

Personal



David

We spoke. Briefs
for your use.

Ed we have a
word about one
or two general
issues later
today?

2/10

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PUBLIC EXPENDITURE CABINET: 3 OCTOBER

MINISTRY OF DEFENCE

	1986-87	1987-88	1988-89
Expenditure baseline (adjusted for £2m switch from 1987-88 to 1986-87)	18,560	18,859	19,033
MOD position	+ 422	+ 595	+ 897
Treasury position	- 300	- 600	- 708
[of which: option reductions	- 300	- 600	- 900
<u>less</u> bids conceded	-	-	+ 192]

(ii) Running Costs

MOD included in new scheme, but (following improved accounting capability within department) Armed Forces content reduced to some 60,000 Servicemen in support areas. Figures still to be agreed, but new coverage is expected to reduce MOD total by around £3.2 billion to approximately £4.2 billion for 1986-87.

(iii) Outstanding Issues

Treasury has accepted MOD's bid for Falklands costs in 1988-89 (£192m) and offered a maximum of £20m to meet the RO plc EFL in 1986-87 (MOD bid £42m). Treasury has rejected MOD's remaining bids - for inflation adjustment, extra costs of 1985 AFPRB award and Royal Dockyards. In addition, Treasury has requested reductions - through improved efficiency - of £300m, £600m and £900m.

(iv) Line to take

- Cannot accept remaining additional bids. In total, they would mean continued real growth in a programme which has already grown by nearly 30% since 1978-79.
- This real growth has meant a cash addition to the programme of nearly £4,000m a year.
- In view of this - and wide-ranging evidence of the scope for savings through improved efficiency - justified in asking for substantial reductions, to help achieve agreed planning total.
- Even after these savings, the defence budget would be considerably (18% in 1988-89) higher in real terms than when we took office.

FOREIGN AND COMMONWEALTH OFFICE - OVERSEAS DEVELOPMENT ADMINISTRATION

(i)

£ million

	1986-87	1987-88	1988-89			
<u>BASELINE</u>	1,296	1,317	1,350			
	<u>Department's position</u>			<u>Treasury position</u>		
<u>Additional Bids/ reductions sought</u>						
Net aid programme	+ 60.0	+ 80.0	+ 95.0	- 20.0	- 20.0	- 20.0
Overseas pensions	+ 3.4	+ 1.9	+ 1.9	-	-	-
Directorate of Overseas Surveys/ Ordnance Survey	+ 0.7	+ 0.7	+ 0.8	-	-	-
	<u>+ 64.1</u>	<u>+ 82.6</u>	<u>+ 97.7</u>	<u>- 20.0</u>	<u>- 20.0</u>	<u>- 20.0</u>
<u>Reduced Requirements</u>						
Compensation to Consolidated fund re Zimbabwe Grant	- 0.2	- 0.2	- 0.1	- 0.2	- 0.2	- 0.1
	<u>+ 63.9</u>	<u>+ 82.4</u>	<u>+ 97.6</u>	<u>- 20.2</u>	<u>- 20.2</u>	<u>- 20.1</u>

018/72

Aid and Trade Provision (ATP)

DTI proposal*
ODA, DE and ECGD
also involved

4.0 13.0 29.0 - - -

*Subject to Mr Brittan's approval and 1 October quadrilateral.

Running Costs

(ii) The Chief Secretary has agreed to accept an increase of 114 in ODA's manpower targets from 1 April 1987. This is conditional on the surrender of consequential running cost savings, estimated to be around £0.8m a year. (This is subject to the policy decision on taking back overseas pension administration from Crown Agents into ODA).

Outstanding Issues

(ii) The Foreign Secretary is holding firm to his bids of £60m, £80m and £95m for the aid programme. And, subject to outcome of the quadrilateral, there is the further bid for extra ATP spending.

Line to Take

(iv) Must continue to press for cuts of £20m a year in the aid programme. And extra spending on ATP should be absorbed in existing totals.

SECRETFOREIGN AND COMMONWEALTH OFFICE (Other)

(i)	1986-87	1987-88	1988-89
Baseline	603.1	619.2	634.6
Agreed settlement	+35.5	+39.2	+56.9

Running costs

(ii) Chief Secretary willing to accept FCO running costs figures (subject to final settlement at official level). Foreign Secretary has withdrawn his bids for additional staff.

