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TB note

Treasury Chambers, Parliament Street, SW1P 3AG

Dr

Andrew Turnbull Esq  
Private Secretary  
10 Downing Street

21 December 1984 24/12

Dear Andrew

1985 PUBLIC EXPENDITURE WHITE PAPER

Your letter of 14 December recorded the Prime Minister's view that it would be better to publish the table showing public sector capital spending for 3 years ahead. In his minute of the same date the Secretary of State for Defence agreed to the presentation of Defence capital expenditure figures over this period on the basis circulated with my minute of 13 December.

The Chief Secretary has now considered the precise form of the table, and has decided that the presentation would be improved if the figures for capital spending by nationalised industries excluded throughout the period - rather than just for the forward years - capital spending by those industries (notably BT and BA) which have been or are being privatised. This means figures for all the years will have the same coverage. The figures for investment by the privatised companies would continue to be shown in a footnote.

I attach for information copies of Part I of the White Paper as it has gone to the printers, including the revised table 1.13 in the form discussed above.

The Chief Secretary has received a number of detailed comments on the Part 1 text and the majority of these, along with comments discussed at official level, are being incorporated in the final version of the White Paper. However, the Chief Secretary would prefer not to include one of the changes suggested by the Secretary of State for Environment in his letter of 14 December.

The Secretary of State suggested that paragraph 51 should say that the 1985-86 provision for local authority capital spending "takes account" of any overspending this year as well as the overspending which occurred in 1983-84. The point of substance is not in fact decided and would need further discussion. The Chief Secretary thinks it would be wrong therefore to refer to it in the White Paper text which is intended to spell out the factors which have had an influence on the revised 1985-86 plans. But in any event the Chief Secretary would not think it appropriate to mention it

in the White Paper because to do so would remove any incentive from local authorities to continue voluntary restraint on their capital spending that year.

I am sending copies of this letter to the private secretaries to members of Cabinet and to Richard Hatfield (Cabinet Office).

Yours sincerely  
Richard

R J BROADBENT  
Private Secretary

Second Proof 19/12/84

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# The Government's Expenditure Plans 1985-86 to 1987-88

Volume I

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HM TREASURY  
JANUARY, 1985

Cmnd ????-?





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## Main points from this White Paper

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1. The Government's plans for public spending are an integral part of its Medium Term Financial Strategy.

2. Planned spending for 1985-86 is £132.1 billion, the same as in the last White Paper (Cmnd 9143).

3. The cash plans imply public spending between 1983-84 and 1987-88 being held constant in real terms, and amounting to a falling proportion of the nation's income.

4. The main increases in planned spending are in the social security, health, defence, and law and order programmes.

5. Action has been taken to <sup>improve</sup> ~~tighten~~ control over spending, particularly by local authorities.



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## *Part One*

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# The expenditure plans

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### Introduction

1. This annual White Paper sets out the Government's spending plans for the next three years.

x 2. This volume of the White Paper (Part 1) gives a summary of the plans<sup>①</sup>

x 3. Volume II gives more detail. Part 2, at the beginning of the volume, gives detailed figures, analysing the plans in different ways. Parts 3, 4 and 5 describe how money will be spent and what it will achieve. Part 6 defines the technical terms used. <sup>5</sup>

### The Government's Strategy

4. The Government's plans for public spending are an integral part of its Medium Term Financial Strategy (MTFS). The continuing objectives are to bring down the rate of inflation and provide a firm basis for sustained economic growth. Major progress has been made.

5. The strategy is regularly brought up to date at Budget time. Continued success requires steadily reducing public borrowing – broadly speaking the gap between public spending and tax receipts – as a proportion of national income.

6. The 1984 MTFS provided for the public sector borrowing requirement (PSBR) to fall to under 2 per cent of national income by 1988–89. At the same time the Government wishes to provide for a continuing reduction in the burden of direct taxation.

7. The total of public spending must be planned against this background, and held to what can be afforded. Too often in the last 20 years Governments have committed themselves to ambitious spending plans which, in the event, led to taxes being raised.

### The revised spending plans

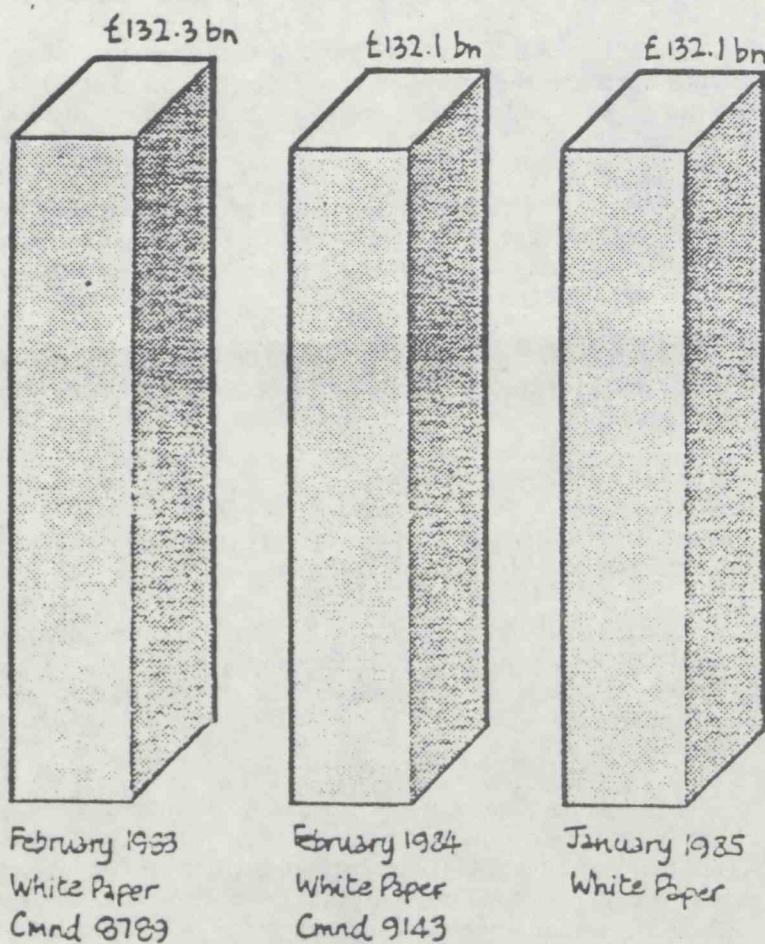
8. The November 1984 Autumn Statement gave the broad results for 1985–86 of the latest review of public spending. This White Paper now sets out in more detail final decisions taken on the spending plans for 1985–86, which provide the basis for cash limits and other expenditure controls for the year ahead. It also sets out the plans for the two following years. Up to date summary projections of government receipts, spending and borrowing over the medium term will be given in the Financial Statement and Budget Report on Budget Day.

### Public spending totals

9. The Government believes it is important, both for its own planning and for all those taking decisions in the economy, that the regular reviews of detailed public spending plans should take place in a stable overall framework.

10. Hence planned public spending (the "planning total") for 1985-86, some £132.1 billion, is the same as in last year's Public Expenditure White Paper (Cmd 9143). This is also within the total set when outline plans for 1985-86 were first drawn up two years ago (Chart 1.1).

