CONFIDENTIAL

Ref. No: FIN (84)1
Date: 17/2/84

PUBLIC EXPENDITURE WHITE PAPER

February 16th 1984

CORRECTION

Paragraph 42 should read:

"Applications for **Home Improvement Grants** at the temporary higher rate of 90 per cent will not be admitted after March 31st this year. The higher rate was clearly stated to be temporary when introduced in the 1982 Budget and was designed partly to absorb surplus capacity in the building industry at that time. Original deadline has been twice extended. Grants at 75 per cent will continue to be available at discretion of local authorities".

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KEY POINTS

1. Keeps to pre-election plans and commitments. PM said during campaign: "We have laid out our plans for the next 3 years on Government spending... they are all laid out to see". Cash total for next year, 1984-85, exactly as in last White Paper at £126.4 billion. Provisional total for 1985-86 of £132. 1bn also very close to figure for that year in last White Paper.

2. No cut in real terms ("cost terms") in public spending between this year and next. Plans for future years also consistent with maintained spending in real terms. Planning total for new year of survey, 1986-87, £136.7bn.

3. Public spending to continue falling in proportion to our growing economy. Peak of 44 p.c. in 1981-82 during recession. Has fallen in 2 years since and is expected to fall again in coming years.

4. Within the unchanged total next year some major changes in individual programmes in relation to last PEWP are:

Increases - £0.4bn. agricultural support (mainly EC)
£0.6bn. local authority current expenditure
£1.3bn. social security
Decreases - £0.3bn. defence
£0.5bn. housing
£0.7bn. Nationalised industries' external borrowing

5. Public sector Capital spending has not been falling. Next year it will total £23.9bn. which is broadly the same in real terms as in 1978-79. White Paper contains a new table - Table 1.13 - which gives much clearer and more detailed picture of capital spending, and shows that those who criticise Government for "decimating" public investment are quite wrong. (The big cuts were, of course, under Labour in 1976-9).

6. Within the planning total for next year the reserve has been reduced since the Autumn Statement by £250m. This is mainly to accomodate a revised estimate of spending on some social security benefits, partly offset by lower uptake of the Youth Training Scheme.

7. The old contingency reserve has been redefined and is now called, simply, the Reserve. Its role from 1984-85 on is to cover all contingencies including changing forecasts for demand-determined programmes. This new discipline will help discharge election pledge to maintain firm control of public spending.

8. Commentary on individual programmes puts more emphasis on policy objectives and monitoring of progress towards them. White Paper now contains several hundred output measures.

## OUTTURN 1983-84

9. Forecast outturn of £120.3bn. is slightly higher than planned level of £119.6bn. in last White Paper in spite of mid-year corrective measures. This reflects higher spending than forecast on some demand-led programmes and a smaller shortfall than expected on cash-limited programmes.

10. The excess is still very small in relation to the total at 0.6 p.c. The new style of reserve which covers both demand-led and other increases is designed to exercise greater control over such increases in future. In future, shortfall will show up as an underspend on the reserve. Reserves for future years are purposely sizeable at £2.75bn., £3.75bn. and £4.75bn. Figures will be reviewed in the light of experience with the new system.

## CAPITAL EXPENDITURE

11. New Table 1.13 shows level and trends in capital spending much more clearly than before. Contrary to much received wisdom capital spending has not been declining in the public sector. In real terms it has been running at much the same level since 1978-79. As proportion of GDP it was 8 p.c. a year to 1980-81 and 7.5 p.c. since.

12. Previous presentation tended to mislead both as a guide to levels and trends and to demands on the producing industries. The White Paper totals are designed in large measure for control purposes. Thus, in Table 1.11 receipts from council house sales are deducted from gross LA capital spending, although of course they do not reduce public sector investment. In Table 1.13, however, they are not deducted. Capital expenditure by nationalised industries which has tended to rise since 78/79 has been added in to give a full picture of investment by the public sector as a whole. Defence expenditure on equipment which in a civil context would be regarded as capital spending has also been included. By UN convention it is generally classed as current expenditure, but in this context it is perverse to regard a merchant ship as capital expenditure and a naval ship in the next berth as current expenditure.

13. Capital spending is not good of itself. It is only worthwhile if it produces a proper return.

ASSET SALES

14. Special Asset sales are estimated at £1.2bn in current year rising to about £1.9bn. next year and £2bn. in each of the following 2 years.

15. Cash raised from asset sales will help to reduce Government borrowing. But main purpose of privatisation programme is to increase competition, private ownership and to promote the efficient use of resources in the economy. Sale of equity in BT is planned for autumn and BA in early 1985.

DEBT INTEREST

16. Net debt interest, which is not included in the planning total for public expenditure, is expected to level off next year at about £7½bn. after many years of growth.

17. Stabilising the burden of debt interest is one of the benefits of lower levels of borrowing in recent years combined with a gradual reduction in the interest rates Government has to pay.

