement. This responds to strong Parliamentary pressure, and will make it possible for the departmental totals emerging from the 1985 public expenditure round to be presented as a whole.

## RECOMMENDATIONS

26. I invite the Cabinet -
- a. subject to my report on the housing programme, to endorse the agreements reached, as summarised in paragraphs 7-21 above;
  - b. to agree that a fresh assessment of need be undertaken, on a confidential basis within Government, to serve as the basis for the allocation of public provision as between England, Scotland, Wales and Northern Ireland.

W

Privy Council Office

6 November 1985

MISC 120: PROGRAMMES PREVIOUSLY AGREED

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SECRET

SCORECARD

£million

EX	1986-87		1987-88		1988-89		
	Baseline 999,999	AGREED 99,999	Baseline 999,999	AGREED 99999	Baseline 999,999	AGREED 99999	
+	1. FCO-OTHER	603	38	619	43	635	63
+	2. EC	640	10	830	320	850	100
+	3. IBAP/AFF CAP	1,277	272	1,304	334	1,337	336
+	4. AFF domestic	713	8	699	5	717	3
+	5. FORESTRY	53	0	54	0	56	0
+	6. TRADE/INDUSTR	1,162	-13	980	12	1,004	-25
+	7. ECGD	78	200	-43	213	-44	138
+	8. EMPLOYMENT	3,704	-74	3,901	-207	3,999	-125
+	9. TRANSPORT	1,955	27	1,995	33	2,045	52
+	10. DOE-PSA	-120	7	-128	0	-131	0
+	11. LCD	574	21	610	39	625	73
+	12. HOME OFFICE	1,061	43	1,104	44	1,131	55
+	13. CIVIL SUPER	1,114	65	1,226	86	1,257	147
+	14. WALES	1,708	-1	1,735	-1	1,779	-4
+	15. N. IRELAND	4,464	53	4,603	76	4,717	105
+	16. CHANCELLOR'S	1,825	163	1,842	169	1,888	143
+	17. OTHER (inc ter consequences)	366	170	396	170	406	205
+	NAT IND						
+	20. Settled	1,495	-4	1,265	-77	1,299	-459
+	21. RMPS & SRP	309	194	318	-41	326	-50
+	23. BGC			-390	390	-400	400
+	24. LA REL CURIUKA)	26,032	646	26,301	359	26,959	-323
+	25. SPECIAL SALES OF ASSETS	-2,250	-2,250	-2,250	-2000	-2,250	-1750
+	26. RESERVE	6,000	-1,250	7,000	-500	7,000	1000
+	27. 3.3 % increase in 1988-89					1,627	-1627
+	28. less double counting	-254		-247		-258	
=+	TOTAL AGREED	52,509	-1,675	53,724	-533	56,574	-1543

SECRET

MISC 120: PROGRAMMES CONSIDERED BY THE GROUP

	1986-87		1987-88		1988-89	
	Baseline	MISC 120 PROPOSALS	Baseline	MISC 120 PROPOSALS	Baseline	MISC 120 PROPOSALS
MOD(1)	18,560	0	18,859	0	19,033	0
FCO-ODA/ATP	1,296	21	1,317	29	1,350	37
ATP contributions from other depts		-4		-11		-11
ENERGY	294	22	293	32	300	35
DOE-OTHER	848	-20	860	-20	882	-15
DES	3,418	81	3,505	75	3,593	60
OAL	333	7	342	9	350	12
HEALTH & PSS	14,945	250	15,622	300	16,012	600
SOCIAL SEC.	41,547	391	43,553	181	44,642	380
SCOTLAND	4,300	-16	4,373	0	4,482	-17
Territorial consequences		65		90		170
NAT IND						
Electricity	-1,447	31	-1,487	-198	-1,524	243
Water E&W	123	0	15	0	15	0
Coal	382	348	392	158	402	-2
BGC	-470	50				
TOTAL AGREED IN BILATERALS	52,509	-1,675	53,724	-533	56,574	-1543
PLANNING TOTALS	139,062	51	143,894	112	148,700	-51
ADDITIONS SOUGHT BY THE ENVIRONMENT SECRETARY		679		968		892
plus further territorial consequences		140		195		180

SECRET

BRIEF NOTES ON AGREEMENTS REACHED IN BILATERALS

£ million

1. <u>FCO Other</u>	+ 38	+ 43	+ 63
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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>IBAP/AFF CAP</u>	+272	+334	+336
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The net change largely reflects higher forecasts of intervention stocks due to agricultural surpluses in the CAP. The forecasting increases are offset by economy measures on support for beef and cereals in each year and a once and for all saving of £14m in 1986-87 achieved by delaying payments for intervened cereals. The numbers include a recent reduction in the forecast for cereals intervention in 1985 and reflect receipts from new EC butter measures.

