

4

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

C(86) 22

COPY NO 36

5 November 1986

CABINET

PUBLIC EXPENDITURE SURVEY 1986

Memorandum by the Lord President of the Council

At their meeting on 17 July the Cabinet decided that the Public Expenditure Survey should be conducted within the published public expenditure planning totals of £144 billion for 1987-88 and £149 billion for 1988-89, and within a total of £153 billion for 1989-90, and invited the Chief Secretary, Treasury to pursue bilateral discussion of expenditure programmes with the Ministers responsible on that basis. At their meeting on 2 October (CC(86) 32.2) the need to reach agreement with the Chief Secretary, Treasury was reinforced, and the Cabinet noted that a Ministerial Group on Public Expenditure (MISC 130) was being set up to discuss matters which could not be agreed between Departments and the Chief Secretary, Treasury and to make recommendations to the Cabinet.

2. This memorandum reports on the work of the Group and sets out the recommendations of MISC 130. 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 130 were, however, left with eight programmes to consider, inevitably the most difficult.
4. Cabinet agreed on 17 July that discussions should be carried forward within the existing published planning totals referred to above. These contained uncommitted Reserves of £6.1 billion, £7.9 billion and £9.6 billion respectively. However, the July decision of the Sub-Committee on Local Authority Expenditure of the Ministerial Steering Committee on Economic Strategy, on local authority current provision in 1987-88, together with the implications for the territories, added some £3.4 billion to the previous total, using up more than half the available 1987-88 Reserve. The subsequent agreement with the Ministers concerned to base provision for the two later years on $\frac{1}{2}$ per cent real reductions in local authority current spending also required additions to provision of £4.3 billion and £5.1 billion in 1988-89 and 1989-90 respectively. In addition to these amounts it was necessary to allow for increases of £1.1

billion, £0.7 billion and £1.1 billion respectively over the three years to take account of the agreements reached bilaterally by the Chief Secretary, Treasury.

5. As a consequence of these changes, the Group were faced with the position summarised in the following table at the beginning of their work:

	£ billion		
	1987-88	1988-89	1989-90
Local authority additions:	3.4	4.3	5.1
Additions from bilateral settlement:	1.1	0.7	1.1
Giving total agreed increases on programme of:	4.5	5.0	6.2
Compared with starting Reserve of:	6.1	7.9	9.6

AGREED PROGRAMMES

6. I am glad to report that the Group have reached agreement on all programmes and made significant progress towards removing the outstanding excesses. Of total outstanding bids of £3.1 billion, £2.9 billion and £4.8 billion in the three years on the programmes described below, the Group have agreed reductions of £0.7 billion, £0.7 billion and £1.3 billion, leaving additions of £2.4 billion, £2.2 billion and £3.5 billion, of which previously agreed demand-led changes and changes in administration costs on the social security programme account for some £1.6 billion, £1.7 billion and £2.6 billion. On the basis of the evidence presented to them the Group did not consider it practicable, in many cases from a political point of view, to seek reductions in programmes beyond this.

7. The proposals on the agreed programmes are summarised in paragraphs 8 to 16 below. All figures are in £ million unless otherwise stated.

Defence

8. The Survey baseline is as follows:

18,817	18,990	19,268
--------	--------	--------

Changes agreed outside the Group's discussions, including contributions to the cost of advancing the second Auxiliary Oiler Replenishment Vessel, are:

- 23	+ 26	+ 40
------	------	------

The Secretary of State for Defence had proposed the following further additions to baseline:

+ 131	+ 136	+ 432
-------	-------	-------

This will maintain the net aid programme constant in real terms during the Survey period.

Health and Personal Social Services

11. The Survey baseline (excluding local authority current expenditure) is as follows:

15,937	16,617	17,032
--------	--------	--------

The Secretary of State for Social Services sought additions of:

+ 461	+ 408	+ 772
-------	-------	-------

Following discussions with the Group, and taking account of bids of £191 million, £205 million and £561 million for demographic growth and demand-determined service (eg Family Practitioner Services) already agreed by the Chief Secretary, Treasury, the Secretary of State for Social Services has agreed to accept the following additions to the baseline:

+ 309	+ 289	+ 683
-------	-------	-------

This will allow an increase of 2.2 per cent in real terms on hospital and community health services current spending in 1987-88, and 1 per cent in each of the two following years. The Group recommend these figures.

