



Treasury Chambers, Parliament Street, SW1P 3AG

9 October 1985

David Norgrove Esq
10 Downing Street

Dear David

pa

MISC 120: POSITION PAPER

The Chief Secretary thought the Prime Minister would like to see how the position paper for MISC 120 (foreshadowed in paragraphs 8 and 9 of his minute of 24 September and his subsequent discussions with the Prime Minister) is shaping up. I enclose a copy of the latest draft which reflects the Chief Secretary's comments on earlier versions. He expects to finalise the draft, substantially in this form, in the next day or so. The intention is to circulate it tomorrow evening (10 October).

Yours

Richard

RICHARD BROADBENT

SECRET AND PERSONALDRAFT PAPER FROM CHIEF SECRETARY TO STAR CHAMBERPublic Expenditure Survey: Position Reached After Bilaterals
Memorandum by the Chief Secretary

1. This paper summarises the position reached after my bilateral meetings with colleagues. Separate papers discuss the position in each of the disputed programmes namely:

- | | |
|---------------------------|--|
| (i) Defence | (vi) Health |
| (ii) Aid (including ATP) | (vii) Social Security |
| (iii) Housing | (viii) Scotland |
| (iv) DOE Other | (ix) Electricity (England and Wales) fast reactor research, and gas. |
| (v) Education and Science | |
| (x) Water | |

Negotiations on the coal industry have not yet started pending the availability of data from the NCB.

2. The paper focusses on the **total expenditure provision** rather than **departmental running costs**. I hope it will be possible to avoid troubling the Group with issues about running costs and manpower, which I aim to settle bilaterally with colleagues within the framework of the Group's recommendations on total provision.

Background

3. In presenting our policy of firm control of public spending we have stressed the importance of holding to the **cash planning totals** once set.

SECRET AND PERSONAL

4. Cabinet on 11 July endorsed proposals to hold the planning totals to the **baseline levels** in the three years covered by the 1985 Survey:

	<u>£ billion</u>		
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5. For the first two years these baselines were the figures given in the 1985 Budget - ie the 1985 Public Expenditure White Paper figures plus the Budget additions for employment measures and the decision to add £2 billion to the Reserve - together with some minor adjustments. For 1988-89 - the new year of the 1985 Survey, for which there are no existing published plans - the figure provides an increase of 3% over 1987-88.

Progress So Far

6. I attach at Annex A a "scorecard" which shows the programmes where I have reached - or expect to reach - agreement bilaterally, and the opposing departmental and Treasury positions on the remainder. All figures are shown in terms of **changes from baseline**.

7. The key to using the scorecard is that, to achieve the aggregate planning total targets, we must get to an overall **zero change** from baseline. Increases on one line must be matched by reductions elsewhere.

8. The present totals at the foot of the "agreed" columns show changes of **minus** £1.3 billion, **plus** £0.3 billion and **minus** £0.6 billion respectively in the three years. This represents the net effect of:

- (i) the funds made available for allocation to programmes by my predecessor's proposal in July to increase the planned level of "**special sales of assets**" (line 39 of the table). These proceeds for privatisation score as an offset to public expenditure. The higher figures yield an extra £2¼ billion in 1986-87 and £1¼ billion

SECRET AND PERSONAL

in each of the later years, taking the total sales programme to £4½ billion, £3½ billion and £3½ billion respectively.

- (ii) similarly, my predecessor proposed that, as part of the normal rolling forward of the plans, the **Reserves** for 1986-87 and 1987-88 - initially set at £6 billion and £7 billion - could be reduced to £5 billion and £6 billion, so releasing £1 billion in each year to be allocated to programmes in 1988-89. (Line 40 of the table).
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12. My proposals for the outstanding programmes are:

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which means the "margin for manoeuvre" in my proposals (ie the amounts which can be conceded without exceeding the sums available set out above) is

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margin for manoeuvre is a great deal less than the excess bids from Departments. This means that to hit the targets the Group would need in aggregate to adjudicate about 80-90% in my favour.