£ million

4. <u>AFF domestic</u>	+ 8	+ 5	+ 3
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Domestic agriculture has been settled slightly above baseline partly as a result of volume changes in domestic demand led programmes; and to provide the resources to implement decisions on sea fisheries protection.

£ million

5. Forestry Commission

0            0            0

Forestry Commission was settled at baseline with bids for new planting, conservation and restoration absorbed by the Commission.

£ million

6. D/Trade and Industry

- 13            + 12            - 25

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

7. ECGD

+200            +213            +138

The agreed bids cover the higher forecast costs of the interest support programme and cost escalation scheme. Offsetting savings will be sought by reducing banks' margins and making increased use of the capital markets.

£ million

8. Employment

- 74            -207            -125

Net savings have been agreed, reflecting reduced requirements and the abolition of rebates to employers from the Redundancy Fund. Reimbursement of maternity pay will again be kept at 90 per cent for the next two years. These savings are partially offset by bids of £75 million rising to £155 million a year; for 1988-89 over half is for the expansion of YTS announced in the Budget.

£ million

9. Transport

+ 27      +33      + 52

The net change includes increases for national roads, local capital and gross running costs offset by savings from fees, other programmes and the introduction of EFL treatment for local authority transport companies (£40 million a year). The agreement on the programme as a whole is conditional on securing the legislation needed to introduce EFL treatment for local authority transport companies.

£ million

10. PSA

+ 7      0      0

In the first year increased provision has been agreed for maintenance, new works and the International Conference Centre. Increased allowance has also been made for Parliamentary building (scored against other departments).

£ million

11. Lord Chancellor's Dept

+ 21      + 39      + 73

The agreed changes reflect the increased costs of legal aid and administration of legal aid by the Law Society. A confidential review of legal aid controls will be set up.

£ million

12. Home Office

+ 43      + 44      + 55

A package deal was agreed with the Home Secretary reflecting his bids for the prison service, largely because of the growth in prisoners and the need to maintain the prison building programme. Bids for drugs and the passport and immigration departments will also be accommodated within the agreed provision. The figures imply worsening arrears on the criminal injuries compensation scheme and no addition to provision for fire service capital. The figures also reflect a switch of resources from another programme for civil defence purposes.

£ million

13. Civil Superannuation + 65 + 86 +147

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

£ million

14. Wales - 1 - 1 - 4

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

15. 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.

£ million

16. Chancellor's Departments +163 +169 +143

Provision has been made for increased work on prevention of fraud and drug abuse, expenditure on computers and staff to reduce the outstanding backlog of work in tax offices. Increases are also needed to cover the public expenditure costs of life assurance premiums and mortgage interest relief. For the Rating of Government Property Department, increases reflect lower forecasts of receipts from departments under PRS, and higher forecast costs of rates paid on behalf of Crown occupations and foreign embassies.



£ million

17. <u>Other Departments</u> (including territorial consequences)	+170	+170	+205
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Provision is made for the territorial consequences of the increases agreed for comparable programmes. Also included here is additional provision to cover the cost of the Crown Prosecution Service. Other bids meet higher running costs of the House of Commons and House of Lords. Extra provision has also been allowed for staff to cope with an anticipated increase in the Land Registry's work load.

£ million

18. <u>Nationalised industries settled</u>	- 4	- 77	-459
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Agreement was reached in bilaterals on EFLs for the Scottish Electricity Boards, BSC, Post Office, National Giro Bank, British Rail, Scottish Transport Group, British Shipbuilders (Merchant), Civil Aviation Authority and London Regional Transport.

£ million

19. <u>RMPS &amp; SRPS</u>	+194	- 41	- 50
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Extra provision has been made to cover the cost of the Redundant Mineworkers Pension Scheme. The figures for the Shipbuilding Redundancy Payments Scheme are little changed.