Social Security

12. The Survey baseline is as follows:

44, 197	45,617	46,758
---------	--------	--------

There are very large additions as a result of the effect of higher estimates of take-up of benefits and revised economic assumptions. In addition the Chief Secretary, Treasury has accepted further revisions for increased administration costs and other policy changes. The combined effect of these was to add the following net amounts to the above baseline:

+ 1,585	+ 1,734	+ 2,605
---------	---------	---------

In addition to this the Secretary of State for Social Services proposed further additions of £45 million, £35 million and £11 million, whereas the Chief Secretary, Treasury sought reductions of:

- 150	- 300	- 550
-------	-------	-------

13. After a very careful and detailed examination of the options for further savings, the Group, with the agreement of the Secretary of State for Social Services, recommend the following changes:

+ 35	- 100	- 250
------	-------	-------

The savings in the later years will be achieved by a variety of policy changes which the Secretary of State for Social Services will be considering further with the Chief Secretary, Treasury. Some of them will require primary legislation, which will need to be introduced in November or December 1987, or very early in 1988. The Group accept that the Secretary of State for Social Services should retain some flexibility over the precise measures, and commend the above reductions on this basis.

Arts and Libraries

14. The Minister of State, Privy Council Office (Minister for the Arts) sought substantial additions to his programme (£20 million, £29 million and £35 million in the three years respectively) in part to provide for overruns and other expenditure on the British Library St Pancras project, and in part for the Arts Council and for national museums and galleries. MISC 130 are concerned at the escalation of the British Library costs and agreed with the Chief Secretary, Treasury that further study is required before decisions can be taken. These bids have therefore been withdrawn and the position will be reviewed in the light of the above study. MISC 130 have agreed the following additions to the baseline provisions, with the Minister of State, Privy Council Office:

+ 7

+ 7

+ 8

Wales

15. In addition to formula consequentials on central Government and local authority capital programmes agreed in England, the Secretary of State for Wales sought the full formula consequentials for the increase in local authority current expenditure in England resulting from the Rate Support Grant (RSG) settlement. This exceeded the amounts agreed for local authority current provision in Wales by:

+ 95

+ 97

+ 98

MISC 130 took the view that it would not be right to provide these full consequentials which would be devoted to the Secretary of State for Wales's other programmes. After discussion with the Group the Secretary of State for Wales agreed to surrender resources of £25 million, £27 million and £28 million in the three years respectively. £8 million of this in each year reflects an adjustment to the baseline to reflect the change in population ratios since 1979.

Scotland

16. In addition to formula consequentials on central Government and local authority capital programmes agreed in England, the Secretary of State for Scotland sought the full formula consequentials for the increase in local authority current expenditure in England from the RSG settlement. This exceeded the amounts agreed for local authority current provision in

SECRET

RECOMMENDATIONS

18. I invite the Cabinet to endorse the agreements reached, as summarised in paragraphs 6 to 16 above.

W

SECRET

Privy Council Office

5 November 1986

SECRET

SECRET

ANNEX A

1986 SURVEY: PROGRAMMES AGREED BILATERALLY

	1987-88		1988-89		1989-90	
	BASELINE	AGREED CHANGE	BASELINE	AGREED CHANGE	BASELINE	AGREED CHANGE
1.FCO-Other	660	40	693	37	711	36
2.EC	1,150	-280	950	-510	975	85
3.IBAP (and CAP prefunded)	1,629	36	1,661	124	1,702	180
4.Domestic Agriculture	720	27	734	26	752	7
5.Forestry	54	-1	56	-2	57	-2
6.DTI	953	13	940	29	964	3
7.ECGB	220	-60	128	-18	131	-84
8.Energy	313	-43	323	-42	331	-55
9.Employment	3,947	0	4,132	0	4,235	0
10.Transport	2,057	76	2,087	88	2,154	88
11.DOE-Housing	2,368	264	2,412	14	2,473	14
12.DOE-Other	880	70	907	13	930	0
13.DOE-PSA	-109	40	-112	40	-115	40
14.Home Office	1,148	62	1,185	46	1,215	73
15.LCD	603	67	646	71	662	110
16.DES	3,588	162	3,658	186	3,750	211
17.Civil Superann.	1,314	-70	1,405	-70	1,440	-33
18.N Ireland	4,691	65	4,819	110	4,939	135
19.Territorial Consequences	0	130	0	80	0	90
20.Chancellor's Depts (excl- LAFR/MIRAS)	2,046	112	2,073	174	2,125	202
21.LAFR/MIRAS	0	72	0	75	0	98
22.DIF/CFS	0	40	0	50	0	55
23.Other Depts.	492	32	505	38	518	41
NAT INDS:						
24.-Industries	22	300	-37	284	-57	-59
25.-RMPS etc	277	-66	276	-101	283	-145
TOTALS AGREED IN BILATERALS	29,023	1,083	29,441	742	30,175	1,070

