



FROM: CHIEF SECRETARY  
DATE: 18 October 1983

PRIME MINISTER

PUBLIC EXPENDITURE SURVEY 1983

I have now completed the bilateral discussions which Cabinet on 21 July invited me to have with spending Ministers. The results of my discussions with colleagues are summarised in the Table at Annex A. (I am writing to you separately about civil service manpower which has also been discussed in the bilaterals).

Results of the bilaterals

2. We have made good progress towards the target laid down by Cabinet and I am grateful for the cooperation I have received. For 1984-85, the agreements reached so far in the bilaterals (and other decisions on pay etc) would leave us about £600 million above our plans published in the Public Expenditure White Paper. In addition, some Ministers are pressing for further additions amounting to about £500 million. I have asked for the withdrawal of these remaining bids and for further savings on programmes where it has not so far been possible to reach agreement, in order to achieve our agreed target of holding to the White Paper total.

3. The position in later years is also shown in Annex A; again there is a wide gap, and my proposed reductions are needed if we are to achieve the objectives endorsed by Cabinet.

4. I summarise in the notes at Annex B the results of my discussions with colleagues.

a. We have been able to reach agreement in the fields of employment, industry, energy, housing, the PSA, other environmental services, law and order, health, social security, most of the nationalised industries and many smaller programmes. These agreements have not been reached without difficulty and I am grateful for the substantial help which colleagues have felt able to give in these fields. Major savings below the baseline have been found in these areas; many inescapable increases have also been absorbed. Together these are worth some £1.4 billion.

b. The outstanding programmes on which no agreement has proved possible are defence, agriculture, foreign affairs, education, arts, and the nationalised energy industries. I have also not yet reached agreement on local authority current expenditure in 1985-86 and 1986-87; I will be pursuing that further.

Next steps

5. It is, I think unlikely that I will be able to reach agreement bilaterally with colleagues in the areas of disagreement and you will wish to consider how best we can now take matters forward. I suggest that a small group of Cabinet Ministers should be asked to consider the remaining issues; I should of course be happy to assist with any information or advice which the Treasury can provide.

6. I am sending copies of this minute to members of the Cabinet, to the Minister of State (Privy Council Office) and to Sir Robert Armstrong.



PETER REES

## PES 1983: AGREED AND AND PROPOSED CHANGES

£million

White Paper Planning Total Budget and other pre-survey changes Survey Baseline	1984-85			1985-86			1986-87		
	126340			132138					
	778			1272					
	127118			133410			137247		
Programme	Agreed change	Depart- mental proposal	Chief Secretary's proposal	Agreed change	Depart- mental proposal	Chief Secretary's proposal	Agreed change	Depart- mental proposal	Chief Secretary's proposal
DEFENCE	-	+152	-268	-	+337	-281	-	+1623	+161
FCO-ODA	-	+46	-20	-	+73	-30	-	+108	-30
FCO-OTHER	-	+10	0	-	+10	0	-	+23	+9
EC	-	-	-	-	-	-	-	-	-
IBAP	+423	-	-	+244	-	-	+216	-	-
MAFF	-	+27	-20	-	+11	-39	-	+7	-53
FORESTRY	-3	-	-	-4	-	-	-5	-	-
DTI	-57	-	-	-78	-	-	-162	-	-
ECGD	+2	-	-	+33	-	-	-140	-	-
ENERGY(1)	-9	-	-	-10	-	-	-19	-	-
EMPLOYMENT	-55	-	-	-134	-	-	-215	-	-
TRANSPORT	-35	-	-	-35	-	-	-20	-	-
DOE-HOUSING	-475	-	-	-500	-	-	-525	-	-
DOE-PSA	+25	-	-	+25	-	-	+21	-	-
DOE-OTHER	-35	-	-	-60	-	-	-65	-	-
HOME OFFICE	+40	-	-	+48	-	-	+62	-	-
LCD	-4	-	-	-1	-	-	+16	-	-
DES	-	+130	0	-	+136	0	-	+140	-80
OAL	-	+12	0	-	+20	0	-	+25	0
HEALTH AND PSS	+5	-	-	+123	-	-	+370	-	-
SOCIAL SECURITY(2)	-60	-	-	-50	-	-	+323	-	-
CIVIL SUPERANNUATION	+19	-	-	-	-	-	+50	-	-
OTHER DEPARTMENTS	+69	-	-	+49	-	-	+43	-	-
SCOTLAND, WALES, NI.(3)	-97	+30	0	-99	+33	0	-41	+35	-17
LA CURRENT	+583	-	-	-	+753	+418	-	+833	+418
NATIONALISED INDUSTRIES	-	-	-	-	-	-	-	-	-
Energy industries:	-	+128	-272	-	-544	-844	-	-1357	-1432
Other:	-319	-	-	-174	-	-	-606	-	-
RESERVE	-	-	-	+500	-	-	+2000	-	-
PAY CLAWBACK	-220	-	-	-220	-	-	-220	-	-
<u>CHANGE FROM SURVEY BASELINE</u>	-203	+535	-580	-343	+829	-778	+1083	+1437	-1024
<u>CHANGE FROM CMND 8789</u>	+575	-	-	+929	-	-	-	-	-

(1) Excludes RMPS (covered by nationalised industry savings)

(2) Excluding savings of £50 million from reduced rate rebates not scored as public expenditure.