20. BGC

The planning total will lose the benefit of British Gas' negative EFL after 1986-87 when it will be privatised.

£ million

+390 +400

£ million

21. <u>IA current (GB)etc</u>	+646	+359	-323
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The changes for 1986-87 were agreed in the RSG settlement. The provision for later years has been set at the same cash level as in 1986-87, recognising that decision on an appropriate level of provision will have to be taken in next years' RSG settlement; this implies the need for higher Reserves than would otherwise have been the case. Additional provision has been included for the new proposals on mid-day supervision in schools (in all three years) but not for other elements of the package offered on teachers' conditions of service.

£ million

22. <u>Special Sales of Assets</u>	-2,250	-2,000	-1,750
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The latest forecast of proceeds from special sales of assets suggests that proceeds will be higher than provided for in the baseline by the amounts shown.

£ million

23. <u>Reserve</u>	-1,250	-500	1,000
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Reserves of £4¾ billion, £6½ billion and £8 billion are provided for to cover contingencies, including estimating changes, not covered elsewhere.

£ million

24. <u>3.3 per cent increase in 1988-89</u>	-	-	-1,627
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Provision is made for the planning total to increase by 3.3 per cent in 1988-89, compared with the baseline uplift for individual programmes of 2.5 per cent.

**SECRET**

25. Double counting

Baseline provisions for the Department of Agriculture Fisheries and Food, Scotland and the Welsh Office of Agricultural Development are included in both the AFF/IBAP baselines and the Scotland and Wales baseline.

**SECRET**

**SECRET**

**SECRET**

1.11.85

## SECRET

## SCORECARD

£million

EX	1986-87		1987-88		1988-89	
	Baseline 999,999	AGREED 99,999	Baseline 999,999	AGREED 99999	Baseline 999,999	AGREED 99999
1. FCO-OTHER	603	38	619	43	635	63
2. EC	640	10	830	320	850	100
3. IBAP/AFF CAP	1,277	272	1,304	334	1,337	336
4. AFF domestic	713	8	699	5	717	3
5. FORESTRY	53	0	54	0	56	0
6. TRADE/INDUSTR	1,162	-13	980	12	1,004	-25
7. ECGD	78	200	-43	213	-44	138
8. EMPLOYMENT	3,704	-74	3,901	-207	3,999	-125
9. TRANSPORT	1,955	27	1,995	33	2,045	52
10. DOE-PSA	-120	7	-128	0	-131	0
11. LCD	574	21	610	39	625	73
12. HOME OFFICE	1,061	43	1,104	44	1,131	55
13. CIVIL SUPER	1,114	65	1,226	86	1,257	147
14. WALES	1,708	-1	1,735	-1	1,779	-4
15. N. IRELAND	4,464	53	4,603	76	4,717	105
16. CHANCELLOR'S	1,825	163	1,842	169	1,888	143
17. OTHER (inc ter consequences)	366	170	396	170	406	205
18. NAT IND						
19. Settled	1,495	-4	1,265	-77	1,299	-459
20. RMPS & SRP	309	194	318	-41	326	-50
20. BGC			-390	390	-400	400
21. LA REL CURIUKA	26,032	646	26,301	359	26,959	-323
22. SPECIAL SALES OF ASSETS	-2,250	-2,250	-2,250	-2000	-2,250	-1750
23. RESERVE	6,000	-1,250	7,000	-500	7,000	1000
24. 3.3 % increase in 1988-89					1,627	-1627
25. less double counting	-254		-247		-258	
TOTAL AGREED	52,509	-1,675	53,724	-533	53,574	-1543

## DEFENCE

Annex C

The existing Survey  
baseline is:

1986/87	1987/88	1988/89
18560	18859	19033

1. The Secretary of State for Defence initially proposed the following additions to baseline:

This bid comprised:	+422	+595	+897
(i) inflation adjustments	241	430	536
(ii) extra costs of the Armed Forces Pay Review Body (AFPRB)	128	131	134
(iii) Royal Dockyards: redun- dancy and redundancy costs	11	0	0
(iv) Royal Dockyards: post- contractorisation pension costs	0	34	35
(v) Royal Ordnance plc external financing limit	42	0	0
	<hr/>	<hr/>	<hr/>
	422	595	705*
	<hr/>	<hr/>	<hr/>
	+172	+345	+455

2. Following discussions with the Group, MISC 120 and the Secretary of State for Defence reached agreement on a settlement at baseline for the three Survey years (£18,560 million for 1986-87; £18,859 million for 1987-88; and £19,033 million for 1988-89 including provision for the Falklands).

