

Prime Minister

Content for CST to circulate the paper attached 24 hours before Cabinet meeting?



FROM; CHIEF SECRETARY
DATE: 27 September 1984

AT
28/9

3

027/109

PRIME MINISTER

PUBLIC EXPENDITURE SURVEY

After paper to be circulated (not this minute) to Chief Minister (which only under the work procedure ref.)

You will want to know how the Public Expenditure Survey is going, and to have my assessment of the next steps.

2 As we expected, this year's Survey is proving particularly difficult. Given the range of unavoidable additional bids - local authority current expenditure alone accounts for £1 billion a year - sticking to the agreed public expenditure totals requires sizeable cuts in a number of areas. Hence I am having to press colleagues to make policy changes they regard as deeply unwelcome.

3 I attach tables showing for each year colleagues' original bids and current positions and the figures I have proposed. The Autumn forecast may affect some of the figures; and we cannot yet make a realistic estimate of the net cost of the miner's strike in future years. As they stand I have some negotiating margin, but I need to obtain in 1985-86 about half of what I am asking, even taking into account an increase of £500 million in the forecast proceeds from special sales of assets (not yet reflected in the tables).

4 To close the gap will require a very rigorous approach on all programmes, involving, in particular, substantial reductions in industrial and agricultural support, a rise in NHS charges (but retaining the present exemptions) and a range of savings in social security involving secondary legislation. I should be able to secure some of these savings bilaterally but some, for example industry and agriculture, seem bound to go to the Star Chamber.

Lord Whitehead's Group.

5 Even with these savings there is likely to remain a gap in 1985-86 of around £1 billion which can only be closed in my view by some or all of the following (each of which might produce savings of around £500m in 1985-86):

- a) substantial reductions in the housing programme;
- b) cost savings and some real prices increases in the energy and water industries;
- c) additional savings on social security ~~which would almost certainly require an adjustment to the uprating.~~

6 Our latest estimates of asset sales do not help us for 1986-87 and 1987-88 so the position there is correspondingly tighter. To reach our targets we will need to secure savings in all the areas listed in paras. 4 and 5 and, in addition, make real terms reductions for defence in both years. The difficulties we face this year, as last, reflect in large part the constant increases in social security and that illustrates the need for substantial savings following current reviews.

7 Given the difficulties, the Chancellor and I have therefore been thinking further about the very tight timetable up to the Autumn Statement and BT Impact Day that you saw at the beginning of August.

8 To give Lord Whitelaw's group time to address itself to these very difficult issues, it should, clearly, begin work as soon as possible. Although it would not, I think, make sense to bring forward its starting date from the date we originally identified - 15 October, straight after the Party Conference - we ought to do all we can to make sure it can get down to business properly on the 15th.

SECRET AND PERSONAL

9 On reflection, the Chancellor and I think that it would be better to avoid a Cabinet discussion on public expenditure and the economy on Thursday 18 October, lest it overhang the deliberations of the MISC group earlier in the week. Our preference would be to have this discussion at the 4 October Cabinet (when it is already planned to discuss the question of a pay factor for 1985-86), so that colleagues could have brought home to them the seriousness of the public expenditure prospect, before the MISC group goes into action.

10 The Treasury Autumn forecast will not be complete by then, but enough work will have been done to enable the Chancellor to discuss the current economic prospect as the context for the work of Lord Whitelaw's group. I attach a draft Cabinet paper which could either be circulated just before the meeting, or, if you prefer, handed out and collected up at the Cabinet meeting itself.

11 We shall lose time if the MISC group's papers are not prepared in good time. I hope you will agree to the circulation of some of them - on a highly restricted basis - enough ahead of 15 October to allow the members of the MISC group time to consider them - i.e. in the week beginning 8 October (which is, of course, Party Conference week).

12 As in earlier years, some of the issues we face are unlikely, in my judgement, to be capable of resolution outside meetings under your chairmanship (such as defence, energy prices, social security).

SECRET AND PERSONAL

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13 You may want to discuss the overall position with us early next week. Another issue we might discuss is the membership of the MISC group.

14 I would be grateful to know if you agree with these further thoughts about the timetable; and if you are content with the draft Cabinet paper, whether for circulation 24 hours before next Thursday's Cabinet, or for handing round at the meeting.