CHART 1-1



PLANNING TOTALS 1985-86

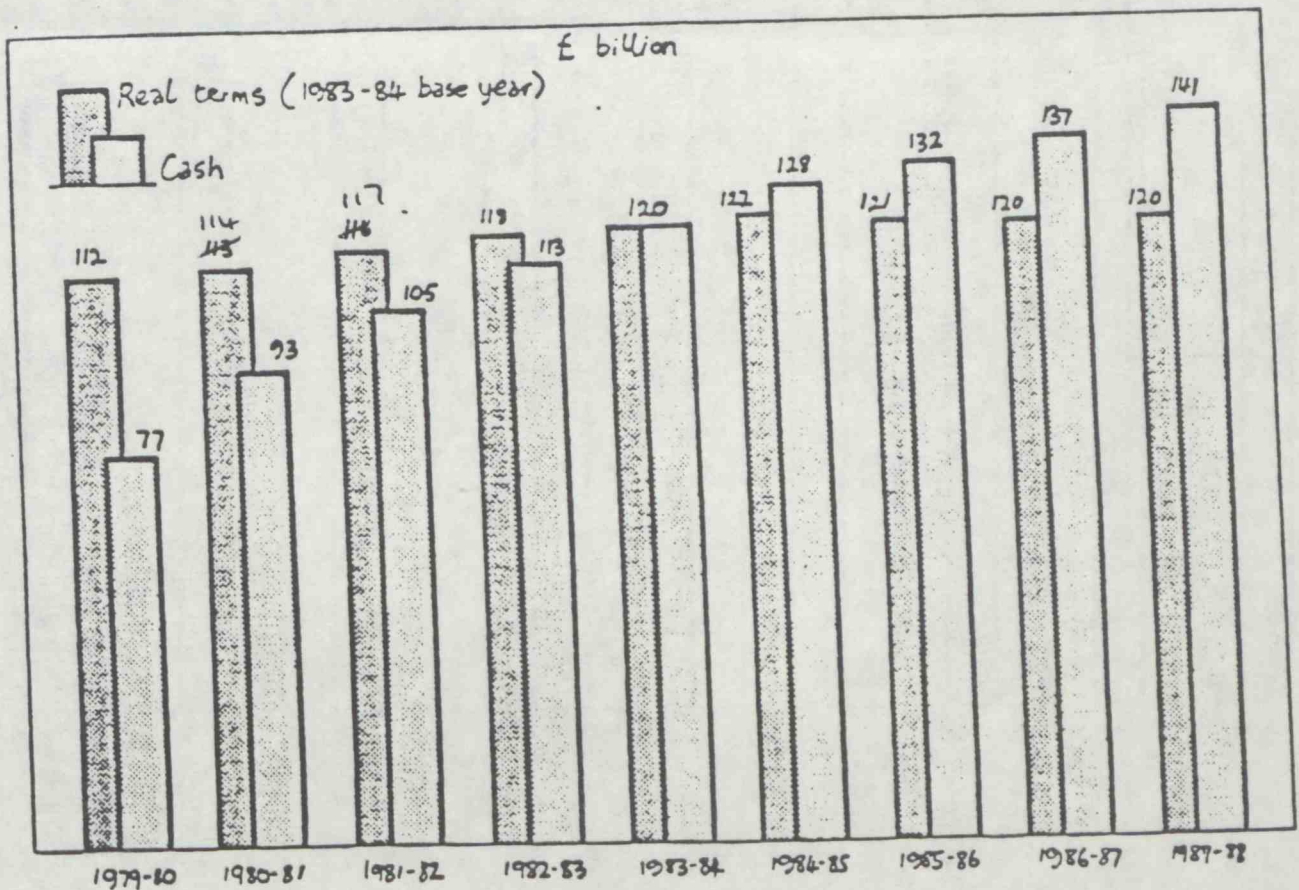


11. For both 1986-87 and 1987-88 the plans allow for cash increases of about 3½ per cent. Between 1983-84 – the last year for which outturn figures are available – and 1987-88 the increase in public spending is planned to be much the same as the expected rise in prices.

cash

12. So over these four years public spending is planned to be broadly stable in real terms.<sup>(1)</sup> (Chart 1.2). Total spending in 1984-85 is now expected to be about ½ per cent higher than planned a year ago. But the resulting increase in real terms this year is expected to be followed by a reduction once the exceptional impact of the coal strike is over.

Chart 1.2 Planning total in cash and real terms.



<sup>(1)</sup>Cash figures adjusted for general inflation as measured by the GDP deflator at market prices. Throughout this White Paper "real terms" is used in the same way as "cost terms" in Cmnd 9143.



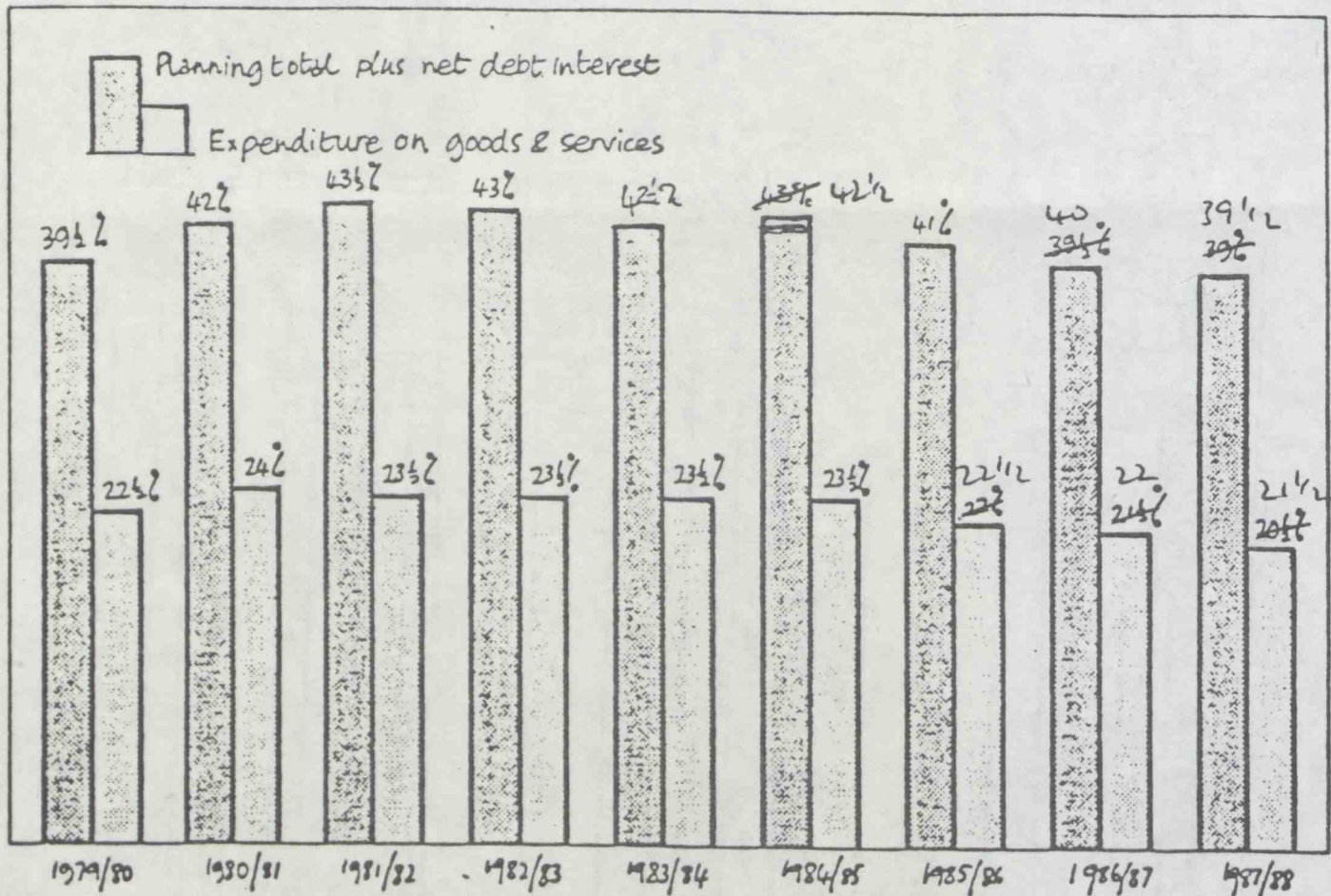
Public spending and national income

13. If the tax burden is to fall the public spending needs to amount to a lower proportion of the nation's income. The Government is planning to bring this about by the policy of keeping public spending stable in real terms while the economy continues to grow.

14. The percentage of public expenditure to gross domestic product (GDP) peaked in 1981-82 at 43½ per cent. In 1985-86 it is expected to be 41 per cent; and by 1987-88 to have fallen to 39½ per cent - the lowest for a decade. This will free an increasing share of the nation's income and resources to the private sector, and provide the basis for future economic growth. (Chart 1.3)

CHART 1.3

Public expenditure as percentage of GDP



(\*) Figures for GDP up to 1985-86 are as published in Table 1.9 of the 1984 Autumn Statement; figures for later years assume the same rate of growth as shown in Table 2.6 of the 1984 Financial Statement and Budget Report.