14. As I shall make clear in the course of the Group's work, I believe my proposals for all the disputed programmes are justified. But I recognise that the above arithmetic gives the Group very little leeway in making its recommendations. I have therefore carefully considered if there is any way in which the margin for manoeuvre could be widened.

15. The two elements in the planning total **not** specific to departmental programmes are special sales of assets and the Reserve. As noted in paragraph 8 above my predecessor made proposals in July for allocating provision from these lines to programme spending. I have now looked again at these areas.

Asset Sales

16. In relation to **asset sales**, even as things stand we shall be severely criticised for publishing plans which, over the 3 years combined, increase the total disposals by £4¾ billion and finance extra programme spending with the proceeds. I am most reluctant **further** to relax the position on programme spending.

17. But, having looked again at the expected receipts from the sales now in prospect, I think I can raise the forecast by a further £0.25 billion, £1.0 billion and £0.5 billion respectively in the three years. This would bring the total programme to £4¾ billion in 1986-87, £4½ billion in 1987-88 and £4 billion in 1988-89. In terms of the likely proceeds from the sales we could not safely go higher; indeed if one of the major privatisations was to hit snags these figures would probably be unattainable. In presenting "unchanged" public expenditure plans containing a **doubling** of the sales receipts since the last White Paper, we shall face a barrage of accusations about "fudging" and "selling the family silver to pay the drinks bill". But given the difficulty of the Group's remit, I propose that these higher forecasts should now be adopted.

SECRET AND PERSONALThe Reserve

18. The position on the size of the Reserve also poses major difficulties. Present indications are that the £5 billion Reserve for the current year, 1985-86, will be at least fully spent, and that expectation will be revealed at the time of the Autumn Statement. To publish a figure significantly lower for 1986-87, with corresponding reductions in the later years, could raise major doubts about the credibility of the plans. In particular, we face the likelihood of continuing heavy - and possibly increased -current overspending by local authorities following the abolition of targets and the very worrying pressures on the pay front. It will do us no good at all to present revised plans that commentators - and perhaps more important the markets - do not believe can be delivered.

19. On the other hand, we would expect pressures on the Reserve this year caused by the "blip" in inflation and the follow-on costs from the coal strike to moderate in 1986-87. I have no great confidence that these helpful factors will outweigh the possible upwards pressures. ^{But} I think we could, with some degree of risk, justify trimming £0.5 billion a year from the Reserve, giving figures of £4.5 billion, £5.5 billion and £6.5 billion respectively for the 3 Survey years.

20. The combined effect of these adjustments to asset sales and the Reserve would add $\frac{3}{4}$ billion, $1\frac{1}{2}$ billion and £1 billion respectively to the room for manoeuvre in the three years.

The Planning Totals

21. The only other way in which the position could be eased would be to add to the **planning totals**. But for 1986-87 and 1987-88 the Prime Minister publicly re-affirmed in July our commitment to hold to the baseline totals which had already been raised by £2 billion in the Budget. Now to announce higher totals would be a clear admission of defeat, and would greatly harm the conduct of the Survey in future years. We should therefore rule out the option of changing

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the totals for 1986-87 and 1987-88.

22. For 1988-89 we have already during this Survey allowed for the planning total to rise by a further $\frac{1}{2}\%$ beyond the $2\frac{1}{2}\%$ built into programmes (paragraph 8 above). A further increase would be most unwelcome. But for 1988-89, unlike the earlier years, there are no existing published plans. Given the overall difficulties, I believe we could defend adding a further £0.5 billion to the 1988-89 planning total. This would produce a cash increase of 3.3% which, compared with a 1985 Budget inflation forecast of 3%, we could still justify as "broadly" constant in real terms. When added to the adjustments proposed above for asset sales and the Reserve, this would provide overall extra room for manoeuvre in 1988-89 of £ $1\frac{1}{2}$ billion.