Basis of settlement

(iii) Provides for additions for overseas price movements, asset recycling, BBC External Services and (1988-89 only) ending of Yugoslav loan repayments. Foreign Secretary has now withdrawn (or at least postponed until next year) bids for early retirement costs and security works.

EC CONTRIBUTIONS

D4

The projection of net payments to Community Institutions is as follows:

	<u>1986-87</u>	<u>1987-88</u>	<u>1988-89</u>	<u>£m</u>
Net payments to Community Institutions - current baseline	+640	+320	+100	
Additional bids - revised forecast of UK net contributions	+10	+320	+100	

2. The additional bids have been determined from the results of the latest projection of the UK's net payments to Community institutions. These bids have been seen but have not yet been finally approved by the Minister of State.

3. The projections are extremely uncertain. The forecast of UK gross contributions is dependent on, amongst other things, the exchange rate and changes in imports and import prices (particularly the prices of certain agricultural products), while the forecast of our gross receipts is dependent on future changes in the level and pattern of expenditure within the Community as a whole. Agricultural receipts are particularly difficult to predict accurately.

4. Net payments to the Community are demand-led. The UK is under a Treaty obligation to make the additional payments involved.

SECRET

IBAP AND OTHER CAP

	<u>£ million</u>		
	1986-87	1987-88	1988-89
Baseline	1277	1304	1337
Latest position	+337.6 ⁽¹⁾	+346.6	+345.6

(1) The Minister of Agriculture may accept a saving of £14 million in 1986-87.

Position on running costs

The Chief Secretary has accepted that IBAP's running costs bid is inescapable, due to the demand-led nature of its workload.

Line to take

Extra provision is unavoidable and reflects under provision in last year's Survey and larger intervention stocks due to agricultural surpluses in the European Community. [But still discussing scope for offsetting economies]. Government still pressing for reform of the CAP.

SECRET

DOMESTIC AGRICULTURE, FISHERIES AND FOOD

	<u>£ million</u>		
	1986-87	1987-88	1988-89
Baseline (excluding LA relevant current)	713	699	717
Adjustment for agricultural support	+2.7	+1.7	+0.5
Revised baseline	729.7	714.7	731.5
Departments' position	+6	+5	+4
Treasury position	+5	0	+2
<u>Position on running costs</u>			
Target	211.4	217.8	223.2
MAFF bid	212.2	217.6	225.4
Difference	+0.8	-0.2	+2.2

Main outstanding issues

The Chief Secretary has agreed to increase above the baseline of £5 million in 1986-87 for capital expenditure on fisheries protection, following Ministerial decisions, and £2 million in 1988-89 for Food from Britain. The Minister of Agriculture is seeking further small increases.

Line to take

Have agreed to increases which I consider are inescapable. Consider that other increases in expenditure should be contained within baseline.

SECRET

D7

FORESTRY COMMISSION

	<u>£ million</u>		
	1986-87	1987-88	1988-89
Baseline	53	54	56
Department's position	+2.3	+2.2	+1.3
Treasury position	0	0	0

Main outstanding issues

The Forestry Commission is seeking increases to provide for a larger new planting programme, increased forest maintenance, work on conservation and additional forest recreation facilities. Treasury consider that this expenditure should be contained within the baseline.

Line to take

Consider that it would be possible to reduce provision below the baseline, eg by increasing timber sales.

SECRET

DEPARTMENT OF TRADE AND INDUSTRY (Central Programmes)

		<u>£ million</u>		
		1986-87	1987-88	1988-89
(i)	Expenditure baseline	1,162	980	1,004
	Agreed settlement	-13	+12	-25

(ii) Running costs have been accepted on the basis of 4 per cent growth between 1985-86 and 1986-87, a reduction of 0.3 per cent in 1987-88, and growth of 3.9 per cent in 1988-89. If the 1987-88 total comes under pressure during the year, the Department will be allowed to transfer programme provision on to running cost items.

(iii) The general basis of the settlement is that the Department will slightly reduce its baseline after having made substantial additional bids which were only partly offset by reduced requirements. Apart from the irresistible bids (aircraft and aeroengine projects, shipbuilding and steel, Insolvency Service and EIEC), all the other bids will be dropped.

The settlement is only acceptable if the regional savings, which balance the books, are secured.