Public expenditure details

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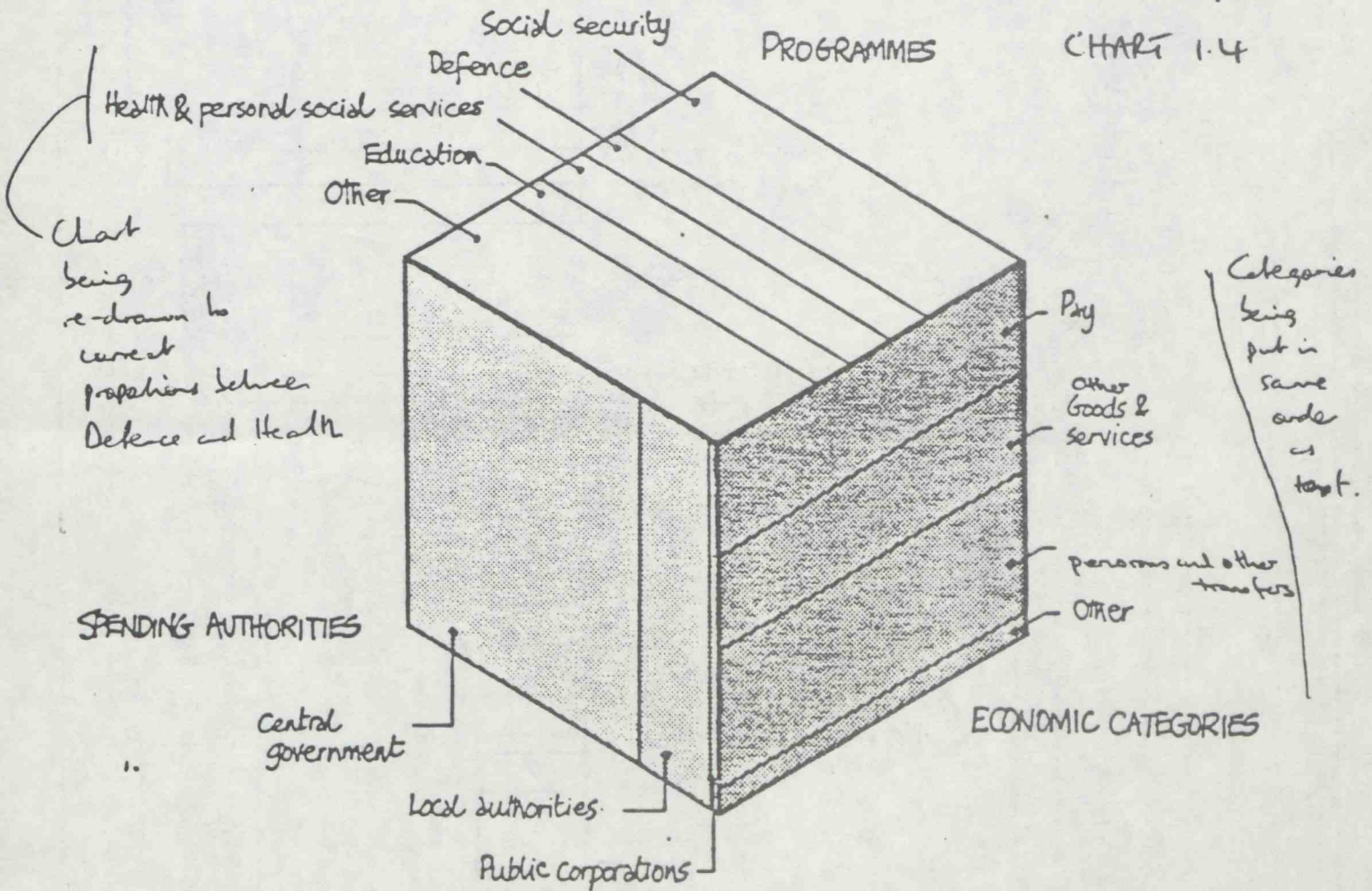
15. As in previous years the 1984 review of detailed plans has led to some adjustments within the stable overall position. Each year it is necessary to review estimates of the costs of different areas of spending and assess their effectiveness; and, where appropriate, to re-consider and re-order priorities. This process often requires difficult choices and decisions. But it is essential in order to keep firm control over public spending and improve efficiency and value for money.

x 16. There are three main ways of analysing total public spending: where it goes, who spends it, and on what it is spent. These are shown in the cube below.

PUBLIC SPENDING: WHERE, WHO AND WHAT?

PROGRAMMES

CHART 1.4



WHERE IT GOES: Different spending programmes provide services such as defence, social security and health.

WHO SPENDS IT: The spending authorities are central government, local authorities, and public corporations including nationalised industries.

WHAT IT IS SPENT ON: 40 per cent of the total goes on social security and other transfers to the private sector. 30 per cent is pay. Most of the rest is spent on other purchases of goods and services.

17. The next three sections consider each of these dimensions and set out the Government's spending priorities.

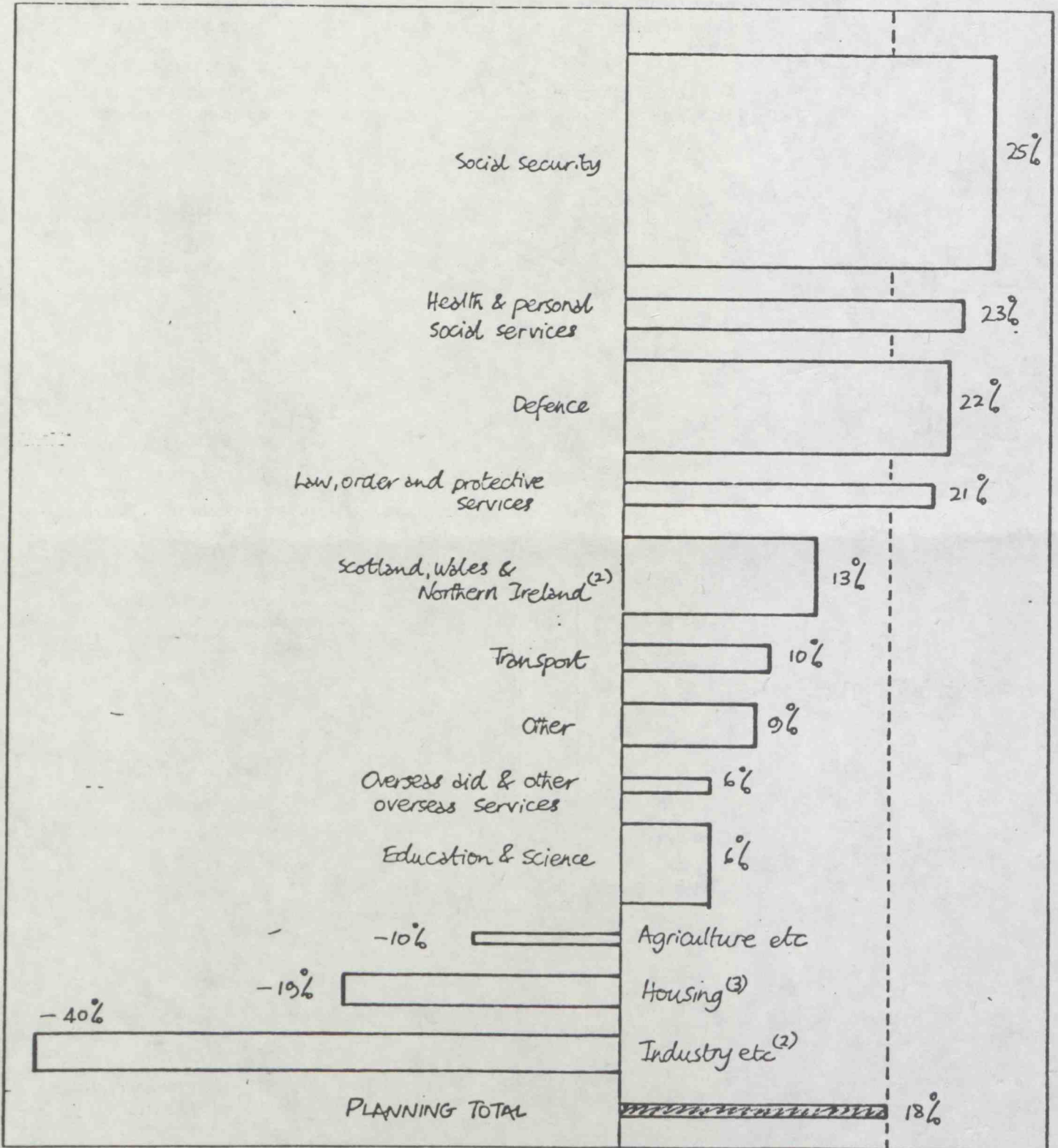


WHERE IT GOES

(page [ ])  
(page [ ])

18. Chart 1.5 shows the relative size of, and planned changes in, the main programmes between 1983-84 and 1987-88 in cash terms. Table 1.6 and 1.7 provide figures for programme spending in cash terms and real terms over the same period. Chart 1.8 shows the shares of the main programmes in the 1985-86 planning total.

Chart 1.5: Percentage change in programmes<sup>(1)</sup> between 1983-84 and 1987-88 in cash terms



<sup>(1)</sup> The width of each bar on the vertical axis is proportional to the expenditure on the programme 1983-84.

<sup>(2)</sup> Regional Development Grant (RGD) expenditure throughout Great Britain is included on this chart in the Industry programme. Figures elsewhere in the White Paper allocate RGD expenditure in Scotland & Wales to those territorial programmes from 29 November 1984 onwards. This is a consequence of the transfer of responsibility for it to the Secretaries of State for Scotland & Wales from that date.

<sup>(3)</sup> Housing programme, gross of receipts.



19. The average cash increase over the four years is 18 per cent, broadly the same as the increase in prices. The largest increases are for social security and health. Expenditure on these two programmes, which already account for over 40 per cent of the total, will continue to grow in real terms.

*hand overseas aid and other overseas services.*

20. The other two main programmes where spending will rise above the average are defence and law and order, again reflecting the Government's priorities.

21. The transport and education and science programmes will increase by less than the average. ~~Spending on housing~~ and subsidies to industry, ~~trade~~ energy and employment services will be reduced. *agriculture and to*

Social Security

22. About the half of the £40 billion expenditure planned for 1985-86 will be paid to people over retirement age.

*£2.2 billion (about 5 1/2 per cent)*

23. Spending next year will be ~~over £2 billion~~ *(nearly 7 per cent)* more than in 1984-85. Further rises of 4 1/2 per cent and 5 per cent are planned for the following two years. The increases reflect more people claiming benefits and the cost of raising benefits in line with prices.