The Revised Margin for Manoeuvre

23. I believe the various adjustments proposed above - totalling £ $\frac{3}{4}$ billion in 1986-87 and £ $1\frac{1}{2}$ billion in each of the following years - take us to the limit both of what is acceptable and can be presented within the framework of unchanged public expenditure policy. Adding these figures in to the arithmetic (paragraph 9) means that the total funds available for the disputed programmes would rise to £2.0 billion, £1.2 billion and £2.1 billion respectively.

24. On this basis Departments' bids of:

	+4.5	+4.5	+6.4
compared with the revised sums available of	+2.0	+1.2	+2.1
mean their excess bids become	2.5	3.3	4.3

25. By comparison my proposals of

	+0.7	-0.9	-0.8
compared with the revised sums available	+2.0	+1.2	+2.1
mean my margin for manoeuvre has become	1.3	2.0	2.9

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26. Although the margin for manoeuvre in my proposals is increased, it remains substantially less than Departments' excess bids. So hitting the revised targets still requires the Group to adjudicate on average much more in my favour than that of spending Ministers. While I consider them to be fully justified, I recognise that my proposals for the contested programmes involve some very difficult decisions. So even after the adjustments proposed in this paper, the target faced by the Group is a very tough one. The detailed position papers for the individual programmes spell out what is involved.

(JM)

SECRET AND PERSONAL

ANNEX A

MISC 120 SCORECARD

SECRET

[mark2-friday]

[DATE: 8 /10/85]

COMPOSITE SCORECARD:

£million

Survey baseline and proposed changes	1986-87				1987-88				1988-89			
	Baseline	TSY	AGREED	DEPT	Baseline	TSY	AGREED	DEPT	Baseline	TSY	AGREED	DEPT
1. MOD(1)	18,558	-278		422	18,861	-602		593	19,033	-708		897
2. FCO-ODA	1,296	-20		64	1,317	-20		83	1,350	-20		98
3. ATP				40				70				110
4. FCO-DTHER*	603		36		619		39		635		57	
5. EC*	640		10		830		320		850		100	
6. IBAP/AFF CAP*	1,277		324		1,304		345		1,337		346	
7. AFF domestic*	713		8		699		5		717		3	
8. FORESTRY*	53		0		54		0		56		0	
9. TRADE/INDUSTRY*	1,162		-13		980		12		1,004		-25	
10. ECGD*	78		207		-43		219		-44		126	
11. ENERGY	294	1		27	293	-21		37	300	-20		40
12. EMPLOYMENT*	3,704		-74		3,901		-207		3,999		-125	
13. TRANSPORT*	1,955		25		1,995		34		2,045		53	
14. DOE-HOUSING	2,424	-81		744	2,526	-312		1028	2,589	-418		957
15. DOE-PSA*	-120		7		-128		0		-131		0	
16. DOE-OTHER	848	-110		135	860	-99		130	882	-101		128
17. HOME OFFICE*	1,061		43		1,104		44		1,131		55	
18. LCD*	574		21		610		39		625		72	
19. DES	3,418	0		168	3,505	-11		182	3,593	-36		198
20. DAL*	333		6		342		13		350		18	
21. HEALTH & PSS	14,945	0		409	15,622			484	16,012			870
22. SOCIAL SEC.	41,547	931		1199	43,553	572		1144	44,642	636		1885
23. CIVIL SUPER*	1,114		65		1,226		86		1,257		147	
24. SCOTLAND	4,300	-93		7	4,373	-130		20	4,482	-188		12
25. WALES*	1,708		-1		1,735		-1		1,779		-4	
26. N. IRELAND*	4,464		53		4,603		76		4,717		105	
27. Territorial conseq.		-70		310		-130		410		-130		530
28. CHANCELLOR'S DEPT*	1,825		163		1,842		169		1,888		143	
29. OTHER DEPTS* (2)	366		68		396		64		406		68	
30. LA REL CUR(UK)(ELA)	26,032		601		26,301		760		26,959		360	
31. teachers pay			228				300				400	
NAT IND												
32. E(A)target ind settled*	1,495		-4		1,265		-77		1,299		-459	
33. Electricity E&W	-1,447	-100		189	-1,487	-350		-93	-1,524	150		379
34. Water E&W	123	0		34	15	0		103	15	-60		78
35. Coal	382	408		508	392	233		333	402	97		198
36. RMPS & SRPS*	309		194		318		-41		326		-50	
37. BGC.(3)	-470	152		272	-390		390		-400		400	
38. SPECIAL SALES OF ASSETS	-2,250		-2250		-2,250		-1250		-2,250		-1250	
39. RESERVE	6,000		-1000		7,000		-1000		7,000			
40. 3 per cent increase in 1988-89 total									1,127		-1127	
less double counting(4)	-252				-249				-258			
41. TOTALS	139,062	740	-1283	4528	143,894	-870	339	4524	148,200	-798	-587	6380
42. ROOM FOR MANOEUVRE		-543		3245		-531		4863		-1385		5793