15 I am copying this minute to Sir Robert Armstrong.



PETER REES

SECRET AND PERSONAL

1985-86 £m

Department	Baseline	Opening Position		Changes from Baseline	
		Minister	CS1	Latest Position Minister	CS1
Defence	18,003.0	219.6	43.0	323.6	147.0
FCO-ODA	1,264.0	10.9	-60.5	10.9	-60.5
FCO-other	602.0	46.3	-14.4	46.3	-14.4
EC*	550.0	205.0	205.0	205.0	205.0
IBAP (and prefunded AFF)*	1,304.0	-29.3	-33.3	44.7	44.7
AFF (domestic)	776.0	14.9	-177.4	-1.1	-161.9
Forestry*	56.0	-1.1	-9.1	-3.5	-3.5
Regional Policy (GB)	491.0	108.0	-40.0	-5.0	-40.0
DTI (other)	782.0	166.0	-45.0	112.0	80.0
ECGD	30.0	291.4	206.4	209.5	208.1
Energy	321.0	7.6	-39.6	-7.1	-39.6
Employment	3,158.0	136.4	-327.2	-32.0	-149.0
Transport	2,176.0	51.0	-124.0	-121.0	-292.0
Housing	2,507.0	53.0	-685.0	53.0	-747.0
PSA	-109.0	55.3	0.0	44.5	10.0
DOE other (inc Urban)	931.0	44.1	-173.0	44.1	-78.0
Ordnance Survey*	18.0	2.1	-1.7	-0.2	-0.2
Home Office	1,023.0	49.2	-28.3	2.2	-23.0
LCD	547.0	0.0	-11.6	0.0	-10.0
DES	3,353.0	117.1	-143.0	-4.2	-126.5
OAL	287.0	8.4	-8.6	8.4	-5.0
Health + PSS	13,954.0	476.5	-17.0	297.7	0.0
Social Security	39,410.0	757.0	0.0	532.0	0.0
Superannuation*	1,130.0	-58.5	-58.5	-58.5	-58.5
Scotland	3,904.0	36.1	32.1	36.1	32.1
Wales	1,521.0	13.5	-13.5	7.7	-13.5
N. Ireland	4,213.0	45.6	26.6	45.6	26.6
Inland Revenue	949.0	8.1	0.0	8.1	0.0
CEx Other Depts	853.0	3.6	-32.0	3.6	-32.0
Other Depts.	319.0	20.0	-5.7	20.0	-5.7
LA current*	24,754.0	944.0	944.0	944.0	944.0
NI EFLs (inc RMPS)	1,332.0	-250.0	-250.0	-250.0	-250.0
Reserve*	3,750.0	-750.0	-750.0	-750.0	-750.0
Pay Factor	0.0	0.0	-100.0	0.0	-100.0
Asset sales	-2,000.0	0.0	0.0	0.0	0.0
Adjustments	-488.0	0.0	0.0	0.0	0.0
Change from Survey Baseline	131,671.0	2,801.8	-1,691.3	1,766.4	-1,262.8

*Agreed programmes

1986-87 £m

Department	Baseline	Opening Position		Changes from Baseline	
		Minister	CST	Latest Position Minister	CSf
Defence	18,613.0	182.7	-250.0	182.7	-250.0
FCO-ODA	1,299.0	78.0	-62.7	78.0	-62.7
FCO-other	602.0	65.5	-15.1	65.5	-13.1
EC*	600.0	30.0	30.0	40.0	40.0
IBAP (inc prefunded AFF)*	1,312.0	-15.3	-19.5	80.7	80.7
AFF (domestic)	786.0	8.5	-245.6	15.3	-233.5
Forestry*	57.0	-1.7	-9.7	-4.1	-4.1
Regional Policy (GB)	478.0	157.0	-200.0	64.0	-113.0
DFI (other)	752.0	167.4	-68.0	105.0	-37.0
ECGD	-159.0	324.4	284.6	297.2	287.8
Energy	324.0	7.0	-50.6	-7.6	-50.6
Employment	3,184.0	81.9	-528.2	-90.0	-242.0
Transport	2,258.0	52.5	-115.0	-85.0	-149.0
Housing	2,576.0	398.0	-363.0	637.4	-362.6
PSA	-117.0	11.9	0.0	-2.9	0.0
DOE other (inc Urban)	954.0	96.3	-160.0	96.3	-100.0
Ordnance Survey*	18.0	6.0	-2.6	0.7	0.7
Home Office	1,070.0	49.8	-25.6	1.7	-20.0
LCD	581.0	0.0	-29.3	0.0	-5.0
DES	3,432.0	165.8	-103.0	-3.1	-87.4
OAL	330.0	10.7	-9.9	10.7	-3.0
Health - PSS	14,657.0	640.7	0.0	459.7	0.0
Social Security	41,521.0	940.0	0.0	461.0	0.0
Superannuation*	1,226.0	-55.3	-55.3	-55.3	-55.3
Scotland	4,067.0	20.7	-4.3	20.7	-4.3
Wales	1,589.0	3.1	-15.0	-2.9	-15.0
N. Ireland	4,390.0	34.4	28.4	34.4	28.4
Inland Revenue	974.0	28.0	0.0	28.0	20.0
C.Ex Other Depts.	878.0	4.2	-3.0	4.2	-3.0
Other Depts.	333.0	33.1	-7.6	33.1	-7.6
LA current*	25,182.0	1,048.4	1,048.4	1,048.4	1,048.4
NI EFLs (inc RMPS)	298.0	-500.0	-500.0	-500.0	-500.0
Reserve*	4,750.0	-750.0	-750.0	-750.0	-750.0
Pay Factor	0.0	0.0	-100.0	0.0	-100.0
Asset sales	-2,000.0	0.0	0.0	0.0	0.0
Adjustment	-521.00	0.0	0.0	0.0	0.0
Change from Survey Baseline	136,294.0	3,323.7	-2,301.6	2,263.8	-1,662.2