24. Various policy changes have been made to help contain spending, such as action to curb recent rapid growth in supplementary benefit board and lodging payments. Legislation has been introduced to extend the duration of statutory sick pay by employers to 28 weeks from April 1986, which will reduce duplication of state and private provision and yield substantial staff and public spending savings. Changes to invalidity benefits include the restoration from November 1985 of the 5 per cent abatement of invalidity pensions.

Health and personal social services

*4 1/2*

25. £600 million more (4 1/2 per cent) will be spent on the National Health Service (NHS) in England next year than in 1984-85, taking the total to £14 billion. £9.6 billion will be spent on hospitals and community health services, £3.1 billion on the family practitioner services - doctors, dentists, pharmacists and opticians. Overall increases of 5 1/2 per cent and ~~4~~ per cent are planned for 1986-87 and 1987-88.

*Health authority*

26. In addition, action is being taken to get better value for the money spent. Programmes of cost improvements ~~in the hospitals~~, already giving savings of ~~1~~ *1* per cent a year, should yield ~~more in future years~~ *greater savings*. There will be tighter controls on the profits companies make from drug sales, and *in some cases only a small but adequate range of drugs will be available on NHS prescriptions.*

Defence

27. The 1985-86 provision of £18.1 billion is in line with the NATO aim of real annual increases in the region of 3 per cent, which the Government plans to implement up to that year. The cash provision for later years will be kept under review in the context of the Government's expenditure plans, taking account of our military commitments and all other relevant factors. In each year ~~there is~~ an addition for Falklands costs, which fall over the period. *the total includes*

Law, order and protective services *3 per cent*

28. Spending on law, order and protective services is planned to rise by ~~£1~~ *£1* million in 1985-86, with further increases in later years. Most of the additional spending will be on the police and other services run locally, but it also permits further progress on building new prisons and courts.

Transport

*transport subsidies*

29. Expenditure on national roads is expected to be higher than this year, and capital spending on local roads maintained. The plans provide for significant reductions in ~~revenue support~~ compared with local authorities' present spending.

Overseas aid and other overseas services

*diplomatic and*

30 ~~32~~. Net spending on the aid programme next year will be ~~£1.1~~ *over £1.1* billion - nearly 3 per cent higher than in 1984-85 and a 17 per cent increase over the latest three years. Some minor savings have been made in other overseas services to offset rising costs, largely caused by changes in the exchange rate.

31 ~~33~~. The United Kingdom's net payments to the European Community institutions are estimated at £750 million compared with £690 million in 1984-85. The projections now take account of the agreement reached by Heads of Government at Fontainebleau on 26 June on the future financing of the Community.



Table 1.6 Public expenditure by programme (1)

(10)

£ billion

(4)

	1981-82 outturn	1982-83 outturn	1983-84 outturn	1984-85 estimated outturn	1985-86 plans	1986-87 plans	1987-88 plans
Defence	12.6	14.4	15.5	17.2	18.1	18.6	18.9
Overseas aid and other overseas services	1.6	2.1	2.6	2.5	2.6	2.6	2.8
Agriculture, fisheries, food and forestry	1.4	1.8	2.1	2.1	2.1	1.9	1.9
Industry, energy, trade and employment	6.7	5.8	5.9	7.2	4.7	3.8	3.5
Arts and libraries	0.5	0.6	0.6	0.7	0.6	0.7	0.7
Transport	4.3	4.4	4.4	4.8	4.5	4.8	4.8
Housing	3.1	2.7	3.1	3.1	2.3	2.5	2.6
Other environmental services	3.1	3.5	3.7	3.8	3.5	3.6	3.5
Law order and protective services	3.8	4.2	4.6	5.1	5.2	5.4	5.6
Education and science	11.8	12.8	13.4	13.7	13.6	14.0	14.2
Health and personal social services	12.7	13.8	14.8	15.8	16.5	17.4	18.1
Social security	28.6	32.5	35.2	37.9	40.1	41.9	44.0
Other public services	1.6	1.7	1.7	1.9	1.9	2.0	2.0
Common services	1.6	1.6	0.9	1.0	1.1	1.2	1.3
Scotland	2.8	6.2	6.7	7.1	7.2	7.3	7.3
Wales	2.2	2.4	2.6	2.6	2.7	2.9	2.9
Northern Ireland	3.8	3.5	3.7	4.1	4.3	4.5	4.6
Local authority current expenditure not allocated to programmes (England)					0.6		
<b>Adjustments</b>				-2.0			
Special sales of assets	0.1	-0.5	-1.1	<del>1.9</del>	-2.5	-2.2	-2.2
Reserve				-0.5	3.0	4.0	5.0
General allowance for shortfall				<del>0.2</del>			
<b>Planning total (3)</b>	<b>104.7</b>	<b>113.4</b>	<b>120.3</b>	<b>128.1</b>	<b>132.1</b>	<b>136.7</b>	<b>141.5</b>
Percentage change on previous year		8.3	6.1	6.85	<del>2.0</del> 3.1	3.85	3.5
<b>Memorandum items (not included above)</b>							
Debt interest							
- net <sup>(2)</sup>	5.9	5.9	7.1	8.5	9.0	9.5	10.0
- gross <sup>(2)</sup>	14.8	15.4	15.5	16.5	17.0	17.5	18.0

Table 1.7 Planning total in real terms by programme (1) (2)

£ billion  
(base year 1983-84)

(4)

	1982-83 outturn	1983-84 outturn	1984-85 estimated outturn	1985-86 plans	1986-87 plans	1987-88 plans	
Defence	15.0	15.5	16.5	16.5	16.3	16.0	
Overseas aid and other overseas services	2.2	2.6	2.4	2.4	2.2	2.4	
Agriculture, fisheries, food and forestry	1.9	2.1	2.0	1.9	1.6	1.6	
Trade, industry, energy and employment	6.0	5.9	6.9	4.3	3.3	2.9	
Arts and libraries	0.6	0.6	0.6	0.6	0.6	0.6	
Transport	4.6	4.4	4.6	4.1	4.3	4.1	
Housing	2.8	3.1	3.0	2.1	2.2	2.3	
Other environmental services	3.7	3.7	3.6	3.2	3.1	3.0	
Law order and protective services	4.4	4.6	4.8	4.8	4.8	4.8	
Education and science	13.3	13.4	13.1	12.4	12.3	12.1	
Health and personal social services	14.4	14.8	15.1	15.1	15.3	15.4	
Social security	33.9	35.2	36.3	36.7	36.8	37.4	
Other public services	1.8	1.7	1.8	1.8	1.7	1.7	
Common services	1.6	0.9	0.9	1.0	1.0	1.1	
Scotland	6.5	6.7	6.8	6.5	6.4	6.2	
Wales	2.5	2.6	2.5	2.5	2.5	2.5	
Northern Ireland	3.6	3.7	3.9	3.9	3.9	3.9	
Local authority current expenditure not allocated to programmes (England)				0.5			
<b>Adjustments</b>							
Special sales of assets		-0.5	-1.1	-1.89	-2.3	-2.0	-1.9
Reserve				2.7	3.5	4.3	
General allowance for shortfall				-0.25			
<b>Planning total (3)</b>	<b>118.4</b>	<b>120.3</b>	<b>122.3</b>	<b>120.7</b>	<b>120.1</b>	<b>120.4</b>	

<sup>(2)</sup> Cash figures adjusted for general inflation as measured by the GDP deflator at market prices. The GDP deflator is assumed to increase by some 4.75 per cent in 1984-85, 4.5 per cent in 1985-86 (as stated in the 1984 Autumn Statement, paragraph 1.60), 4 per cent in 1986-87 and 3.25 per cent in 1987-88.

<sup>(3)</sup> Programmes may not sum to totals due to rounding.

(1) Figures rounded to £0.1 billion. More detailed information is given in Part 2 of this White Paper.

(4) The bulk of the expenditure figures in this White Paper were compiled at the beginning of December 1984; consistently with the 1984 Autumn Statement they assume an end-December finish to the coal strike. A later end to the strike would be likely to increase expenditure in 1984-85.