## MANPOWER AND PAY

18. This year's White Paper reports both on the likely outcome of the manpower targets the Government set in 1979, and sets out its goals for the period to 1988. For the first time manpower plans have formed an integral part of the Public Expenditure Survey. By the beginning of April the civil service (ie Central Government employment) will have contracted by 14 p.c. since April 1979 to about 630,000, the smallest level since the war and a little below the Government's target. A further fall of 6 p.c. to 593,000 is planned by 1988. Armed forces' UK-based manpower is expected to rise from 320,600 in April 1983 to 329,000 in April 1985 with figures for the years beyond subject to review.

19. Between 1979 and 1982 NHS manpower rose about 7 p.c. to 1,006,700. Most of the extra staff were in areas directly concerned with patient care. To help ensure a proper balance between spending on equipment and staff and to improve manpower control, manpower targets involving a net cut in staff ~~of~~ $\frac{1}{2}$ p.c. have been agreed with Regional Health Authorities in 1983-84.

20. Local authority manpower fell by only 4 p.c., or 91,000, between June 1979 and June last year. Number employed on law and order rose 7 p.c., but the much larger numbers employed in education fell by $6\frac{3}{4}$ p.c. Pupils on school rolls fell 10 p.c. Since June local authority manpower has begun to rise again slightly. Government intends that the joint boards to be set up on abolition of GLC and Met. Counties will each have specific manpower targets. Manpower costs account for two thirds of Local authorities' relevant current expenditure.

21. Plans for 1984-85 allow for average increases in rates of pay and allowances of 3 p.c. from the due settlement dates. Any overrun will have to be absorbed in other ways within individual programmes. Pay accounts for about 30 p.c. of total public expenditure; on some programmes the proportion is much higher.

LOCAL AUTHORITIES

22. Local authority current spending has continued to exceed planned levels. Next year's provision has again had to be increased by £600m. on the previous White Paper total. The result will be an additional tax burden particularly on the rate payer.

2 3. The Government's targets for expenditure by individual authorities allow a 3 p.c. increase for authorities which have kept within target in the past and a maximum 6 p.c. cut for authorities which have previously failed to meet targets. What that means for services depends on how successfully authorities control their own costs. The Audit Commission's recent handbook shows there is plenty of scope for improving cost control.

24. Rates Bill is designed to protect ratepayers from consequences of continued local over-spending. Selective rate limitation will first operate in 1985-86.

25. Local authorities' current expenditure has risen significantly faster than that of central government since 1978-79 (Table 1.11). This is despite the policy commitments to increase spending on various central government programmes such as defence and health and the effect of the recession on social security spending. Local budgets, by contrast, should have benefited from the reduction in school rolls.

26. Local authorities' capital expenditure, has fallen in real terms since 1978-79 largely because of council house sales which reduce the net figure.

SOCIAL SECURITY

27. Plans show increase of about £1.3bn. in 1984-85 and £1.6bn. the following year over last White Paper. Reductions in coverage of housing benefit need to be seen in that context. Next year's increase includes an addition of about £360m since the Autumn Statement.

28. Reasons for increase: 1983 benefit improvements (including 11 p.c. increase in child benefit and one-parent benefit) and changes in uprating assumptions; more up-to-date estimates of spending on supplementary benefit.

29. Changes in housing benefit made partly to offset a proportion of the increases which would otherwise have been even bigger. Housing benefit now goes to 1 in 3 households, 40 p.c. of the population. Some recipients have above average earnings. Cuts will affect those households most able to afford them. Most pensioner claimants will not be affected. No-one on supplementary benefit need be affected. Modifications to Government's proposals announced on February 6 will give families longer to adjust but do not affect existing expenditure plans. Over half claimants will face reductions of less than 50p a week.

30. Most other industrialised countries are also finding difficulty in paying for their social security programmes. The Netherlands plans to de-index social security benefits, France and Germany are delaying pension increases, Belgium has cut some unemployment benefits, and so on.

DEFENCE

31. Spending will increase by 3 p.c. a year in real terms to 1985-86 in accordance with NATO's aim. Apart from US we are the only NATO country to achieve this.

32. On top of the NATO commitment we are spending extra money to defend the Falklands. Including this expenditure, by next year we shall have increased our spending on defence by more than a quarter in real ("cost") terms since 1978-79.

33. The reduction in 1984-85 spending compared with the figure for that year in the last White Paper takes into account the March 1983 NIS reduction, the 3 p.c. public service pay assumption for 1984-85 and the 1983-84 cash limit cut.

34. The 3 p.c. growth commitment has not been extended into the final year of the survey, 1986-87. Even so defence spending will be some £700m. higher in that year than in the previous year.