* agreement reached or near agreement-forecast outcomes included for those not finally agreed.

(1) Officials have agreed a revised baseline switching £2m from 1987-88 to 1986-87.

(2) E(LA)figure for 1986-87 agreed. Figures for later years are forecast outcomes.

(3) When British Gas is privatised in 1986-87 the planning total loses the benefit of the negative EFL.

(4) DAFS and WOAD are in the baselines of both IBAP/AFF domestic and Scotland/Wales.

BRIEF NOTES ON AGREEMENTS REACHED IN BILATERALS

£ million

4.	<u>FCO Other</u>	+ 36	+ 39	+ 57
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The settlement includes increased provision to offset increases in overseas costs, and for BBC external services. In the last year an extra £20m is included to compensate for the ending of loan repayments by Yugoslavia.

£ million

5.	<u>EC</u>	+ 10	+320	+100
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The figures reflect higher forecast UK contributions to the European Communities.

£ million

6.	<u>IBAP/AFF CAP</u>	+324	+345	+346
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The net change largely reflects higher forecasts of intervention stocks due to agricultural surpluses in the CAP. The forecasting increases are offset by economy measures on support for beef and cereals in each year and a once and for all saving of £14m in 1986-87 achieved by delaying payments for intervened cereals.

£ million

7.	<u>AFF domestic</u>	+ 8	+ 5	+ 3
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Domestic agriculture has been settled slightly above baseline partly as a result of volume changes in domestic demand led programmes.

£ million

13. Transport + 25 +34 + 53

The net change includes increases for national roads, local capital and gross running costs offset by savings from fees, other programmes and the introduction of EFL treatment for local authority transport companies (£40 million a year). The agreement on the programme as a whole is conditional on securing the legislation needed to introduce EFL treatment for local authority transport companies.

£ million

15. PSA + 7 0 0

In the first year increased provision has been agreed for maintenance, new works and the International Conference Centre. Increased allowance has also been made for Parliamentary building (scored against other departments).

£ million

17. Home Office + 43 + 44 + 55

A package deal was agreed with the Home Secretary reflecting his bids for the prison service, largely because of the growth in prisoners and the need to maintain the prison building programme. Other bids for drugs, civil defence and the passport and immigration departments will also be accommodated within the agreed figures. The figures imply worsening arrears on the criminal injuries compensation scheme and no addition to provision for fire service capital.

£ million

18. Lord Chancellor's Dept + 21 + 39 + 72

The agreed changes reflect the increased costs of legal aid and administration of legal aid by the Law Society. A confidential review of legal aid controls will be set up.

£ million

20. OAL + 6 + 13 + 18

The Treasury is attempting to reach a deal with OAL allowing some extra provision for the arts council, the British Library project and museums and galleries.

£ million

23. Civil Superannuation + 65 + 86 +147

The figures reflect higher forecasts of the cost of payments to civil service pensioners and their dependants.

£ million

25. Wales - 1 - 1 - 4

The Welsh block will be settled according to the usual formula. On other spending net reductions have been agreed for the Welsh Development Agency and the Development Board for Rural Wales. These savings are partially offset by increases for housing revenue account interest payments.

£ million

26. Northern Ireland + 53 + 76 +105

The Northern Ireland block will be settled on the basis of the normal block/formula arrangements. The agreed additions represent higher forecast costs of social security and housing revenue account interest payments.