Education and Science

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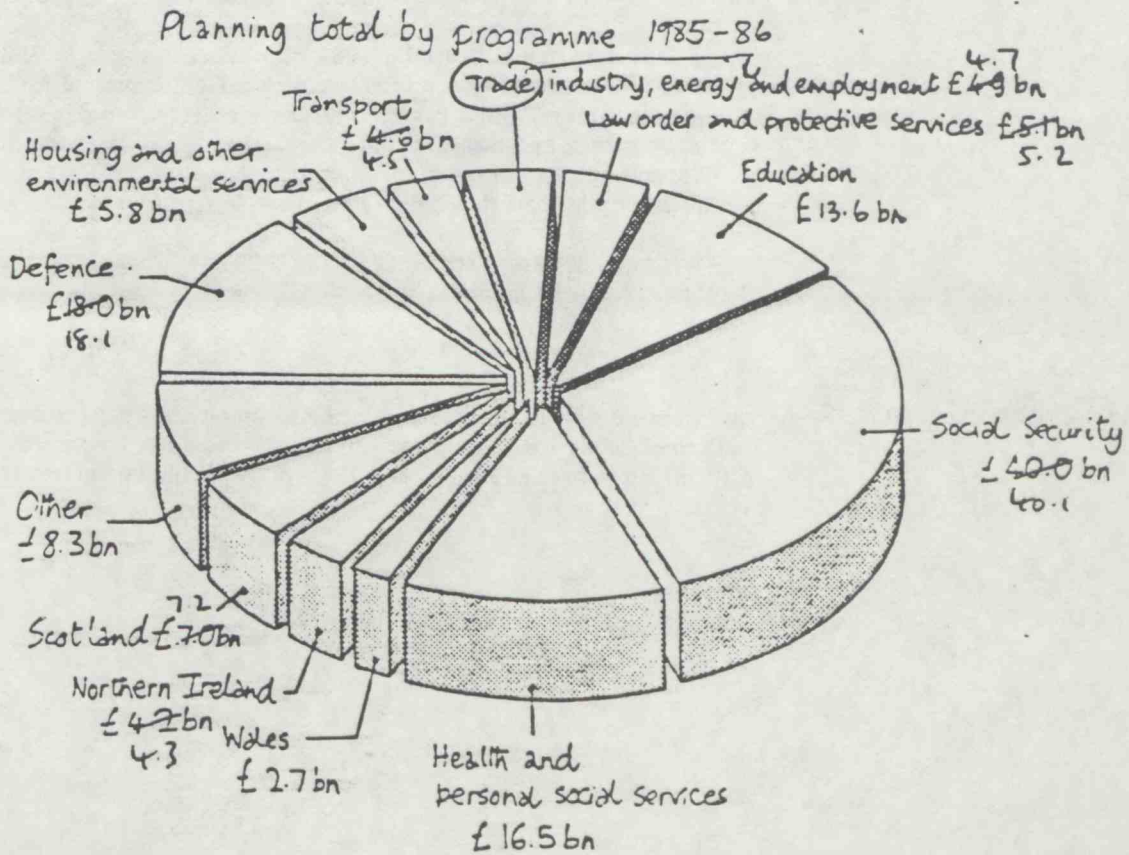
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- 32 ~~30~~ The plans include £13.6 billion for education and science next year, ~~£10.3 billion more than in 1984-85~~. The provision of £10.3 billion for local authorities' current spending should allow them to make continuing progress in raising standards of achievement for all levels of ability as school rolls continue to fall, provided that costs can be contained. There will be more money for science, and for laboratory equipment in universities.
- 33 ~~31~~ Limited savings will be made in student awards by ending minimum maintenance awards and increasing parental contributions. There will be more money for science, and for laboratory equipment in universities.

Agriculture

- 34 ~~35~~ UK spending on the Common Agricultural Policy and national price guarantees is expected to exceed £1.4 billion in 1985-86. This includes extra provision for the grain expected to be bought into intervention following the large 1984 harvest. Savings have been made in the plans for all three years on domestic support to agriculture, mainly on capital grants and arterial land drainage.

CHART 18



Housing

It is expected to

- 35 ~~34~~ The 1985-86 plans involve gross spending of some £4.0 billion, including £3.1 billion for investment in public sector housing and lending to people for house purchase and improvements. Spending will be supported by receipts of £1.7 billion - a direct result of the Government's Right to Buy policies.
- 36 ~~35~~ Spending on home improvement grants is expected to be lower than in recent years. Maintenance must be regarded as primarily the responsibility of owners and it is intended that in future grants should be better directed to those unable to afford necessary repairs and improvement.

Industry, Trade, Energy and Employment

than the estimated outlook for 1984-85, with some

37. Spending on these services is planned to be £600 million lower in cash terms in 1985-86 than in 1984-85. Further reductions totalling £1,500 million is planned in the two following years. These falls mainly reflect reduced needs for external finance by the and electricity industries, and there are also savings in individual support to the private sector. nationalised energy industrial

nearby £2.5 billion



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Special sales of assets

38. Net proceeds from special sales of assets are estimated to be £2.5 billion next year, and £2.25 billion in each of the following two years, reflecting the latest forecasts of receipts. Because future receipts from special sales of assets

are dependent on timing and market conditions, no breakdown of the present and future year figures are provided. Details for past years are included in Part 2 of this White Paper.

Reserve

39. The Reserve provides a margin for uncertainties and is intended to cover any spending not included elsewhere in the plans, whether it results from policy changes, new initiatives, contingencies or revised estimates for demand-led programmes like social security and export credit.

kr

40. The margin needed to allow for uncertainties is greater for the later years of the planning period. It is normal to reduce the size of the Reserve as plans are rolled forward and firmed up for the year immediately ahead.

to improve

41. The provisional figure for 1985-86 was set in the last White Paper at £3.75 billion. This has now been reduced to £3 billion. Provision for a number of individual programmes has been raised to reflect up-to-date estimates of likely requirements; and measures have been taken to tighten control over some areas of spending (see paragraph 50). Even so, the 1985-86 Reserve remains £0.25 billion higher than the comparable 1984-85 figure.

42. Larger Reserves are provisionally set aside for the later years - £4 billion in 1986-87 and £5 billion in 1987-88.

Debt interest ~~is~~ shown as

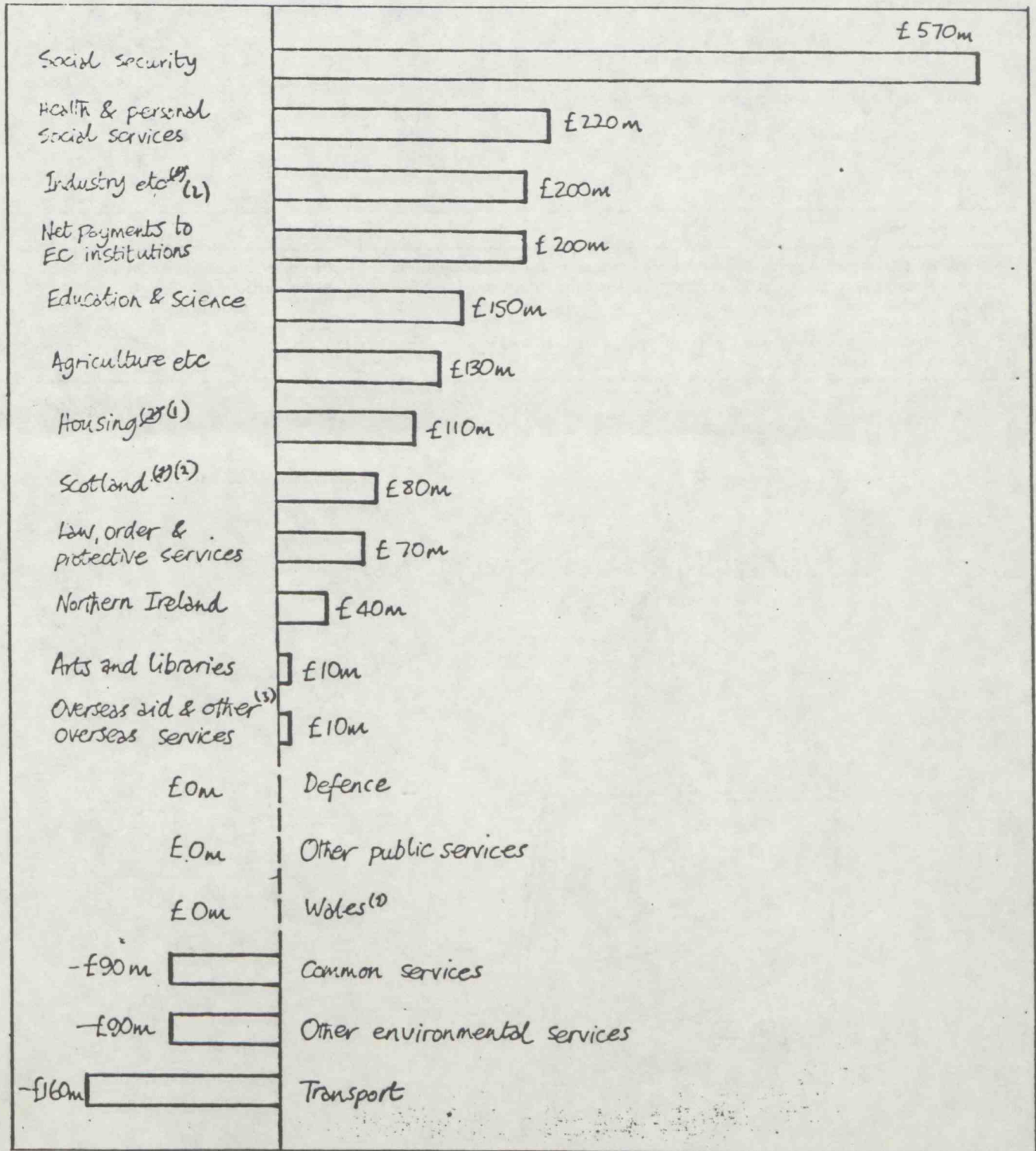
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Debt interest is not included in the planning total but the figures at the bottom of Table 1.6. Both gross and net payments are forecast to rise by about £0.5 billion between 1984-85 and 1985-86, with similar increases in the later years.