\*Not including £192 million Falklands costs, 1988-89.

OVERSEAS DEVELOPMENT ADMINISTRATION

	<u>1986-87</u>	<u>1987-88</u>	<u>1988-89</u>
The existing Survey baseline is	1296	1317	1350

2. The Ministerial Committee on Exports (EX(85)4th Meeting, Item 1) agreed that a soft loan mechanism was desirable to make Aid and Trade Provision (ATP) more flexible and effective; and that decisions on how to meet the public expenditure costs should be taken in the context of the 1985 Public Expenditure Survey. EX contemplated that funds would be diverted from the programmes of interested Departments in order to minimise the net impact of the higher priority given to ATP on the public expenditure planning totals.

3. The Secretary of State for Foreign and Commonwealth Affairs initially sought increases in the aid programme of +60, +80 and +95 for the three Survey years, to maintain the real value of the bilateral aid programmes, and also to finance the increase in multilateral aid programmes to which the UK is committed. After discussion with MISC 120, the Foreign Secretary accepted increased provision of +21, +29 and +37. The ODA element of the costs of the new ATP soft loan facility will be financed within the revised total provision for the aid programme.

4. The costs of the proposed soft loan facility, assuming additional business of £125 million in 1986-87 rising to £250 million in 1988-89 and the following two years, and meeting all additional costs on a pay-as-you-go basis, are estimated to be:

	<u>1986-87</u>	<u>1987-88</u>	<u>1988-89</u>
ECGD	1	3	9
ODA	3	10	20
Other interested Departments have been asked to make contributions towards this facility of:	4	11	11

The balance of these amounts, after providing for the ECGD element in the costs of the new facility, will be transferred to the aid programme, with the remainder of the agreed increases in the overall aid programme representing a net increase in total public expenditure.

5. The changes in ODA's baseline are:

	<u>1986-87</u>	<u>1987-88</u>	<u>1988-89</u>
Existing baseline	1296	1317	1350
Increased provision	21	29	37
New baseline	1317	1346	1387

ENERGY (DEPARTMENTAL PROGRAMME)

1. The Chief Secretary, Treasury initially sought a reduction in provision for fast reactor research of -28, -55, and -58 in each of the three Survey years. The Survey baseline for fast reactor is:

103

105

108

The Chief Secretary, Treasury subsequently reduced his bid for reductions to -10 in each of the Survey years.

2. The Secretary of State for Energy had already made cuts since 1983 in planned expenditure on the fast reactor programme of 22 per cent for 1985/86, 37 per cent for 1986/87 and 42 per cent for 1988/89. In addition, he has obliged the United Kingdom Atomic Energy Authority (UKAEA) management to work on the basis of a Trading Fund, which will intensify the pressures for a more commercial approach. Against this background the Secretary of State for Energy did not believe it was possible to make the cuts proposed by the Chief Secretary, Treasury.
3. MISC 120 and the Secretary of State for Energy reached agreement on savings of £5 million per annum for each of the Survey years from the whole range of UKAEA activities.
4. The costs of extending the Coal Firing Scheme until June 1987 will be contained within the Departmental programme.

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DOE OTHER

	<u>1986-87</u>	<u>1987-88</u>	<u>1988-89</u>
Survey Baseline	848	860	882
MISC 120 Recommendation	-20	-20	-15

(i) New Town Asset Sales

1. The Secretary of State and the Chief Secretary have agreed to increase the level of receipts from the sale of New Town assets, by £70 million in the first year and £50m and £40m in the two subsequent years. This will allow an increase in gross expenditure without affecting the net provision shown above.

(ii) Local Environmental Services (LES)

2. The recommended provision will allow capital allocations to local authorities for the other services block to be set at about £300 million for 1986-87. This should be sufficient to minimise the risk of a successful legal challenge by local authorities on the basis of previous commitments that allocations will be no less than 70 per cent of the 1984-85 level.