*Agreed programmes

1987-88 £m

Changes from Baseline

Department	Baseline	Opening Minister	Position CST	Latest Minister	Position CST
Defence	18,617.0	1,046.6	-250.0	1,046.2	-250.0
FCO-ODA	1,320.0	157.3	-63.6	157.3	-63.6
FCO-other	618.0	71.3	-20.1	71.3	-17.8
EC*	615.0	195.0	195.0	215.0	215.0
IBAP(inc prefunded AFF)*	1,344.0	-20.7	-24.6	111.3	111.3
AFF(domestic)	805.0	-9.1	-283.6	-17.5	-270.9
Forestry*	59.0	-1.8	-9.8	-4.2	-4.2
Regional Policy(GB)	489.0	169.0	-200.0	-48.0	-145.0
DII(other)	773.0	62.7	-244.0	11.0	-227.7
ECGD	-163.0	191.9	132.3	160.0	134.9
Energy	332.0	4.7	-67.4	-16.4	-67.4
Employment	3,264.0	33.5	-623.3	-145.0	-279.0
Transport	2,311.0	74.5	-126.0	-42.0	-172.0
Housing	2,641.0	425.0	-486.0	663.5	-486.0
PSA	-120.0	0.8	0.0	-12.9	-5.0
DOE other(inc Urban)	976.0	85.1	-160.0	85.1	-100.0
Ordnance Survey*	19.0	10.2	-3.5	2.5	2.5
Home Office	1,096.0	113.3	-35.2	18.3	-10.0
LCD	595.0	36.0	-38.4	17.0	17.0
DES	3,518.0	180.2	-106.0	-2.2	-91.0
OAL	338.0	18.1	-10.2	15.8	-2.0
Health +PSS	15,024.0	1,066.8	0.0	846.0	0.0
Social Security	42,559.0	2,123.0	0.0	1,498.0	0.0
Superannuation*	1,256.0	37.7	37.7	37.7	37.7
Scotland	4,170.0	36.1	-91.5	36.1	-91.5
Wales	1,629.0	25.6	10.6	11.6	7.6
N.Ireland	4,500.0	61.4	-50.0	61.4	11.4
Inland Revenue	998.0	-8.2	0.0	-8.2	0.0
CEX Other Depts	900.0	27.8	-33.0	27.8	-33.0
Other Depts.	380.0	60.4	-4.5	60.4	-4.5
LA current*	25,577.0	948.0	948.0	948.0	948.0
NI EFLs(inc RMPS)	305.0	-1,000.0	-1,000.0	-1,000.0	-1,000.0
Reserve*	4,868.0	131.2	131.2	131.2	131.2
Pay Factor	0.0	0.0	-100.0	0.0	-100.0
Asset sales*	-2,050.0	50.0	50.0	50.0	50.0
3% Uplift	1,379.0	-1,379.0	-1,379.0	-1,379.0	-1,379.0
Adjustment	-543.0	0.0	0.0	0.0	0.0
Change from Baseline	140,399.0	5,024.4	-3,904.9	3,607.1	-3,133.0

*Agreed programmes

SECRET

DRAFT PAPER BY CHIEF SECRETARY FOR 4 OCTOBER CABINET

1984 PUBLIC EXPENDITURE SURVEY

Cabinet agreed on 5 July to hold the public expenditure planning totals to aggregate figures of £131.7 billion, £136.3 billion and £140.4 billion respectively for the three years 1985-86 to 1987-88. I was invited to report again on the Survey when I had completed discussions with the Ministers responsible on individual expenditure programmes and manpower allocations.

2. I have now had bilateral meetings with colleagues on all the major programmes. Some further meetings have been taking place in the last day or so, on which I can report orally.

3. But I have to report to colleagues that we have made disappointingly little progress on expenditure. The position is summarised in annex A.