HEALTH

35. Planned spending on the NHS in 1984-85 has been maintained at the level proposed for that year in the last White Paper. For the following year there is an increase of about £150m. on the figure in the last White Paper. This more than fulfills pledges made by the Prime Minister in Edinburgh during the election.

36. Since coming into office the Government has increased health spending by 17 p.c. more than inflation. This means, for instance, ½ million more in-patient day cases, nearly ½ million more people visited at home by Health visitors and District nurses, 2¾ million more courses of dental treatment.

37. Greater efficiency can produce more health care per £m. Hence the Government's encouragement for contracting out, the management reorganisation proposed by Griffiths report, and manpower monitoring.

EDUCATION

38. Provision for spending on education is £140m. higher than in the last White Paper in 1984-85 and £104m. higher in 1985-86. The increase is mainly in local authority spending, partly offset by a small net reduction in voted expenditure.

39. Parental contributions to student support have been increased for middle and upper income parents and the minimum grant has been halved. It is perfectly reasonable to expect the better off parents to contribute more towards maintaining their children in higher education. British system of support for students in higher education is still far more gnerous than that in practically any other country.

## HOUSING

40. The reduction in net spending on housing compared with the last White Paper mainly reflects a higher forecast level of receipts from council house sales. Gross capital spending on housing is expected to be broadly the same in cash terms in 1984-85 as in 1983-84. Of the £490m. reduction since the last White Paper nearly £300m. relates to higher receipts, £100m to lower current expenditure and the rest to a modest reduction in former plans for capital spending plus lower interest rate assumptions in forecasting subsidies.

41. Private sector housing starts in 1983 were highest since 1973. This is good news both for house purchasers and the construction industry.

42. Home Improvement Grants will end after March 31 this year which is the deadline for applications. The grants were clearly stated to be temporary when introduced in 1982 Budget and were designed partly to absorb surplus capacity in the building industry at that time. Original deadline has been twice extended.

## LAW AND ORDER

43. Increase of about £80m. in 1984-85 and £90m. in 1985-86 on plans in last White Paper. Partly to fund prison building programme which should eliminate present over-crowding by end decade.

## TRADE, INDUSTRY, ENERGY AND EMPLOYMENT

44. Government has been able to reduce support for industry next year largely because no provision has been necessary for BL. In 1983-84 support for BL totalled £150m.

45. Support for industrial R and D and innovation continue to grow through the survey period reflecting Government priorities. Assistance to shipbuilding and steel tapers off as restructuring is completed

and support for Rolls Royce falls as the RB 211 development stage comes to an end.

46. White Paper figures do not reflect any launch aid which may be provided for the A320 and V2500. Nor do they reflect cuts which may stem from the proposed changes in regional policy.

47. Employment spending in 1984-85 has been reduced by about £135m. since the last White Paper. This reflects this year's cash limit reduction in July and lower forecasts of expected demand for the Job Splitting and Job Release Schemes and the Youth Training Scheme. Total provision will still be £245m. higher than in 1983-84.

## TRANSPORT

48. Expenditure in 1984-85 will be similar to the level planned for that year in the last White Paper, adjusting for the transfer of functions. Spending on national roads will rise slightly while capital expenditure on local transport will fall.

## AGRICULTURE

49. Forecast spending by the Intervention Board for Agricultural Produce (IBAP) has risen sharply over the level provided in the last White Paper by £408m. in 1984-85 and £240m. in 1985-86.

50. About a third of this is pre-funded by the EC and the rest is re-couped in due course by the proceeds of sales and EC reimbursement for losses. Nevertheless it increases the overall cost of the CAP, strengthening the Government's resolve to reform it.

51. MAFF expenditure has been cut slightly by £131m. in 1984-85 and £33m. the following year compared with the last White Paper figures. The cuts have mainly fallen on capital grants. An industry which is as heavily subsidised as agriculture under the CAP cannot expect to be exempt from the Government's commitment to control public expenditure overall.

EC

52. Net payment to EC institutions is forecast to fall in 1984-85 from £500m. to £375m. This figure is calculated on the stylised assumption that the UK continues to receive a refund of two thirds of the "allocated" budget. The £75m. drop below the figure given in the Autumn Statement stems largely from new exchange rate assumptions which have reduced forecast VAT payments. The contribution is expected to rise again in the 2 following years, but projections are uncertain.

NATIONALISED INDUSTRIES

54. External finance required by the nationalised industries falls from £2.5bn. in 1983-84 to £1.9bn. in 1984-85. This mainly reflects reductions in costs and improvements in performance. In 1984-85 industry tariffs are expected to rise at or slightly below the rate of inflation. The Government is not using the electricity industry or any other NI as a milch cow by forcing them to put up prices beyond their economic level.

55. Allowing for privatisation removing some enterprises from the public sector, NI investment is expected to be 12 p.c. higher in 1983-84 than in the previous year.

56. The National Coal Board and British Rail continue to require by far the largest amounts of external finance.