Main changes from Cmnd 9143 in 1985-86

44 Chart 1.9 shows the detailed changes for individual programmes within the unchanged planning total for 1985-86 published in the last White Paper. The main increases are for social security, health and personal social services, net payments to European Community institutions, and industry, energy, trade and employment services. Offsetting changes include reductions in the transport and other environmental services programmes, together with higher forecast receipts from special sales of assets and the transfer to programmes from the provisional reserve.

Chart 1.9: Changes in programmes for 1985-86 between 1984 public expenditure whitepaper and 1985 public expenditure white paper.



(1) Housing programme, gross of receipts

(2) See footnote 2 to Chart 1.5 for treatment of regional development grant expenditure

(3) net EC payments shown separately



# WHO SPENDS IT

45. Central government is responsible for about three quarters of the planning total. Local authorities spend most of the rest. The remainder is the amount public corporations, including nationalised industries, need to finance their activities. Table 1.10 and Chart 1.11 show the figures.

Table 1.10 Planning total by spending authority

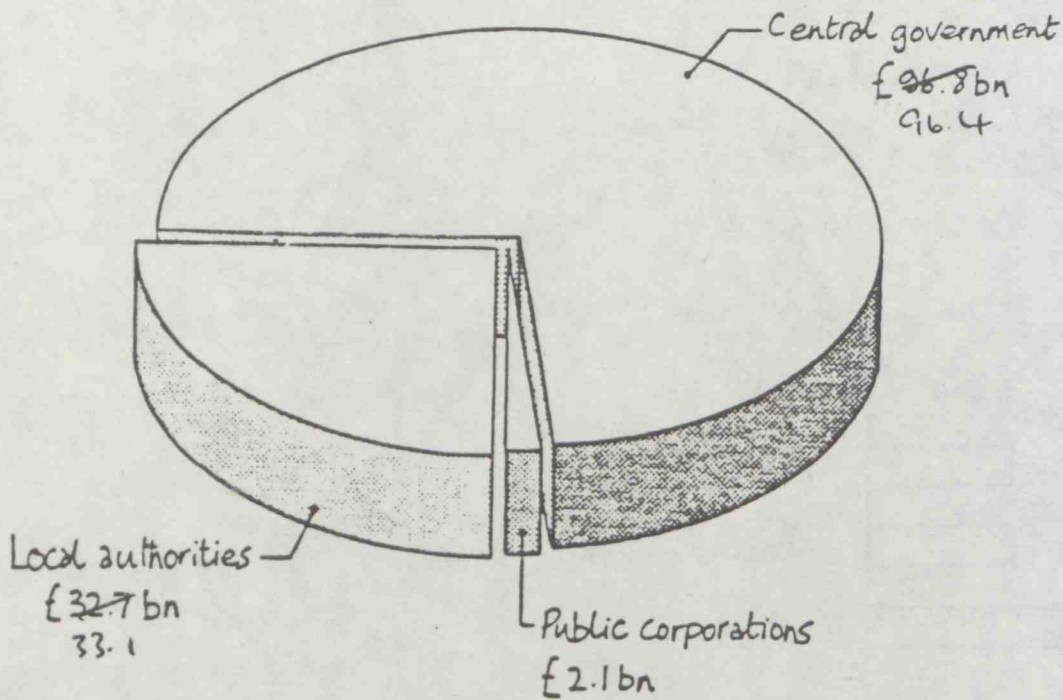
	£ billion						
	1981-82 outturn	1982-83 outturn	1983-84 outturn	1984-85 outturn	1985-86 outturn	1986-87 outturn	1987-88 outturn
1. Central government <sup>(1)</sup>	73.2	81.4	85.3	92.4	96.4	99.9	103.2
2. Local authorities <sup>(1)</sup>	26.6	29.1	33.0	34.1	33.1	34.1	34.8
3. Public corporations							
a. Nationalised industries							
- borrowing from Government	1.8	1.5	0.5	-0.4	0.9	-0.3	-0.8
- market and overseas borrowing (net)	0.3	-1.2	-0.1	0.8	-1.6	-1.2	-1.0
- grants	1.4	1.8	1.9	2.8	2.0	1.6	1.6
b. List I and II public corporations external finance	0.4	0.4	0.4	0.5	0.5	0.5	0.5
c. List III public corporations <sup>(2)</sup>	0.8	0.8	0.4	0.4	0.3	0.4	0.4
4. Special sales of assets	0.1	-0.5	-1.1	<del>2.9</del>	-2.5	-2.2	-2.2
5. Reserves				<del>2.0</del>	3.0	4.0	5.0
6. General allowance for shortfall				<del>0.2-0.5</del>			
<b>Planning total</b>	<b>104.7</b>	<b>113.4</b>	<b>120.3</b>	<b>128.1</b>	<b>132.1</b>	<b>136.7</b>	<b>141.5</b>

<sup>(1)</sup>Excluding central government and local authority finance for nationalised industries and List I and II public corporations and central government subsidies to List III public corporations. These figures are included in line 3, the total amounts are as follows:

Central government	3.7	3.8	2.8	2.8	3.3	1.9	1.4
Local authorities	0.1	0.1	0.1	0.2	0.2	0.1	0.1

<sup>(2)</sup>Figures include the capital expenditure of List III public corporations and government subsidies to them. Details of individual public corporations included in List's I, II and III are shown in Part 2.

Chart 1.11 Planning total by spending authority, 1985-86





*within the planning total*

Central Government

46. Central government spending is largely voted by Parliament through the annual Supply Estimates. The rest consists mainly of those social security payments which are paid for out of the National Insurance Fund.

47. In total about 40 per cent of <sup>the</sup> central government spending goes on social security. The remainder is spent on other programmes, mainly defence and the National Health Service.

Local authorities

*material*

48. About half of net spending by local authorities is financed by central government grants; the rest is met from local rates and borrowing. Over 40 per cent of total spending goes on education. Detailed ~~refund~~ on local authority spending is given in Part 4 of this White Paper.

49. Current spending by local authorities has continued to exceed the levels planned by the Government. This has imposed an added burden, particularly on ratepayers. In 1984-85 local authorities budgets<sup>(2)</sup> were £1.2 billion more than the Government provided for in the last White Paper.

(2) for current expenditure relevant for rate support grant.

*about three-quarters*

50. For 1985-86 the Government has increased the provision for this spending by £950 million to £25.5 billion. This compares with provision, adjusted for changes in local authority responsibilities, of £24 billion in 1984-85. There will be stiffer grant penalties for local authorities who overspend, and rate capping will operate in England for the first time. The 18 authorities ~~whose rates are~~ <sup>whose</sup> being capped account for ~~80 per cent~~ <sup>expected</sup> of the ~~overspending~~ in 1984-85.

51. Net provision for local authority capital spending in 1985-86 is £3.1 billion compared with £3.7 billion in 1984-85. The reduction is partly due to increased receipts and partly compensates for the £0.4 billion overspend in 1983-84. The Government is improving the system of control to reduce the risk of overspending, ~~without removing the incentive to authorities to increase their receipts from sale of assets.~~

Nationalised Industries

53. ~~53.~~ Detailed information on nationalised industries is given in Part 5 of this White Paper. The planning total includes their external finance. In 1985-86 this is planned to be £1.3 billion compared to £1.9 billion planned in 1984-85. The 1984-85 outturn is uncertain and depends on the outcome of the coal dispute. But it is likely to be ~~about~~ <sup>a little over</sup> £3.0 billion - largely because of the extra cost of the coal strike.

52. ~~52.~~ The figures for 1985-86 include for the first time London Regional Transport, which is now classified as a nationalised industry, and exclude British Telecom and British Airways because of privatisation. ~~Before taking these adjustments into account, nationalised industries' investment next year is expected to show little change from 1984-85.~~

54. Prices are generally expected to increase broadly in line with inflation during 1985-86.

*N*

55. ~~In future years,~~ nationalised industries' requirement for external finance is planned to decline markedly between 1985-86 and 1987-88, as losses are reduced or rates of return on capital improved. As in previous White Papers no financing breakdown is shown for later years. But British Rail, the National Coal Board and London Regional Transport are expected to be the main recipients of external finance over the period.

Other public corporations

56. The borrowing of some public corporations other than nationalised industries is also included in the planning total. Examples include the BBC and government trading funds such as the Royal Mint and the Stationery Office. For certain other public corporations all their capital expenditure is counted as public spending. Details are given in part 2 of this White Paper.