(iii) Other Environmental Services

3. Provision for the large scale Household Survey has been removed. MISC 120 recommends that it should proceed only if it is subsequently found to be absolutely necessary from the standpoint of reform of local government finance.

(iv) The Urban Programme

4. The Urban Programme has not been considered by MISC 120, pending the outcome of the review of urban policy commissioned by the Cabinet. Provision remains at baseline.

EDUCATION AND SCIENCE

	<u>1986-87</u>	<u>1987-88</u>	<u>1988-89</u>
Survey baseline (excluding local authority current)	3418	3505	3593

1. In their bilateral discussions, the Secretary of State for Education and Science and the Chief Secretary, Treasury agreed the following additions to baseline, in respect of mandatory student awards and (in the first two years) of transfers from other programmes to finance the "switch" - the provision of extra places in higher education to increase the number of graduates and postgraduates in engineering and technology:

	+28.5	+23.5	+8.0
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These figures also include a reduction of £1 million a year in funding for the Economic and Social Research Council.

2. The Secretary of State for Education and Science sought the following further additions above baseline:

Universities	+47	+49.2	+69.5
Science	+15	+30	+40
Local Authority Capital	+71	+71	+71
Voluntary School Repairs	+8.5	+8.5	+9.0

3. MISC 120 and the Secretary of State for Education and Science reached agreement on increased provision of £25 million for the universities and science taken together in each of the Survey years. This provision should go some way towards meeting the need for new equipment, stimulating research activity, and stemming the scientific brain drain.

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4. MISC 120 and the Secretary of State for Education and Science reached agreement on allocations for local authority capital expenditure in 1986/87 of £300 million. This corresponded to additional provision for such expenditure of £27 million in 1986/87, with additions of £25 million for provision in the subsequent two years. MISC 120 agreed that it would be open to the Secretary of State to find from within these additions, provision in each year for voluntary school repairs to the extent necessary.

5. Up to and including 1987/88 funding for the "switch" is shared among interested Departments. The Department of Education and Science had already agreed to provide £4 million towards the cost of the switch (£22 million) in 1988/89. MISC 120 agreed with the Secretary of State for Education and Science that it would in principle be necessary, if the necessary room could not be found within the universities programme, to reduce provision for local authority capital expenditure in 1988-89 by up to £18 million to enable the "switch" to be funded.

6. The impact of these changes on the education and science baseline is as follows:

Bids already agreed	28.5	23.5	8.0
Science and Universities	25	25	25
Local authority capital	27	25	25
	<hr/>	<hr/>	<hr/>
	80.5	73.5	58
 New Baseline	 3498.5	 3578.5	 3651

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ARTS AND LIBRARIES

	<u>1985/86</u>	<u>1986/87</u>	<u>1987/88</u>
The existing survey baseline is	332	342	351

1. In their bilateral discussions, the Minister for the Arts and the Chief Secretary, Treasury agreed on changes of -7, -0.5, +4.0 over the three Survey years, to reflect a changed requirement for the new British Library building and reductions in local authority capital expenditure.
2. The Minister for the Arts had sought additions of +22, +23 and +23 in each of the three Survey years. He had sought additional provision in respect of the Arts Council (+15, +15, +15), moderating the cost squeeze on the arts (+4, +5, +5) and national museums and galleries (+3, +3, +3).
3. MISC 120 reached agreement with the Minister for the Arts on increased provision above baseline for the Arts Council of +14, +9 and +8. Taking into account agreements already reached between the Chief Secretary, Treasury and the Minister for the Arts, this agreement represents an addition to baseline of +7, +8.5 and +12 in each of the three Survey years. In the judgement of the Minister for the Arts, this settlement should enable the Government to contain, in relation to the arts, the transitional problems arising from the abolition of the Metropolitan Authorities; and, depending on the rate of inflation, it may also enable the Arts Council to continue their regional strategy. The Minister for the Arts has assured the Group that he will not make a further additional bid in the 1986 public expenditure survey in respect of the impact of abolition on the Arts Council.
4. MISC 120 was unable to accept any increased provision in respect of the cost squeeze on the arts or on the museums and galleries building programmes. The Minister for the Arts accepted this position.
5. The impact of these changes on the Arts and Libraries baseline is as follows:

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Bids already agreed	-7	- 0.5	+4
Arts Council	+14	+9	+8
Change in baseline	+7	+8.5	+12
New baseline	339	350.5	363

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HEALTH AND PERSONAL SOCIAL SERVICES

	<u>1986-87</u>	<u>1987-88</u>	<u>1988-89</u>
Survey Baseline	14945	15622	16012
MISC 120 Recommendation	+250	+300	+600

Allocated as follows:

Hospital and Community Health Services (HCHS) current	+157	+196	+374
Centrally Financial Services (CFS) and Family Practitioner Services (FPS) Administration	+13	+14	+21
Family Practitioner Services (FPS)	+80	+90	+205

1. For the HCHS, it is expected that efficiency savings of 2 per cent will be made in 1986-87, releasing additional resources of £200 million. Further savings will follow in future years. But there will not be sufficient to cover the additional costs of the 1985 pay awards (which included a significant element of restructuring), while responding also to increased demand through demographic pressure. The increased provision will allow an increase of 2 per cent in real terms in HCHS current spending in 1986-87.
2. The additions for the FPS reflect the best estimates of likely demand. The net costs will however be reduced by planned increases in prescription and dental charges, and by further savings on the drugs bill. The planned Green Paper on primary health care is expected to lead to further control on this expenditure; and MISC 120 has identified a significant saving for 1988-89.

SOCIAL SECURITY

	1986/87	1987/88	1988/89
Survey baseline (excluding local authority current expenditure)	41547	43553	44642

1. In their bilateral discussions, the Secretary of State for Social Services and the Chief Secretary, Treasury agreed that additional administrative costs were needed as follows:

	+57	+76	+86
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They further agreed that there were large and unavoidable increases to be met, mainly because of changes in economic assumptions and higher take-up of benefits. They could not agree, however, on the extent to which these should be offset by savings from within the social security programme. Following the bilateral discussions, and taking account of both savings previously agreed and further revision to the figures in the light of the autumn economic forecast, the bids above the Survey baseline totalled

	+982	+459	+1144
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The Group felt it necessary to explore the scope for further policy adjustments to offset part at least of these additions. They looked both to specific new measures and also to savings already identified within the context of the Social Security Review which could be brought forward and implemented in earlier years. They took as an assumption that the main measures of the Review would be implemented from April 1988.

2. The Secretary of State for Social Services has agreed to commit himself to finding the following additional level of savings within the social security programme; MISC 120 joins with him in recommending them to the Cabinet

-91

-278

-488

3. The main sources of these savings are as follows

(i) No uprating of child benefit in July 1986 but full uprating of child benefit in April 1987.

(ii) A new drive against social security fraud.

(iii) Additional restrictions from early 1986 of single payments for particular items to supplementary benefit recipients in anticipation of the eventual abolition of such payments and their replacement with discretionary payments from a cash limited social fund in 1988.

(iv) Negotiations with the building societies to impose restrictions on mortgage repayments in supplementary benefit cases from Autumn 1986 instead of from 1988 when the main review measures are implemented.

(v) Deleting provision for the abolition of the retirement pensioners' earning rule until April 1989.

(vi) A requirement for employers to take over from April 1987 payment of maternity allowance on the same basis as Statutory Sick Pay.



(vii) Introduction in 1987/88 of selective provision to replace maternity and death grant.

4. The Secretary of State for Social Services has further agreed that, in order not to prejudice further collective consideration of the measures in the Social Security Review, the figure for the final year of the Survey period which is published following the Autumn Statement should be shown as provisional only and dependant on the final collective decisions taken on his Review. He has agreed to a figure of £45022 being shown, ie an increase over baseline of £380 million which would be sufficient to finance a full 3 1/4% uprating in that year in line with the latest projection of the RPI. Since at the time of the Autumn Statement, the decision to defer implementation of the main review measures will not be publicly known, the same procedure will need to be applied to the second year of the Survey; although the figure for this year is in fact final not provisional and this is no more than a presentational device.