£ million

28. Chancellor's Departments +163 +169 +143

Bids of around £35m a year have been conceded to cover the higher forecast costs of life assurance premium and mortgage interest reliefs. The main other increases are for Inland Revenue and Customs and Excise tax collection and enforcement costs. Additional provision is also made for HMSO supplies to Parliament.

£ million

29. Other Departments + 68 + 64 + 68

Most of the additional provision is to cover the cost of the Crown Prosecution Service. Other bids meet higher running costs of the House of Commons and House of Lords together with provision for PSA to continue security work on the Palace of Westminster. Extra provision has also been allowed for staff to speed up the Land Registry's work.

£ million

33. E(A) target industries settled - 4 - 77 -459

Agreement has been reached on EFLs for the Scottish Electricity Boards, BSC, Post Office, National Giro Bank, British Rail, Scottish Transport Group, British Shipbuilders (Merchant), Civil Aviation and London Regional Transport. Small savings were agreed for most industries.

The EA target (other than for Coal, Gas, Airports and Buses) is by comparison with baseline

£ million

86-87	87-88	88-89
0	-250	-150

Apart from Water and Electricity (England and Wales) all the industries within the target are settled contributing

- 4	- 77	-459
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If Departments bids for Water and Electricity were accepted the outcome would be

+219	- 67	- 1
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Giving a shortfall on target of

219	183	149
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£ million

37. RMPS & SRPS

+194

- 41

- 50

Extra provision has been made to cover the cost of the Redundant Mineworkers Pension Scheme. The figures for the Shipbuilding Redundancy Payments Scheme are little changed.

10 DOWNING STREET

6A

Prime Minister

This, for information, is the
Chief Secretary's paper referring to
the hood Whitehall's group what
the Treasury sees as its remit.

It is to be circulated on
Tuesday night.

JRS
9/10.



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17. But, having looked again at the expected receipts from the sales now in prospect, I think I can raise the forecast by a further £0.25 billion, £1.0 billion and £0.5 billion respectively in the three years. This would bring the total programme to £4½ billion in 1986-87, £4½ billion in 1987-88 and £4 billion in 1988-89. In terms of the likely proceeds from the sales we could not safely go higher; indeed if one of the major privatisations was to hit snags these figures would probably be unattainable. In presenting "unchanged" public expenditure plans containing a doubling of the sales receipts since the last White Paper, we shall face a barrage of accusations about "fudging" and "selling the family silver to pay the drinks bill". But given the difficulty of the Group's remit, I propose that these higher forecasts should now be adopted.

SECRET AND PERSONALThe Reserve

18. The position on the size of the Reserve also poses major difficulties. Present indications are that the £5 billion Reserve for the current year, 1985-86, will be at least fully spent, and that expectation will be revealed at the time of the Autumn Statement. To publish a figure significantly lower for 1986-87, with corresponding reductions in the later years, could raise major doubts about the credibility of the plans. In particular, we face the likelihood of continuing heavy - and possibly increased -current overspending by local authorities following the abolition of targets and the very worrying pressures on the pay front. It will do us no good at all to present revised plans that commentators - and perhaps more important the markets - do not believe can be delivered.

19. On the other hand, we would expect pressures on the Reserve this year caused by the "blip" in inflation and the follow-on costs from the coal strike to moderate in 1986-87. I have no great confidence that these helpful factors will outweigh the possible upwards pressures. ^{But} I think we could, with some degree of risk, justify trimming £0.5 billion a year from the Reserve, giving figures of £4.5 billion, £5.5 billion and £6.5 billion respectively for the 3 Survey years.

20. The combined effect of these adjustments to asset sales and the Reserve would add $\frac{3}{4}$ billion, $1\frac{1}{2}$ billion and £1 billion respectively to the room for manoeuvre in the three years.