BRIEF NOTES ON AGREEMENTS REACHED BILATERALLY

	£ million		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
1. <u>FCO Diplomatic Wing</u>	+40	+37	+36

Provision is made for the costs of introducing the new visa regime (largely offset by increased fees in later years), for increased expenditure on security, and for increased overseas costs.

2. <u>EC Contributions</u>	-280	-510	+85
----------------------------	------	------	-----

This reflects detailed re-estimation of contributions to the European Communities. The drop in payments in 1988-89 mainly reflects an assumed large correction to the UK's 1987 abatement during 1988.

3. <u>IBAP</u>	+36	+124	+180
----------------	-----	------	------

The net change reflects estimated higher costs of CAP support in the UK

4. <u>Domestic Agriculture</u>	+27	+26	+7
--------------------------------	-----	-----	----

Small additions to provision have been agreed in a number of areas, including flood defences and the estimated costs of capital grants.

5. <u>Forestry</u>	-1	-2	-2
--------------------	----	----	----

Net reductions result from increased estimates of receipts from timber harvesting.

6. <u>DTI</u>	+13	+29	+3
---------------	-----	-----	----

The additions largely reflect increased spending on industrial R&D and support for the Cornish tin industry, partly offset in the first year by receipts from sales from the strategic mineral stockpile. As agreed in last year's Survey, provision continues to be made for a further moratorium on regional development grant payments; this will probably be announced and take effect when the Public Expenditure White Paper is published in January 1987.

7. ECGD -60 -18 -84

The net reductions reflect latest estimates of the cost of the interest support programme.

8. Energy -43 -42 -55

The agreement reflects reduced requirements on the departmental programme; and an agreement that the electricity industry should take over from the department some responsibility for financing the UKAEA's fast reactor programme, representing a switch of £30 million a year to the industry's external financing limits.

9. Employment 0 0 0

This programme was settled at baseline (which includes the effects of the 1986 Budget measures) in advance of the 17 July Cabinet. Provision includes additional expenditure, notably under the Technical and Vocational Education Initiative, offset by savings elsewhere especially on the Community Programme and Youth Training Scheme.

10. Transport +76 +88 +88

Additional provision has been made for roads, mainly to sustain road building by local authorities. Capital allocations to local authorities in 1987-88 will be at 95% of their 1986-87 level.

11. Housing +264 +14 +14

Net additional provision of £239 million has been agreed for capital spending on housing in 1987-88. (The balance reflects increased costs of housing subsidies.) In addition, extra capital receipts will yield some £950 million over the three years. These increases will enable the Government fully to meet the commitment given to local authorities that allocations in 1987-88 would be no less than 80 per cent of the 1985-86 level, and will provide extra resources for the renovation of the housing stock (especially through the Urban Housing Renewal Unit) and for grants to housing associations.

12. DOE Other +70 +13 0

Extra provision has been agreed for capital spending on local environmental services in 1987-88 which will fully meet the 80 per cent commitment. Extra receipts from the New Towns totalling £100 million over the three years will be available to finance additional spending on these services and on other environmental programmes. Expenditure arising from the designation of new urban development corporations will be met, as agreed in E(A) on 24 September, from within the new baseline.

13. PSA +40 +40 +40

The main increase is to finance unavoidable increases in rent payments; extra provision has also been agreed for major new works projects for which PSA retains financial responsibility and for maintenance.

14. Home Office +62 +46 +73

Additional provision is planned to cover growing pressures on the Criminal Injuries Compensation Scheme, and for capital expenditure by Fire Joint Boards. Extra provision is also made for design work on further new prisons, raising the building programme to 20 in all, and for a range of modest law and order initiatives, partly offset by savings and additional receipts.