(iv) Line to take: the remaining task is to achieve the regional savings.

SECRET

09

ECGD

	<u>£ million</u>		
	1986-87	1987-88	1988-89
Expenditure baseline	78	-43	-44
Agreed position	+207	+219	+126

Basis of settlement

Bids for increased interest support and cost escalation have been reluctantly accepted as irresistible, though modest offsetting savings are to be sought through negotiating a reduction in banks' margins on new sterling lending and greater use of capital market funding. The mixed matching facility is to remain in return for ECGD foregoing its additional bid for the tender to contract facility and so retaining it on its trading account.

Running costs

ECGD's running costs (which are a charge to its trading account and not public expenditure) are forecast to rise by over 14 per cent in 1986-87 largely on account of costs related to the uprating and expansion of its computing capacity. The return should come in reduced manpower and running costs in later years. On this basis the 1986-87 figure has been agreed.

Line to take

No outstanding issues.

Complication

These figures do not include the net effect on ECGD of the soft loans package; see brief on ODA.

PES : Department of Energy

D10

	fm cash		
	1986-87	1987-88	1988-89
Baseline	294	293	300
<u>Agreed changes:</u>			
reduced requirement	-0.5	-0.5	-
AEA review consequentials	26.5	29.0	30.3
<u>Departmental position</u>			
coal firing scheme	0	+8	+9
<u>Treasury position</u>			
coal firing scheme	0	0	-7
fast reactor)	-25	-50	-50
fallback)	- 5	-10	-10
<u>Running costs</u>			
Agreed reduction of 8 staff by 1989.			
Resultant path:	+ 4%	+ 3%	+ 2.3%

Agreed changes

AEA review consequentials still under discussion with DEn. Actual requirement may turn out slightly lower than shown. Though PES planning total rises, interest payments by AEA to NLF when AEA becomes a trading fund (in 1986) means PSBR savings overall.

Outstanding issues

Coal firing scheme: paper by Mr Walker bids for extension to end June 1987.

Treasury case for immediate ending because need to stimulate coal demand weak given low coal stocks; scheme doubtfully efficient at delivery genuinely additional consumption.

Fast reactor: despite personal doubts, Mr Walker reluctant to attack £100m a year spending, allegedly because of international collaboration. Treasury case for halving spend (protecting Dounreay) given imprecise international commitments and ACARD criticism that fast reactor expensive insurance. Fallback would just trim.

Line to take

Coal firing scheme: defer for discussion with NCB IFR and corporate plan. Hope for early end to unnecessary and unconvincing scheme.

Fast reactor: room for debate about scale of substantial expenditure required by European agreement. Merits of research poor - payback, if any, very long term. Should cut research to Dounreay and no more, adjusting participation in European programme accordingly.

DEPARTMENT OF EMPLOYMENT PES 1985

OUTCOME

	86-87	87-88	88-89
Baseline	3704	3901	3999
Outcome agreed 26/9/85	-74	-207	-125
New baseline	3630	3694	3874

RUNNING COSTS

Agreement between CST and Lord Young didn't include specific running cost figure. DE will offer their proposal soon. Meanwhile we've agreed with DE a ceiling for running costs for 1986-87 which represents an increase over 85-86 of 7.4%, or fractionally under 4% excluding the 1985 Budget volume changes and extra fraud staff. Implied pay settlement factor: 5%.

OUTSTANDING ISSUES

E(A) meet 3 October to discuss DE's paper recommending abolition of rebates to employers from redundancy fund. Separate briefing provided. Major part of DE savings. PES outcome will need to be reviewed if E(A) do not agree redundancy savings. Lord Young will have to find alternative savings if savings fall through later. No commitment to reduction in NICs in 1986-87.

Expansion of Enterprise Allowance Scheme to be provided for within agreed totals.

LINE TO TAKE

Satisfactory deal. Grateful to Lord Young for making it possible to settle with £400m reductions in total over 3 years. Abolition of redundancy rebates a valuable part of set of positive policies for new jobs and new businesses. Outcome provides room for significant increase in fraud staff and in Enterprise Allowance Scheme.

TRANSPORT - DEPARTMENTAL PROGRAMME

D12

(i)				
Baseline	1995	1995	2045	
Agreed change	+25	+34	+53	

A settlement has been reached subject to the Secretary of State coming back with a proposal to shift one or two million between 1986-87 and 1987-88.