(3) Formula consequential of agreed changes and outstanding proposals.

## SUMMARY OF RESULTS OF BILATERAL DISCUSSIONS

ANNEX B

## DEFENCE

	<u>£m (all changes from Survey baseline)</u>		
	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>
Agreed	-	-	+ 450
Departmental position	+ 152	+ 337	+1173
Treasury position	-268	-281	-290

Provision has been agreed for 1986-87 Falklands costs.

The Secretary State is seeking annual real growth of more than 3 per cent up to 1985-86 (to make up for earlier years when growth was less than 3%), and real growth of 3 per cent in 1986-87. He also seeks additional compensation for inflation; and for the extra costs of the 1983 AFPRB, DDRB and TSRB awards. I accept the commitment to annual real growth of 3 per cent up to 1985-86; but do not consider that annual growth should exceed 3 per cent in these years, and consider that provision for real growth after 1985-86 should not be included. Defence, like other programmes, should be based on the cash factors, and any extra pay costs should be accommodated without additional cash.

## FCO (INCLUDING ODA)

	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>
Departmental position	+56	+83	+131
Treasury position	-20	-30	-21

The Foreign Secretary is seeking a major increase in the aid programme mainly to restore the real level of bilateral aid to its 1982-83 level while accommodating increases in multilateral aid. He is proposing also a number of minor additions both to the aid and the diplomatic programmes. I have proposed savings on the aid programme mainly by reducing the amount which has not yet been allocated. I consider that any unavoidable increases on the diplomatic wing should be offset by savings elsewhere, for example on administration.

## PAYMENTS TO THE EUROPEAN COMMUNITIES

Expenditure on this programme will be determined by the outcome of the current negotiations. At present no changes to the baseline provision are proposed.

## AGRICULTURE AND FISHERIES

	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>
Departmental position	+ 27.3	+ 10.9	+ 6.6
Treasury position	- 19.7	- 39.1	- 53.4

Agriculture Ministers wish to hold expenditure slightly below a 'revised baseline' which reflects changes in demand-determined agricultural expenditure, and in doing so to accommodate, by savings elsewhere, bids for assistance to farmers on 'marginal land', larger capital grants for horticulture and support for a marketing initiative by the Sea Fish Industry Authority. I accept that the increases in demand-determined agricultural expenditure must be accommodated. However, I consider that substantial net savings can be found, by reductions in the rates of agricultural and horticultural capital grants and savings in other areas.

## FORESTRY

	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>
Agreed	-3	-4	-5

The saving results from a review of the Forestry Commission's management structure.

## DEPARTMENT OF TRADE AND INDUSTRY

	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>
Agreed	-57	-78	-162

The Secretary of State has identified reduced requirements and savings which offset his bids and provide a net reduction below the baseline.

## ECGD

	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>
Agreed	+ 2.0	+ 33.3	-140.0

The changes here are largely attributable to revised economic assumptions. The Secretary of State has, however, made small savings.

## DEPARTMENT OF ENERGY

	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>
Agreed	- 8.8	- 10.1	- 18.5

Efficiency savings and higher contributions to nuclear R&D from the Generating Boards, as beneficiaries, have been agreed.

## DEPARTMENT OF EMPLOYMENT

	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>
Agreed	- 55	- 134	- 215

The reduction from the baseline is mainly due to estimating savings on demand-determined services; only a small part represents planned economies or changes in policy. I have, however, asked the Secretary of State to consider whether there is scope for further reductions.

## DEPARTMENT OF TRANSPORT

	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>
Agreed	-35	-35	- 20

The Secretary of State has agreed to net reductions in his programme, though provision for motorways and trunk roads will be higher than before.

## DEPARTMENT OF THE ENVIRONMENT - HOUSING

	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>
Agreed	- 475	- 500	- 525

The Secretary of State has agreed to the reductions above, which will be associated with the introduction of a scheme of end-year flexibility for local authority capital expenditure. This was excluded from the scheme announced in July since individual local authorities can already carry forward or anticipate 10 per cent of their allocations. I have agreed to a carry forward of underspending (initially of 2 per cent), to be introduced immediately, thereby allowing carry forward from 1983-84 to 1984-85.

## DEPARTMENT OF THE ENVIRONMENT - OTHER ENVIRONMENTAL SERVICES

	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>
Agreed	- 35	- 60	- 65

The agreed reductions will be allocated within the programme by the Secretary of State.