15. Lord Chancellor's Department +62 +71 +110

Additional provision is made for further growth in the cost of legal aid, and for extra staff to man the expanding court service (the latter partly offset by fees).

16. Education and Science +162 +186 +211

The main elements of the additional provision are for universities (£61 million rising to £81 million); science (£24 million in 1987-88 and £20 million a year thereafter); local authority capital (£57 million a year extra provision, enabling 1987-88 allocations to be maintained at their 1986-87 level); voluntary schools capital (an average of £8 million a year); and the new City Technological Colleges (£4 million rising to £33 million).

17. Civil Superannuation -70 -70 -33

This represents revised estimates of the costs of payments to civil service pensioners and their dependants, in the light of the latest economic assumptions.

18. Northern Ireland +65 +110 +135
(excluding 19 below)

These increases include an agreed addition to the block budget on account of increases in GB local authority current expenditure, additional provision for the costs of policing the Anglo-Irish agreement, and revisions to estimates of social security costs.

19. Territorial consequentials +130 +80 +90

These are the estimated formula consequentials for Scotland, Wales and Northern Ireland of changes in the comparable local authority capital and central government programmes detailed elsewhere in this annex.

20. Chancellor's Departments +112 +174 +202
(excluding LAPR/MIRAS)

Allowance is made for additional staff and information technology in the Revenue Departments to deal with increases in work load and to strengthen controls against drug smuggling. £24 million is provided in 1989-90 to meet the cost of the European elections.

21. LAPR/MIRAS +72 +75 +98

Revised estimates of the public expenditure costs of life assurance premium and mortgage interest relief to those whose incomes fall below the income tax threshold.

22. Crown Prosecution Service +40 +50 +55

Revised estimates of the cost of this new service.

23. Other Departments +32 +38 +41

This includes increases in various items for the Houses of Parliament and the House of Commons Commission, together with the net additional costs of the new Serious Fraud Office.

24. Nationalised Industries +300 +284 -59

The agreements for individual industries involve changes from baseline of:

BRITISH COAL	+177	+283	+211
NORTH OF SCOTLAND HYDRO-ELECTRIC BOARD	+2	+11	-8
SOUTH OF SCOTLAND ELECTRICITY BOARD	+88	+95	-36
BRITISH STEEL	-20	-37	-37
POST OFFICE	+23	-2	0
GIRO	+3	0	0
BRITISH RAIL	+20	0	-50
BRITISH WATERWAYS BOARD	0	0	0
SCOTTISH TRANSPORT GROUP	-4	-3	-3
BRITISH SHIPBUILDERS	-16	+12	+10
CIVIL AVIATION AUTHORITY	+5	0	0
WATER	+21	+6	-47
LONDON REGIONAL TRANSPORT	-9	-52	-100
BRITISH AIRPORTS AUTHORITY)	+10	-30	0
NATIONAL BUS COMPANY)			

The main implications of Survey decisions for the nationalised industries are:

British Coal: The increases over plans reflect a reappraisal of BC's prospects following the coal strike and oil price fall, and the need to adjust their activities accordingly. The EFLs presume break even in 1988-89. They also allow for transfer to BC of responsibility for miners' redundancy costs from 1987-88.

Scottish Electricity Boards: Increases for the South of Scotland Electricity Board arise partly because of slippage on Torness and on other capital requirements.

British Steel: The figures reflect BSC's return to profitability, but make some allowance for the deregulation of the European steel market.

Post Office: The capital expenditure provision is substantially higher in all three years. Profits are in line with the 5% required rate of return.

British Rail: The provision reflects the recently announced objectives for public service grant and for continued substantial investment.

Water: The settlement implies tariff increases probably averaging about 2-2½% in real terms and further efficiency savings to maintain the present substantial level of investment in the industry.

London Regional Transport: The substantial reductions reflect continuing buoyant revenue together with further improvements in efficiency.

British Airports Authority)

National Bus Company): The allowance shown covers these industries' external finance needs up to the time of privatisation.

25. Redundancy and Pensions Funds -66 -101 -145

Reductions in provision for redundancy/pension funds reflect higher than expected take-up under the Redundant Mineworkers Payments Scheme this year and, in consequence, reduced requirements for the Survey years. They also allow for transfer to BC of responsibility for miners' redundancy costs from 1987-88.