(ii) Running Costs

Running costs have been agreed:-

	<u>1985-86</u>	<u>1986-87</u>	<u>1987-88</u>	<u>1988-89</u>
baseline fm	267	275	280	287
bid fm		13	17	15
baseline plus bid fm		288	297	302
year on year percentage increase		7.9	3.1	1.7

Overspending of about £2 million is expected for 1985-86. So agreed provision for 1986-87 is about 7 per cent increase. Fee earning staff, mainly driving examiners, have been increased with a consequential 13 per cent increase in gross running costs. 1 per cent of the 5.5 per cent increase in gross running costs for non fee earning staff will be funded by savings on programmes.

(iii) Basis of Settlement

Apart from running costs, the settlement includes:-

national roads and local capital	71	88	113
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in recognition of the need to improve the road network. This addition is offset by savings of:-

income from fees	-9	-12	-11
savings on programmes	-10	-19	-24
EFL treatment for la transport companies	-40	-40	-40

The majority of the savings on programmes were secured against a sympathetic hearing to any claim on the Reserve for Ports, arising from policies agreed in E(A). Agreement on the programme as a whole is conditional on securing colleagues' agreement to the legislation needed to introduce EFL treatment for local authority transport companies.

(iv) Line to take

Important to agree LA legislation in order to validate the bilateral settlement.

DEPARTMENT OF THE ENVIRONMENT - HOUSING

Figures

	1986-87	1987-88	1988-89
Baseline	2424	2526	2589
Department's position	+ 744	+1028	+ 957
Treasury position (*)	- 225	- 470	- 475
(*) increases in housing benefit expenditure borne on social security programme	+ 35	+ 50	+ 65

Running Costs

Running costs are part of the DOE - Other programme.

Outstanding issues

The Secretary of State seeks a substantial increase in provision for renovation of the local authority housing stock and some increase for provision of additional rented accommodation through the Housing Corporation. The Chief Secretary seeks a reduction mainly in provision for additional public sector rented accommodation but also for home improvement grants and subsidies. Officials are still considering the implications of various rent increase options (which affect subsidies) and the Secretary of State has offered a limited reduction in provision for home improvement grants (£30 million in 1987-88).

Resolution also depends on agreement on translation of provision into capital allocations.

Line to Take

1. Housing must make a contribution to the overall Survey strategy.
2. The extent of the need for additional expenditure on local authority renovation is questionable and must be met by cutting back on lower priority items - principally expanding the public sector rented stock.

PROPERTY SERVICES AGENCY

		<u>£ million</u>		
		1986-87	1987-88	1988-89
(i)	Expenditure baseline	-120.3	-128.2	-131.4
	Agreed settlement	+7.2	0	0

(ii) Running costs

To be agreed at official level in the light of the outcome on the Department's bids.

(iii) Basis of settlement

The Chief Secretary has offered a total of £8.0 million. This includes £0.8 million for Parliamentary security works. The addition to the PSA's own programme is therefore £7.2 million.

(iv) Line to take

Agreement allows some increase for maintenance and International Conference Centre in 1986-87. No question of ICC being a continuing cash drain for later years.

SECRET

DIS

DEPARTMENT OF THE ENVIRONMENT - OTHERFigures

	<u>£ million</u>		
	1986-87	1987-88	1988-89
Baseline	848	860	882
Department's position:			
(i) formal position as in Cabinet paper	+135	+130	+128
(ii) latest negotiating position	+90	+100	+120
Treasury position	-65	-50	-50

Running Costs

Agreed at official level, except bid for 8 additional revenue-gathering staff at Tower of London which remains to be resolved at official level.

Outstanding Issues

Mr Baker has proposed increases over baseline other than in Local Environmental Services (LES) of £20 million in 1986-87 and provision "held in real terms" for later years. On LES he is seeking capital allocations in 1986-87 of £320 million in 1986-87, which implies an increase in provision of about £70 million. Pending resolution of LES issue, no agreement reached on proposal by officials of -10, 0, 0 for DOE Other excluding LES.

Line to Take

Mr Baker must surrender additional LES bid. Local authorities have been overspending in past years. Provisions can't be fudged by spuriously derived allocations. Otherwise Treasury must press full options for reductions.