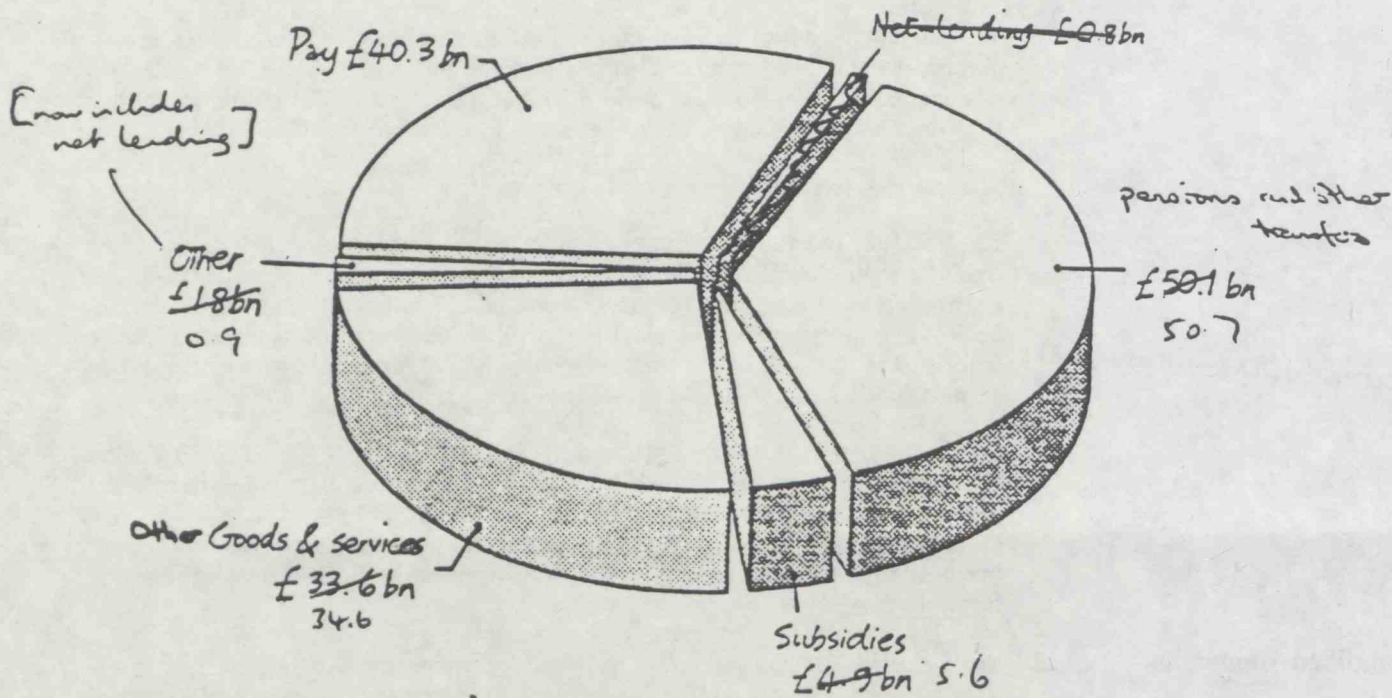


WHAT IT IS SPENT ON  
the main categories

57. Chart 1.12 shows In 1985-86 £50 billion (38 per cent) of public spending will take the form of cash payments to the private sector – mainly pensions and other social security benefits. £40 billion (30 per cent) is planned for pay, and £35 billion (26 per cent) will be spent on other goods and services from the private sector.

CHART 1.12

Planning total by economic category 1985-86



between

58. The mix between these forms of spending varies greatly between different programmes. Priorities, for example, capital and current spending, and procurement and pay costs have to be decided in the context of their relative contributions to the objectives of individual programmes.

Capital expenditure

must

59. Total capital spending by the public sector is measured in a number of ways, as explained on page [ ] of Part 2. The planning total does not include it all, and in some cases there is no clear dividing line between capital and current spending. For example expenditure on training in the Employment programme, which is an investment in the future labour force, is classified as current spending. Repair and maintenance of the infrastructure is also regarded as current.

and

60. Table 1.13 shows one measure of public sector capital expenditure. It includes more capital spending than is covered by the planning total, such as total capital spending by nationalised industries, and Defence capital spending on the NATO definition. But it excludes most repair and maintenance, and does not therefore measure the total flow of work from the public sector to the construction and capital goods industries.



TABLE 1.13 PUBLIC SECTOR CAPITAL SPENDING

£ billion

	1982-83 output	1983-84 output	1984-85 estimated output	1985-86 plans	1986-87 plans	1987-88 plans
<b>GOODS AND SERVICES</b>						
<b>General government</b>						
Expenditure on dwellings	2.3	2.5	2.3	2.2	2.3	2.4
New constructions other than dwellings	4.4	4.3	4.6	4.5	4.6	4.7
Purchases (net) of vehicles, plant and machinery	1.1	1.2	1.2	1.1	1.1	1.1
(1)						
<b>Defence expenditure</b>						
Construction	0.4	0.5	0.6	1	5.7	6.0
Equipment	3.8	4.2	4.9	1	5.9	6.0
<b>TOTAL GENERAL GOVERNMENT GOODS AND SERVICES</b>						
	11.9	12.7	13.6	13.5	14.0	14.3
Real terms (base year 1983-84) (2)						
	12.5	12.7	12.9	12.4	12.3	12.1
<b>Public corporations including nationalised industries (3)(4)(5)</b>						
Expenditure on dwellings	-	-	-	-	-	-
New construction other than dwellings	2.2	2.4	2.1	2.3	2.2	2.3
Purchases (net) of vehicles, plant and machinery	2.9	3.3	3.1	3.2	3.0	2.9
<b>TOTAL GOODS AND SERVICES</b>						
	17.0	18.3	18.7	18.9	19.2	19.4
<b>CAPITAL GRANTS TO THE PRIVATE SECTOR</b>						
General government	2.6	3.4	3.3	2.6	2.6	2.4
Public corporations	-	-	-	-	-	-
<b>TOTAL CAPITAL GRANTS TO THE PRIVATE SECTOR</b>						
	2.6	3.5	3.3	2.6	2.6	2.4
<b>TOTAL GOODS AND SERVICES PLUS CAPITAL GRANTS TO THE PRIVATE SECTOR</b>						
	19.6	21.8	22.1	21.6	21.8	21.8
Real terms (base year 1983-84) (2)						
	20.5	21.8	21.1	19.7	19.1	18.5

1985-86 and

- (1) NATO definition of defence capital expenditure. The figures for subsequent years are provisional.
- (2) See footnote to Table 1.7.
- (3) Nationalised industries figures are not included in the planning total.
- (4) Excludes those nationalised industries which have been, or are being, privatised ~~on a consistent basis to that in Part 5~~. The total figures for the industries involved in the years 1982-83 to 1984-85 are £1.8, 1.8 and 1.3 billion respectively. However the figures for nationalised industries do include expenditure by London Regional Transport from 1985-86 onwards.
- (5) National figures are included for the National Coal Board from 1985-86 to 1987-88. See footnote to Table 5.5.

61. Planned capital spending in 1985-86 by central and local government ('general government') is little changed from 1985-86 at £13.5 billion and rises to over £14 billion in 1987-88. In real terms this implies a small reduction over the period.

62. Capital spending by public corporations (excluding those nationalised industries that have been or are being privatised) is expected to increase in cash terms in 1985-86, returning broadly to the 1984-85 level thereafter. The industries' need for external finance is falling, because continuing large investment programmes can be financed from rising internal funds. Projects include the east coast rail electrification, the Docklands Light Railway and Terminal 4 at Heathrow Airport.

63. Capital grants to the private sector have been much higher than planned in both 1983-84 and 1984-85, the increase being largely on housing. They are now planned in 1985-86 to return to 1982-83 levels.

mainly reflecting the effects of temporarily higher home improvement grants. Expenditure is ~~now~~