ELECTRICITY SUPPLY INDUSTRY

	<u>1986-87</u>	<u>1987-88</u>	<u>1988-89</u>	<u>Total</u>
The existing Survey baseline is	-1447	-1487	-1524	-4458

1. The electricity supply industry's initial bid was for additional provision of £613 million over the three IFR years. On 30 September a bid for a further £466 million was tabled, reflecting a late bid from the industry. This took total extra provision sought to £1079 million over the period. The increased bid of £466 million included £190 million on the assumption that the Sizewell pressurised water reactor (PWR) would go ahead; £130 million to enhance the industry's ability to endure another coal strike; an extra £55 million to complete the AGR station at Heysham and to improve the performance and safety of AGRs more generally; and additional capital expenditure required by the industry largely to meet requests for new supplies which are growing with the economy. The Secretary of State for Energy offered to secure savings of £603 million against this bid, and therefore sought the following changes in baseline provision:

+191	-94	+379	+476
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2. MISC 120 reached agreement with the Secretary of State for Energy on the following further general savings on the financing requirements of the electricity industry:

-50	-50	-70	-170
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The Secretary of State for Energy also offered - and MISC 120 agreed this would be helpful - to seek rephasing of £50 million of working capital requirements from the first to the second IFR year. These changes produced the following revised bid:

+91	-94	+309	+306
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3. It seemed increasingly doubtful that the Sizewell enquiry report would be ready by the spring of 1986. MISC 120 therefore agreed with the Secretary of State for Energy that it would be realistic to assume that the timetable for the Sizewell would slip a further year. This did not represent a change in policy on Sizewell, nor a decision that the project should be deferred by a further year. The Chief Secretary, Treasury accepted that if, in the event consent to the construction of Sizewell was given before Autumn 1987 the resulting additional expenditure above baseline should be met from the Reserve. The savings resulting from the new working assumption about the timing of Sizewell are as follows:

-60	-104	-66	-230
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4. The cumulative effect produces changes in baseline as follows:

+31	-198	+243	+76
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5. The impact on baseline is:

Existing baseline	-1447	-1487	-1524	-4458
New baseline	-1416	-1685	-1281	-4382

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WATER

	<u>1986/87</u>	<u>1987/88</u>	<u>1988/89</u>
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1. The existing Survey baseline is

	108	0	0
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2. E(NI) conducted a major review of water strategy last year. The Subcommittee agreed it was important to maintain and strengthen pressures on the water authorities for increased efficiency; and that there was a strong case for increased investment in water services accompanied by increases in real returns on assets employed in the industry. It was recognised that the achievement of these objectives would require significant increases in the real level of water charges over a period of years.

3. The Secretary of State for the Environment bid for an addition of £33 million to the EFL in 1986-87. This was estimated to permit an average increase in water charges of no more than 8½ per cent for domestic consumers (1 per cent less for others) for 1986-87, which in his view would be consistent with a capital investment programme for the water industry of £910 million. MISC 120 did not accept this. Their view was that with a price increase of 8½ per cent, and with the improved prospect next year for the general level of inflation, water authorities would still be able to undertake an expanding capital investment programme with an unchanged EFL; MISC 120 would have been prepared to accept a lower price increase together with a smaller investment programme.

4. The Secretary of State for the Environment and the Chief Secretary, Treasury have agreed subsequently that there should be no change to the existing Survey baseline for all three years. The Secretary of State for the Environment and the Chief Secretary, Treasury also agreed to aim for an average increase in domestic charges of about 8 per cent for 1986-87 to take effect in the spring of 1986. This involves some relaxation in the rate of improvement in the industry's financial performance sought last year by E(NI). The capital investment that can be undertaken by the water industry in 1986-87, consistent with these decisions, will need to be estimated in consultation with the water authorities. But the

Secretary of State for the Environment will be seeking to ensure that it is not less than £885 million.

5. The Secretary of State for the Environment notes that an average increase in domestic water charges of about 8 per cent will require very careful presentation when the House of Commons is asked to approve the necessary Rate of Return Order after the autumn statement.
  
6. The Secretary of State for the Environment envisages a White Paper on water industry privatisation before Christmas, followed by a Bill in the 1986-87 session providing for privatisation based on river basin authorities (ie broadly the present structure of the industry). The Secretary of State and the Chief Secretary, Treasury are agreed that the future financial strategy for water authorities will necessarily have to be reviewed as part of further work on privatisation, and that the results of this will need to be taken account in future public expenditure decisions.

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