SECRET

D16

HOME OFFICE£ million

	1986-87	1987-88	1988-89
Baseline	1061	1104	1131
Department's position	+86	+77	+94
Treasury position	+8	-2	-7

Running costs

-	HO position implies increases over previous year's baseline of			
		8.7%	4.0%	4.5%
-	Still in dispute is:			
		17.1	29.2	31.4
-	to offset the pay squeeze, and			
		11.0	11.0	11.0
-	for realism, taken by HO as 5%.			

HO now wish to regard pay realism as a further additional bid, and it is treated as such in the table above.

Issues outstanding

Further reductions provisionally offered at and since the second bilateral were insufficient to secure a deal and so were withdrawn.

At issue are:-

-	bids for pay squeeze and pay realism (above).			
-	bid for prison building programme and the option for a rephasing of the programme while alternative sentencing policies are reviewed	+35.6	+36.1	+64.6
		-10.1	-25.9	-15.8
-	bid for fire service capital in excess of allocation			
		+15	+15	+15
-	need for contribution to costs of 24 hour Duty Solicitor Scheme			

Line to take

1. Surge in prison population makes it impossible to end overcrowding by end of decade.
2. Poor project control already leads to big changes in prison building schedule.
3. So need serious internal review now of sentencing policy and alternative sentences; with re-phasing of prisons programme to deliver some savings now on account.
4. Running costs increase too high, although acknowledge high running costs content of prisons programmes.
5. Pay increases absorbed in baseline this year should now be reinstated as extra bids next year.
6. HO have made no PES contribution to costs of their 24 hour Duty Solicitor Scheme, which is carried on LCD programme.

SECRETLORD CHANCELLOR'S DEPARTMENT

			<u>£ million</u>
	1986-87	1987-88	1988-89
Baseline	574	610	625
Assumed response:	+21	+39	+72
LCD Ministerial letter awaited			
Treasury position	+19	+37	+70

Running Costs

Original LCD proposal: £196.0m (+9.4%) in 1986-87. LCD now prepared to accept £189.5m (+5.9%) but with serious reservations about the factors assumed for the following 2 years. Given the higher than average proportion of PRS, the need to staff additional Crown courts and the effect of the TSRB settlement on judicial officers, this can be regarded as a satisfactory outcome from a Treasury point of view.

Issues outstanding

Any settlement must be subject to agreement by the Lord Chancellor that there should be a quick review by the Efficiency Unit of the operation and administration of the legal aid scheme. Provided he does so, the Department's position could be accepted. But it will be necessary to insist that LCD keep Treasury in touch with their thinking on how the cuts are to be achieved, since not all of the savings offered are clearly identified.

Line to take

Agreement is conditional upon an urgent review of the operation of the legal aid scheme, and of the value for money obtained from the payments made.

DEPARTMENT OF EDUCATION AND SCIENCE

	1986-87	1987-88	1988-89	£m
Expenditure baseline	3418	3505	3593	
DES position	+168.0	+182.2	+197.5	
Treasury position	- 0.5	-10.5	- 36.0	

Running costs

Letter awaited from Secretary of State on manpower and running costs; may seek small increase in running costs targets discussed by officials.

Main outstanding issues

- On universities Sir K Joseph is considering how best to put to colleagues joint proposals for savings on student awards but is otherwise standing firm on his bids.
- He is prepared to reduce the expenditure of one of the Research Councils (ESRC) by £1 million; but this is in the context of a substantial science budget bid (£85 million over the three years).
- He wants £46 million a year for local authority capital to permit allocations at 1985-86 levels plus £25 million to allow faster removal of surplus school places. On voluntary schools repairs DES have agreed to offsetting savings of £2 million in 1986-87 but stand by the remainder of their bid.

Line to take

Universities

Agreement to bids would slacken drive for efficiency in universities. Also a mistake to add to university expenditure when demographic factors indicate a reduction in the medium term.

Science

Science budget has grown 6 per cent in real terms since 1981-82. Considerable scope for research councils to look harder at priorities and at value for money.

Local authority capital

Need to take steps to curb present overspending. That is what Treasury proposals on handling this expenditure would do. Not convinced that present levels of spending are essential to progress with surplus school place removal or necessary school building.