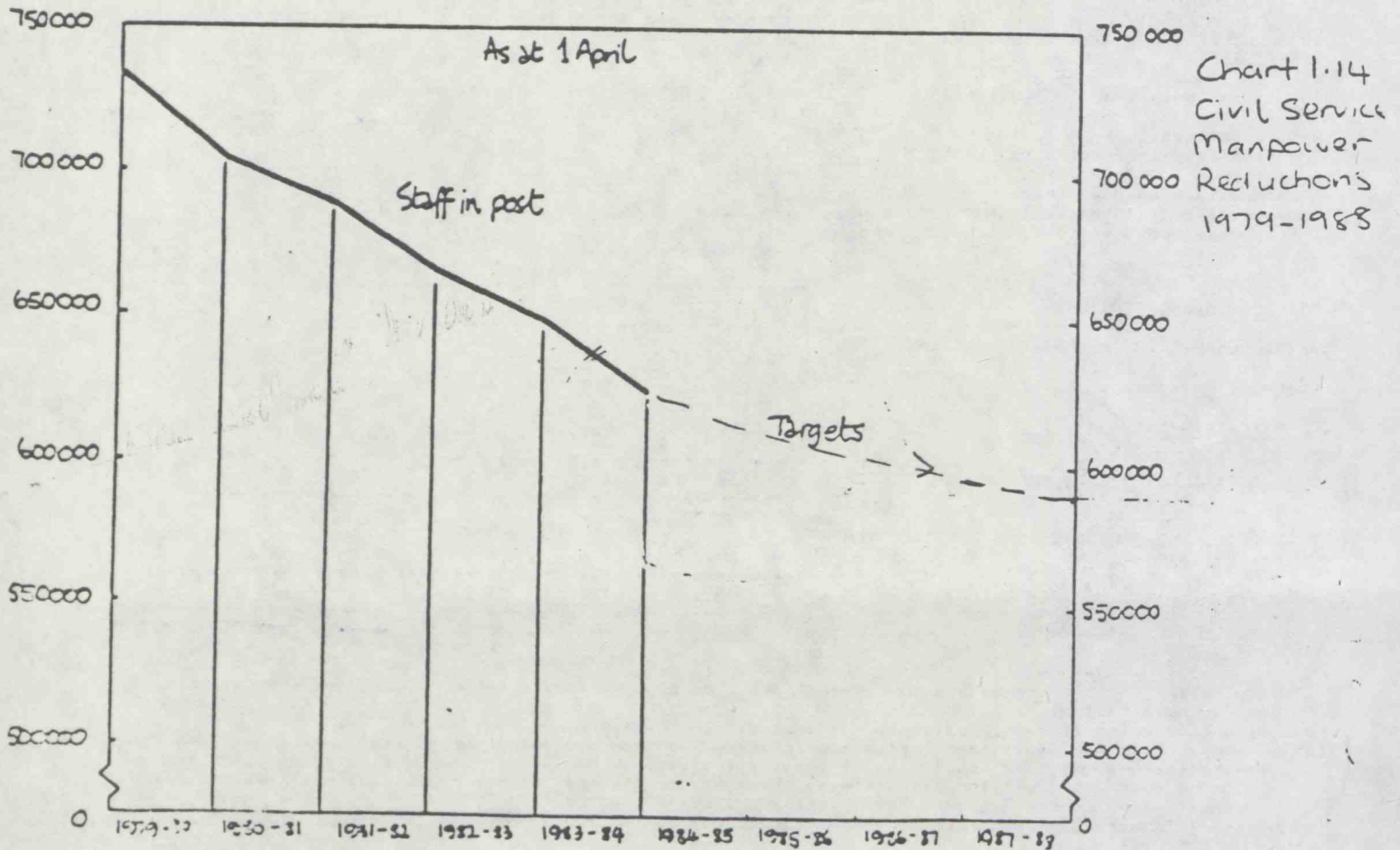
Pay

64. £40 billion (30 per cent) is planned to be spent in 1985-86 on pay and other employment costs for central and local government employees. For the central government groups, mainly the Civil Service, National Health Service and Armed Forces, the 1985-86 provision in the spending plans reflects the assumption that rates of pay and allowances will increase on average by 3 per cent from due settlement dates. If pay settlements cost more than this there will be less money available for other purposes, whether investment, employment or other services.

Manpower

h (including a contingency margin of 10,000)

65. The number of civil servants has fallen by more than 115,000 (16 per cent) since 1979; from 732,000 in April 1979 to 617,000 in October 1984. Further reductions are planned as the Government promotes greater efficiency in the use of resources and value for money for the tax payer, bringing the total to 590,000 by April 1988 - 20 per cent lower than in 1979. This is illustrated in Chart 1.14. Chart 1.15 shows the allocation of civil servants by department planned for 1 April 1985.



h United Kingdom  
Defence Programme:  
The

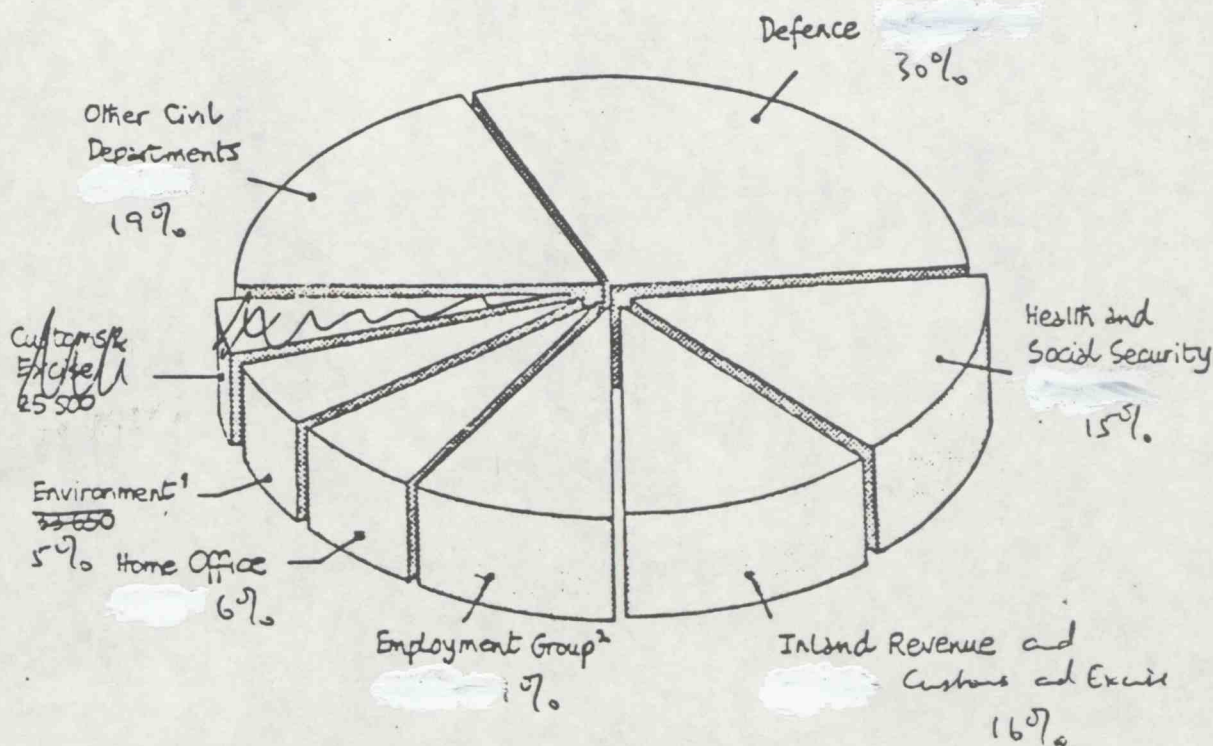
66. For the armed forces, UK based manpower is expected to fall from 325,100 in April 1984 to 324,500 in April 1986. These figures are based on the manpower objectives set out in the Defence White Paper 'The Way Forward' (Cmd 8288), increased by subsequent commitments in the South Atlantic and other adjustments. Figures beyond 1986 are subject to review.

67. Between 1979 and 1983 the number of NHS employees in Great Britain increased by some 66,000 (about 7 per cent) to around 1,006,400. The increase was mainly among those directly involved in patient care.

68. The government remains determined to ensure that NHS manpower is used to best effect. Health authorities more than met their targets between March 1983 and March 1984, when numbers in England fell by around 11,400. The targets for March 1985 in England are the same in total as those set for March 1984. Comparable controls operate in Wales. In Scotland, Health Boards are already required to justify abnormal staffing ratios and a comprehensive monitoring system is being set up.



Chart 1.14: Civil Service Manpower by Department, April 1985



- <sup>1</sup> Including Property Services Agency (~~27,000~~)
- <sup>2</sup> Including Department of Employment (~~29,500~~)  
 Manpower Services Commission (~~21,500~~)  
 Health and Safety Executive (~~3,650~~)  
 Advisory Conciliation and Arbitration Service (~~1,650~~)

69. Manpower accounts for about two-thirds of local authorities' relevant current expenditure. Local authorities in Great Britain have reduced their staff by 94,000 (4.1 per cent) from 2,361,000 in June 1979 to 2,267,000 in June 1984.

hly

70. The education service, which employs about half of local government staff, has seen the largest reduction; it fell by over 80,000 or 7.8 per cent between 1979 and 1984, but over the same period school rolls fell by 11 per cent. Staff employed on law and order services increased by over 14,000 or 7.5 per cent, consistent with the Government's priorities.

71. The Government believes there is scope for significant further decreases in local authorities' manpower over the next three years.



~~CCNO~~

PRIVY COUNCIL OFFICE  
WHITEHALL, LONDON SW1A 2AT

20 December 1984

WJBP

Dear Norman.

**SOCIAL SERVICES SELECT COMMITTEE REPORT ON EXPENDITURE**

Thank you for your letter of 5 December enclosing a draft reply to the Select Committee.

I understand that Patrick Jenkin, Nick Edwards, Peter Rees and Douglas Hurd are content, and that George Younger had only one very minor comment which has been passed to your Department. I am therefore writing to confirm that you have H Committee approval for publication.

I am sending copies of this letter to the Prime Minister, the members of H Committee, to the Chancellor of the Duchy of Lancaster, the Minister without Portfolio, the Paymaster General and Sir Robert Armstrong.

Younger.  
Hurd

The Rt Hon Norman Fowler MP



Econ Pd: Public Expenditure Pt 30.