4. For departmental expenditure agreements have been reached on only [] programmes, involving net [additions] to the baseline of []. There are major unresolved issues on [the FCO, Agriculture, Trade and Industry, Housing, Education and Social Security departmental programmes.] And we are also a long way from reaching agreements which would yield the savings on baseline of £250 million, £500 million, and £1000 million in nationalised industries' external financing limits endorsed by E(NI) on 3 July.

Agree
sufficiently
imprecise

5. In aggregate, colleagues are still seeking net additions to provision for the non-agreed programmes implying overshoots on the agreed targets [of around £1 $\frac{3}{4}$ billion in 1985-86 rising to £4 billion in 1987-88]. Some of these additions may, in the last resort, prove to be irresistible. But in aggregate expectations must be scaled down -
if the targets are to be met.

6. For this reason I am having to press for programme totals well below present demands, either by withdrawal of bids or option reductions; or, in a number of cases, both.

7. Hence there are major gaps still to bridge. No doubt some further progress could be made in bilateral exchanges. But, given the size of the task and the major issues of political priorities identified in some areas, Cabinet will wish to consider whether the time has come to convene the small group of Ministers under the chairmanship of the Lord President of the Council, envisaged in our 5 July discussion, to look at those areas of expenditure on which it does not prove possible to reach bilateral agreements during the course of this week. I suggest the group should be ready to start work on Monday 15 October, immediately after the Party Conference.

8. On manpower, where I was charged to press for significant reductions in the present plans for 1 April 1988, we have made some progress, and agreements have been reached for some Departments where programme expenditure remains unresolved. To reach our target, however, it will be necessary to agree sizeable further reductions. I hope to make more progress bilaterally, but where that proves impossible I will be obliged to ask the Ministerial group to consider the position.

PES 1984: POSITION REACHED AT 27 SEPTEMBER 1984

CHANGE FROM BASELINE

Department	1985-86		1986-87		1987-88	
	Baseline	Agreed+ Dept Bids	B'line	Agreed+ Dept Bids	B'line	Agreed Dept Bids
(excl LA relevant current and NI EFLs)						
Defence	18003	+323.6	18613	+182.7	18617	+1046.2
FCO-ODA	1264	+10.9	1299	+78.0	1320	+157.3
FCO-Other	602	+46.3	602	+65.5	618	+71.3
EC*	550	+205.0	600	+40.0	615	+215.0
IBAP (inc AFF prefunded)	1304	+44.7	1312	+80.7	+1344	+111.3
AFF (domestic)	776	-1.1	786	+15.3	805	-17.5
Forestry*	56	-3.5	57	-4.1	59	-4.2
Regional Policy (GB)	491	-5.0	478	+64	489	-48.0
DTI (Other)	782	+112.0	752	+105.0	773	+11.0
ECGD	30	+209.5	-159	+297.2	-163	+160.0
Energy	321	-7.1	324	-7.6	332	-16.4
Employment	3158	-32.0	3184	-90.0	3264	-145.0
Transport	2176	-121.0	2258	-85.0	2311	-42.0
Housing	2507	+53.0	2576	+637.4	2641	+663.5
PSA	-109	+44.5	-117	-2.9	-120	-12.9
DOE Other	931	+44.1	954	+96.3	976	+85.1
Ordnance Survey*	18	-0.2	18	+0.7	19	+2.5
Home Office	1023	+2.2	1070	+1.7	1096	+18.3
LCD	547	0	581	0	595	+17.0
DES	3353	-4.2	3432	-3.1	3518	-2.2
OAL	287	+8.4	330	+10.7	338	+15.8
Health and PSS	13954	+297.7	14657	+459.7	15024	+846.0
Social Security	39410	+532.0	41521	+461.0	42559	+1498.0
Superannuation*	1130	-58.5	1266	-55.3	1256	+37.7
Scotland	3904	+36.1	4067	+20.7	4170	+36.1
Wales	1521	+7.7	1589	-2.9	1629	+11.6
N Ireland	4213	+45.6	4390	+34.4	4500	+61.4
Inland Revenue	949	+8.1	974	+28.0	998	-8.2
ChX Other Depts	853	3.6	878	+4.2	900	+27.8
Other Depts	319	20.0	333	+33.1	380	+60.4
LA						
Current*	24754	+944	25182	+1048	25577	+948
NIEFLS (inc RMPS)	1332	-250	298	-500	305	-1000
Reserve*	3750	-750	4750	-750	4868	+131.2
Asset Sales	-2000		-2000		-2050	+50
3% Uplift					1379	-1379

Baseline (5 July Cabinet objective)** and implied changes 131671 +1766.4 136294 +2263.8 140400*** +3607.1

*Agreed programmes **excludes double counting ***Adjusted baseline