SECRET

D19

OFFICE OF ARTS AND LIBRARIES

	1986-87	1987-88	1988-89	£m
Expenditure baseline	332	342	351	
OAL's position	+15	+22.5	+27	
Treasury position	-1.1	+5.4	+9.9	
<u>Running costs</u>				
Revised OAL proposal <u>agreed</u>	1.200	1.242	1.279	
	-4.2%	+3.5%	+3.0%	

Main outstanding issues

OAL maintain their full £15 million pa bid for the Arts Council, part of which relates to replacing GLC/MCC funding after abolition. They have reduced their inflation adjustment and museums and galleries bids.

Line to take

Have already offered £5.8 million pa for the Arts Council in recognition of post-abolition problems, on top of £34 million extra central funding agreed last year. Wrong to provide centrally for purely local activities. Other bids should be covered by efficiency savings.

1985 PES: HEALTH

1. The latest position is:

	£ million		
	1986-87	1987-88	1988-89
Baseline	14945	15622	16012
DHSS bids (revised)	409	484	870
Treasury position	0	0	0

2. The main issues are:

i. HCHS Current (DHSS bids £m 238/295/493). Mr Fowler is prepared to set cost improvement programme ("efficiency savings") target at 1.7/2/2 per cent cumulative. You are seeking his agreement to 2½/3/3½ per cent (with a fallback of 2/2½/3); and diversion of proceeds of cost improvement programmes to meet essential requirements only and not to finance optional service improvements;

ii. HCHS Capital (DHSS bids £m 54/56/60). You wish Mr Fowler to absorb these on account of likely prospects for receipts from sale of surplus residential accommodation and land;

iii. FPS Contractors (DHSS bids £m 98/111/280). You are looking for policy changes to produce offsetting savings which Mr Fowler is not prepared to offer.

In addition, there are small disagreed bids for centrally financed services and FPS administration (DHSS bids £m 19/22/37).

3. Your line to take should be:

i. DHSS bids of 409/484/870 very large given general public expenditure position. Despite Mr Fowler's political difficulties, he must find a way of reducing them to affordable levels;

ii. Main problem with HCHS current is level of efficiency savings. Cumulative savings of 1.7/2/2 per cent too small: Griffiths general manager revolution, moves to clinical budgeting, appointment of NHS procurement director must be expected to yield more - otherwise we should ask serious questions. My suggestion of 2½/3/3½ per cent is below the sort of savings private industry is having to make. NHS managers must learn that growth in future will come only from improved efficiency, not from extra Government money.

iii. On HCHS capital, reasonable prospects of income from sales of surplus land and residential accommodation. Given this and difficult overall situation, Mr Fowler must be asked to drop his bids altogether;

iv. FPS Contractors is difficult to cut given its demand-determined nature. We have in previous Surveys squeezed a lot out through higher charges, lower drug company profits and the selected list. I accept that new charges eg for sight tests would be difficult politically. But amounts spent go on rising: difficult choices must still be made. In particular, I think we must make further savings through increases in existing charges and from the drug companies to offset at least part of the extra bids.

SOCIAL SECURITY (all figures £m)

(i) <u>Table</u>	1986-87	1987-88	1988-89
baseline (incl pay and administration, excl l.a. current)	41547	43553	44642
department's position (Mr Fowler's letter of 24 September)	+ 1203	+ 1579	+ 1771
Treasury position	+ 935	+ 744	+ 642

(ii) running costs

(a) Treasury has accepted bids as follows:

57.0	75.5	85.6
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These leave totals within the guideline "GDP deflator - 1/2%". Agreement without prejudice to savings expected in 1988-89 once Review measures in place.

(b) DHSS expected to come forward with substantial further bids (which will be difficult to resist) as a temporary addition to meet staff costs of implementing reviews.

(iii) main outstanding issues

Mr Fowler wrongly scoring savings from changed uprating timing; from certain 1984 PESC measures (already in baseline) and 1984 PESC "excess savings" in 1986-87 towards his Review target savings. Net cost of Family Credit scheme has also risen and needs to be offset.

Further running costs bids needed as soon as possible.

(iv) Line to take

- Essential to make more inroads into massive demand - determined bids.
- First step is to get Review savings up to previously agreed levels.
- Then must bite bullet on option savings eg. deferment of abolition of pensioner's earnings rule.
- And must get manpower and running costs bids sorted out quickly.

