



Andrew

The timing - 11 July - is deliberate: Cabinet should drown out what (minimal) noise this announcement makes.

The press briefing below tells you which are the points which could be raised.

JB
8/7

BRIEFING FOR THE PUBLICATION ON THURSDAY 11 JULY AT 3.30pm OF CASH LIMITS PROVISIONAL 1984-85 OUTTURN WHITE PAPER

A. FACTUAL

- i. As usual, there was in aggregate some underspending on cash limits. For cash limits on voted expenditure, there was shortfall of £480 million (0.9 per cent). The largest underspend was on defence (£130 million). Underspending on the Manpower Services Commission group (£18 million) much lower than in previous years, partly owing to improved take-up of the Youth Training Scheme (YTS). Excluding these and the RSG votes, underspending on votes subject to cash limits low but still greater than in 1983-84 (see Annex A), mainly because the 1983-84 underspend was affected by the reduced cash limits announced on 7 July 1983.
- ii. The outturn on non-voted cash limits dominated by the significant overspend on two local authority capital expenditure blocks. The other non-voted expenditure was within the cash limits.
- iii. Five cash limits out of 130 exceeded (see Annex B for comparison with earlier years). Two were on local authority capital expenditure [DOE/LA1, £913 million or 37.2 per cent, and WO/LA1, £17.5 million or 6.2 per cent]. The other three were:
 - a. Crown Office (Class IX, vote 10). The excess of £0.1m due to higher than expected salary and accommodation costs. The excess represents less than 1 per cent of the cash limit.
 - b. Property Services Agency (Class XIV, vote 1). Rents and other receipts proved to have been overestimated. Offsetting shortfalls on expenditure subheads not on scale forecast as projects progressed faster than expected. The excess of £12.2m represents 2.3 per

cent of the cash limit.

c. National Galleries of Scotland (Class XV, vote 18). The extra expenses of moving the Gallery of Modern Art to new premises could not, in the event, be accommodated within the cash limit, despite expectations at the time that it would. The excess represents less than ¼ per cent of the cash limit.

- iv. If a cash limit is exceeded, there is an investigation into the causes which usually includes an examination of the financial procedures of the department concerned. It remains the Government's policy to deduct the overspend from the following year's cash limit though the application of the policy has been modified this year in relation to local authorities, see Section C. The other cash limit reductions will be announced in due course.
- v. The figures in Table 1 of the White Paper are provisional until departments have finalised their Appropriation Accounts. Subsequent changes are, however, usually fairly small.
- vi. Approximately £200m of the total underspend will be carried over into 1985-86 cash limits under the end-year flexibility scheme for capital expenditure (mainly on defence votes). [Cash limit increases will be announced in due course.]

B. POINTS TO MAKE

- i. Almost all the cash limits correctly observed, as have vast majority since cash limits were introduced in 1976-77. The cash limit system continues to be highly effective.
- ii. The Government remains committed to the use of cash limits and is determined that they should be a firm and effective control on spending.
- iii. Underspending on cash limits a natural consequence of treating them as limits and not as targets. The extent of

underspending on individual cash limits governed by a range of factors which can differ markedly from one cash limit to another and from one year to another. The end-year flexibility scheme enables some carryforward of capital underspend, thereby improving management of capital programmes.

C. DEFENSIVE

1. Cash limit reductions this year for the breaches?

Deductions in all three of the breaches on voted cash limits [see below for LA breaches].

2. Breaches indicate public expenditure out of control?

The central government breaches were all for small amounts (about £12m in total) and insignificant in the context of overall public expenditure control. Only three out of 123 voted cash limits were breached. Detailed improvements to departmental financial control systems will be made as necessary. [See below for LA breaches.]

3. LA capital spending out of control?

i. The likelihood of overspending on two LA capital cash limits (DOE/LA1 in England and WO/LA1 in Wales) was recognised from statistical returns made early in 1984-85. That is why LAs were asked for voluntary restraint in their 1984-85 capital spending. Without that call, the £905 million overspend would probably have been larger.

ii. The basic cause of the overspend is the flexibility that the legislation gives LAs to determine their spending levels at the local level, which is not adequately reflected at the national level. This is one of the reasons why the LA capital control system in England and Wales is currently under review.

iii. Because of the way the existing LA capital control system works, [and the size of the overspend], it may not always be possible, to deduct any overspending from the cash limit in the year immediately

following the overspend. (The 1983-84 overspend was taken into account in the 1985-86 cash limits.) Nevertheless, the latest overspend will be taken into account when spending levels are discussed in the Survey.

iv. Any detailed questions about specific cash limits: refer to DOE or WO as appropriate.

ANNEX A : UNDERSPENDS ON CASH LIMITS

	1980-81 %	1981-82 %	1982-83 %	1983-84 %	1984-85 %
Defence	(0.6)*	0.0	0.2	1.7	0.8
MSC	1.1	5.8	19.9	8.3	1.3
RSG	1.8	0.7	3.6	2.3	0.5
Other	1.7	3.2	1.4	0.8	1.0
Total	1.1	1.8	2.1	1.6	0.8

* = overspend

ANNEX B

The number of breaches of cash limits in recent years:-

		(of which non-voted)
1978-79	3	2
1979-80	11	2
1980-81	5	2
1981-82	2	1
1982-83	4	-
1983-84	6	3
1984-85	5	2



Public Exp.

Press & Public Relations
Department.

Phone: 01-222 0151/8
01-222 9000

Conservative Central
Office
32 Smith Square.
London SW1P 3HH

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RT. HON. NIGEL LAWSON, M.P.

Extract from a speech by the Rt. Hon. Nigel LAWSON, M.P., (Blaby), Chancellor of the Exchequer to the Conservative Political Centre Summer School at Oxford on Saturday, 6th July, 1985.

Public spending is - once again - high on the political agenda. How much should the Government take out of peoples incomes to spend on public services?

The Opposition choose the easy option. Spend more on everything.

Labour and Liberals (with their junior partners in tow) vie with each other for the title 'Last of the big spenders'.

Labour, given the chance, would spend until they were forced to stop. That was the story of the last Labour government. Spend, spend, spend until the IMF bailiffs come in. Then slash, slash, slash.

For them winning an election is like winning the pools. And just about as likely.

When the cash runs out there are savage cuts. Boom and bust.

The Liberals - true to their Lib-Lab ancestry - are now on the same course. They say they will increase spending everywhere.

A cheap way to win a by-election. A disastrously expensive way to run a country.

/They try

They try to pretend we are at the other extreme. That we have cut back everywhere.

Not so.

We have made savings.

We spend less on council house building - because more and more people want to own their own homes.

We spend less on handouts to the nationalised industries - privatising some and getting the others to become more efficient.

We spend less on the Common Market budget - having negotiated a fairer share where Labour failed.

And we have cut red tape.

But we do spend more where it is needed. On doctors. On nurses. On each pupil at school. On the police. On defence.

Our public spending record is a good one.

It is the middle way.

Governments have to be careful about where they spend other people's money. To govern, as someone once said, is to choose.

Unlike an irresponsible Opposition, a Government has to recognise that there is a limit to the nation's capacity to pay.

That is what Governments are elected to do. That is what we are doing - and will continue to do.

ENDS