## ARTS AND LIBRARIES

	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>
Departmental position	+ 12	+ 20	+ 25
Treasury position	0	0	0

The Minister for the Arts seeks additional provision for new building by the British Library; improvements, repairs and maintenance in the national museums and galleries; the National Heritage Memorial Fund and acceptances of heritage property in lieu of tax; and the National Film Archive. I consider that it would be possible to contain expenditure within the baseline.

## HEALTH

	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>
Agreed	+ 5	+123	+370

The agreed figures are consistent with our election pledges. They make realistic provision for the family practitioner services and provide for growth in the hospital and community health service to meet demands created by demographic change. We are looking to increased efficiency to reduce waiting lists, to remedy other deficiencies and to cover costs arising from inevitable medical advance. Subject to agreement on a satisfactory presentation in the White Paper, the Secretary of State has agreed to make savings by rolling forward the July cuts, by further action on drug prices, and by increasing some charges to patients (the existing exemptions remain).

## SOCIAL SECURITY

	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>
Agreed	-60	-50	+323

On Social Security, the Secretary of State has agreed to provide savings of £251 million in 1984-85, mainly from Housing Benefit and the non-householder housing addition. These savings are offset by increases in demand-led expenditure and administrative costs, giving an overall saving below the baseline of £60 million. The savings are carried forward into later years. The programme as adjusted still allows for a full prices uprating in November 1984.

	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>
Agreed	+ 25	+ 25	+ 21

The agreed increases are for unavoidable expenditure on maintenance of the civil estate and on improvements to Unemployment Benefit Offices.

HOME OFFICE

	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>
Agreed	+ 40	+ 48	+ 62

Additions to the programme have been agreed to finance increases in prison service manpower, to permit additions to the prison building programme and to increase provision for the Criminal Injuries Compensation Board.

LORD CHANCELLOR'S DEPARTMENT

	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>
Agreed	- 4	- 1	+ 16

The Lord Chancellor has agreed to reduce his bid for legal aid in 1986-87 to £20 m and to provide a further offset of £4 m from the court-building programme.

EDUCATION AND SCIENCE

	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>
Departmental position	+ 130	+ 136	+ 140
Treasury position	0	0	-80

The Secretary of State for Education and Science has made reductions in his bids, but in total they remain large - some £130 million a year. Savings have been offered in the terms of student awards and elsewhere as an offset (partial in the first two years) to an inescapable increase as a result of higher than expected student numbers. I have not, however, felt able to agree to the Secretary of State's requests for additions for local authority capital expenditure and for capital and current expenditure by the universities; indeed I am seeking to secure further savings in university current expenditure, particularly in 1986-87. The Secretary of State is also seeking an addition to his science programme. The possibility of meeting this by a reallocation from other R and D programmes is to be discussed at the Prime Minister's meeting on 19 October.



## SCOTLAND, WALES, N. IRELAND

	1984-85	1985-86	1986-87
Consequences of agreed changes	-97	-99	-41
Consequences of Departmental positions	+30	+33	+35
Consequences of Treasury positions	-	-	-17

The Secretaries of State for Scotland and Wales have withdrawn the bids they put forward initially. The changes set out above would result from applying the territorial formula to the changes proposed on comparable programmes, excluding local authority current expenditure.

## NATIONALISED INDUSTRIES

	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>
Agreed - Non-energy industries	-319	-174	-606
Energy industries:			
Departmental position	+40	-633	-1458
Treasury position	-360	-933	-1533
Redundant Mineworkers Payment Scheme	+88	+89	+101

The E(A) target is that nationalised industries' external finance should be reduced by at least £500m below the baseline in 1984-85, £900m below in 1985-86 and £2 billion below in 1986-87. Agreement has been reached on all industries other than those sponsored by the Secretary of State for Energy. However, the Secretary of State for the Environment has asked me to draw to colleagues' attention the implications of the water settlement, which will require domestic charges to rise by at least 1½% more than the RPI. The main points at issue on energy are the provision to be made for the Coal Board, and the level of prices for gas and electricity.

## LOCAL AUTHORITY CURRENT EXPENDITURE RELEVANT FOR RATE SUPPORT GRANT

	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>
<u>England</u>			
Agreed	+ 525	-	-
DOE position	-	+ 640	+ 708
Treasury position	-	+ 355	+ 355
<u>Scotland</u>			
Agreed	+ 54	-	-
SO position	-	+75	+83
Treasury position	-	+ 42	+ 42

Wales

Agreed	+ 4	-	-
WO position		+ 38	+ 42
Treasury position		+21	+21

The Secretary of State for the Environment has bid for increases of 3 per cent and 2 per cent over the survey baseline for 1985-86 and 1986-87 (£640 million and £708 million). In correspondence with colleagues I have indicated that I could not do more than carry forward the increase in the allocated provision agreed in E(LA) for 1984-85: £355 million. That would give growth rates in allocated provision of 3½ and 3 per cent with total provision growing less fast. The unallocated margin would be reduced and eventually eliminated. Colleagues have indicated that they would find the implied growth rate in total provision unrealistically low. The settlement for England will be reflected in formula increases for Wales and Scotland.