SECRETSCOTLAND

		<u>£ million</u>			
		1986-87	1987-88	1988-89	
(i)	Baseline:	4,300	4,373	4,482	
	Department's position:	+10	+18	+12)	plus formula
)	consequential
	Treasury position:	-93	-130	-188)	in all years*

* On basis of other departments' bids these would be: +170 +230 +300

(ii) State of play on **running costs**:

Wider policy on pay assumption has been questioned by Secretary of State. Until that is resolved, running cost targets cannot be set; but on a 5% pay assumption the implied first year increase would be about 6%.

(iii) Options for reductions agreed for **development agencies** -7,-17,-15.5. But more than offset by effect of **higher interest rate assumptions** on housing revenue account.

(iv) **Main outstanding issue**: your proposed cuts on the block of -100,-150,-200.

(v) **Line to take**: still discussing size of budget with Secretary of State.

SECRETWALES£ million

	1986-87	1987-88	1988-89	
(i) Baseline:	1,708	1,735	1,779	
Department's position:	-1	-1	-4)	plus formula
)	consequential
Treasury position:	-1	-1	-4)	in all years*

* On basis of other departments'

bids these would be: +75 +100 +125

(ii) State of play on **running costs**:

Settled on basis of annual increases of 5%, 3%, 2.5%.

(iii) Options for reductions for **development agencies** -3.8, -4.5, -5.0 agreed between officials. Partly offset by effect of **higher interest rate assumptions** on housing revenue account.

(iv) **Basis of settlement**: normal formula consequential arrangements will apply for block budget.

SECRET

D24

NORTHERN IRELAND

		<u>£ million</u>			
		1986-87	1987-88	1988-89	
(i)	Baseline	4,464	4,603	4,717	
	Department's position	+53	+76	+105)	plus formula
)	consequential
	Treasury position:	+53	+76	+105)	in all years*

* On the basis of other Departments'

bids these would be: +55 +70 +95

(ii) State of play on **running costs:**

These are not formally your concern, but that of the Northern Ireland Secretary who is responsible for the NI Civil Service. His running cost targets are still under negotiation.

(iii) Agreed increases reflect higher social security costs and effect of higher interest rate assumptions on housing revenue account.

(iv) **Basis of settlement:** normal formula consequential arrangements will apply for block budget.

CHANCELLOR'S DEPARTMENTS AND OTHER DEPARTMENTS

Only the most important bids are shown for each of these Departments, although total bids for each group of departments are also shown.

CHANCELLOR'S DEPARTMENTS	27	28	30
(excluding Customs & Excise and Inland Revenue)			
Rating of Government Property			
Department	28	31	33
of which (Reassessment of PRS occupation			
receipts	21	22	23
Rates increase	6	9	10

The bid for reassessment of PRS occupation receipts arises from an overestimate in the 1984 Survey of receipts from PRS departments which partly offset the rates paid by RGPD on premises occupied by foreign governments for diplomatic purposes, and by most Government Departments. The mistake, discovered at the time of the 1985-86 Estimates, necessitated a claim on the Reserve of £21.1m this year, and has led to the above bid to correct the position for future Survey years.

The bid for increases in rates arises because rates are forecast to rise by more than the PES uplift factor which affects RGPD's baseline. The bid is equivalent to the differences between the expected increase in rates and the rise in the baseline.

OTHER DEPARTMENTS	56	46	51
House of Commons	6	6	7

The main bids are made for MPs pay and allowances, and for ERNIC-related increases to the cost of staff in the House of Commons Commission. The House of Commons Estimate is presented to Parliament by the Speaker, and is thus beyond Treasury control.

Crown Prosecution Service	29	16	16
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The bid is for the net cost of transferring to the Crown Prosecution Service the conduct of criminal proceedings initiated by police in England and Wales. This is net of transfers from relevant Departments and expected transfers from relevant local authorities.

Palace of Westminster	1	1	1
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The bid arises from additional security work undertaken by PSA. This bid was discussed at the PSA bilateral, and accounted for in the arithmetic for that bilateral, but is technically a small Departments bid.

NATIONALISED INDUSTRIES

E(A)(85)14 meeting agreed targets for all industries except NCB (discussions should take place with view to minimising large additional bid) and those industries which may be privatised during 1986-87 - British Gas, National Bus Company and British Airports Authority (to be considered separately). Provisional settlements have now been reached for all the industries covered by formal E(A) target except Electricity (England and Wales) and Water.

	£million		
<u>E(A) target industries</u>	1986-87	1987-88	1988-89
baseline	171	-207	-210
E(A) target (compared to baseline)	0	-250	-150
*Settlements (compared to baseline)	-9	-82	-464
*Possible outcome against baseline if Treasury fallback achieved for water and electricity	-94	-362	-274
Water and electricity revised bids (compared to baseline)	+322	+152	+822
*Treasury FALLBACK for water and electricity (compared to baseline)	-85	-280	+190

*Not for disclosure to Mr Baker or Mr Walker

Mr Walker's offer on electricity falls well short of the Treasury fallback position (by £260 million; £204 million, and £129 million in each of the years).

On water Mr Baker is continuing to hold out for significantly increased provision.

SECRET

Coal

	1986-87	1987-88	1988-89
baseline	382	392	402
NCB bid (compared to baseline)	+508	+333	+198
Treasury TARGET (compared to baseline)	+408	+233	+97
RMPS* bid (compared to baseline)	+183	-44	-50

* Redundant Mineworkers Payments Scheme, not included in main NCB bid and unlikely to offer scope for savings.

Department of Energy have not taken position on bid and are awaiting further detailed information from NCB. Possible this may be accompanied by revised bid. Intention to discuss with PM rather than in Star Chamber.

Industries to be Privatised

BAA and NBC provisionally settled at combined £2 million above baseline for 1986-87. Figures for BGC still awaited. Department have so far suggested work on planning assumption of £270 million above 1986-87 baseline of -£470 million. This assumes sale in autumn 1986 and because of cash flow pattern in the year largely explains the additional bid. Extent to which savings possible eg through January 1986 price increase, unclear until have more detailed information. Closely involved with privatisation decision. Need decision in October but does not have to go to Star Chamber.

LINE TO TAKE

On E(A) target industries need major savings on water and electricity bids if targets to be achieved in any year. Have more or less reached satisfactory position on other industries: now up to electricity and water to deliver.

NB: Mr Baker and Mr Walker should not be told how we stand against EA target for other industries.

On coal, essential detailed information is made quickly available so negotiation can begin. Want to avoid situation of having "unreal" EFL which has subsequently to be increased with consequent claims on reserve.

On gas, again essential that have detailed information promised in bilateral as soon as possible.

SECRET

DISPOSAL OF SURPLUS LAND AND EMPTY HOUSING

The latest figures show that receipts from the disposal of surplus land and empty housing are likely to amount to around £134.0m in 1986-87, £122.0m in 1987-88 and £100.0m in 1988-89. The estimates are in some instances very approximate, for example much of the MOD's housing surplus to be disposed of has not been valued and a rule of thumb figure of £20,000 a house has been used.

2. The figures are dominated by MOD, PSA and Home Office, who are expected to account for about 90% of the receipts. The MOD's share *of* the total is expected to be rather more than half in 1986-87, 1988-89 and about half in 1987-88.

3. In some cases, for instance PSA, officials will continue to press for improved figures as future surpluses are identified.

DISPOSAL OF SURPLUS LAND AND EMPTY HOUSING

	<u>1986-87</u>	<u>1987-88</u>	<u>1988-89</u>	<u>Comments</u>
Northern Ireland Office	6.074	6.241	3.165	To be agreed officially
D.En	0.100	0.200	0.300	Endorsed by CST during bilateral
MAFF	-	-	-	position still being reviewed, minimal receipts expected
MSC	0.040	0.250	0.300	To be agreed officially. But IAE propose to pursue after Survey
Welsh Office	1.000	0.500	0.500	To be agreed officially
Scottish Office	0.200	0.300	0.200	Targets accepted by Chief Secretary
Home Office	25.300	25.100	20.100	CST recommended to endorse line agreed by officials
DTP	8.000	6.500	6.000	Accepted.
PSA	18.500	22.000	16.000	Accepted. But PSA pressed to do better.
MOD	(54.449) (20.000)	(40.970) (20.000)	(34.026) (20.000)	Targets agreed at official level The first line represents receipts for properties valued. The second is a guesstimate of receipts from housing yet to be valued.
	<u>133.663</u>	<u>122.061</u>	<u>100.591</u>	