The Planning Totals

21. The only other way in which the position could be eased would be to add to the planning totals. But for 1986-87 and 1987-88 the Prime Minister publicly re-affirmed in July our commitment to hold to the baseline totals which had already been raised by £2 billion in the Budget. Now to announce higher totals would be a clear admission of defeat, and would greatly harm the conduct of the Survey in future years. We should therefore rule out the option of changing

SECRET AND PERSONAL

the totals for 1986-87 and 1987-88.

22. For 1988-89 we have already during this Survey allowed for the planning total to rise by a further $\frac{1}{2}\%$ beyond the $2\frac{1}{2}\%$ built into programmes (paragraph 8 above). A further increase would be most unwelcome. But for 1988-89, unlike the earlier years, there are no existing published plans. Given the overall difficulties, I believe we could defend adding a further £0.5 billion to the 1988-89 planning total. This would produce a cash increase of 3.3% which, compared with a 1985 Budget inflation forecast of 3%, we could still justify as "broadly" constant in real terms. When added to the adjustments proposed above for asset sales and the Reserve, this would provide overall extra room for manoeuvre in 1988-89 of £1½ billion.

The Revised Margin for Manoeuvre

This is a little less than the Treasury reported to you earlier. They are adamant that they have firmed their pockets out.

23. I believe the various adjustments proposed above - totalling £¾ billion in 1986-87 and £1½ billion in each of the following years - take us to the limit both of what is acceptable and can be presented within the framework of unchanged public expenditure policy. Adding these figures in to the arithmetic (paragraph 9) means that the total funds available for the disputed programmes would rise to £2.0 billion, £1.2 billion and £2.1 billion respectively.

24. On this basis Departments' bids of:

	+4.5	+4.5	+6.4
compared with the revised sums available of			
	+2.0	+1.2	+2.1
mean their excess bids become			
	2.5	3.3	4.3

25. By comparison my proposals of

	+0.7	-0.9	-0.8
compared with the revised sums available			
	+2.0	+1.2	+2.1
mean my margin for manoeuvre has become			
	1.3	2.0	2.9

SECRET AND PERSONAL

26. Although the margin for manoeuvre in my proposals is increased, it remains substantially less than Departments' excess bids. So hitting the revised targets still requires the Group to adjudicate on average much more in my favour than that of spending Ministers. While I consider them to be fully justified, I recognise that my proposals for the contested programmes involve some very difficult decisions. So even after the adjustments proposed in this paper, the target faced by the Group is a very tough one. The detailed position papers for the individual programmes spell out what is involved.

(JM)

SECRET AND PERSONAL

ANNEX A

MISC 120 SCORECARD

SECRET
.....

[mark2-friday]

[DATE: 8 /10/85]

COMPOSITE SCORECARD:

£million

Survey baseline and proposed changes	1986-87				1987-88				1988-89			
	Baseline	TSY	AGREED	DEPT	Baseline	TSY	AGREED	DEPT	Baseline	TSY	AGREED	DEPT
1. MOD(1)	18,558	-278		422	18,861	-602		593	19,033	-708		897
2. FCO-ODA	1,296	-20		64	1,317	-20		83	1,350	-20		98
3. ATP				40				70				110
4. FCO-OTHER*	603		36		619		39		635		57	
5. EC*	640		10		830		320		850		100	
6. IBAP/AFF CAP*	1,277		324		1,304		345		1,337		346	
7. AFF domestic*	713		8		699		5		717		3	
8. FORESTRY*	53		0		54		0		56		0	
9. TRADE/INDUSTRY*	1,162		-13		980		12		1,004		-25	
10. ECGD*	78		207		-43		219		-44		126	
11. ENERGY	294	1		27	293	-21		37	300	-20		40
12. EMPLOYMENT*	3,704		-74		3,901		-207		3,999		-125	
13. TRANSPORT*	1,955		25		1,995		34		2,045		53	
14. DOE-HOUSING	2,424	-81		744	2,526	-312		1028	2,589	-418		957
15. DOE-PSA*	-120		7		-128		0		-131		0	
16. DOE-OTHER	848	-110		135	860	-99		130	882	-101		128
17. HOME OFFICE*	1,061		43		1,104		44		1,131		55	
18. LCD*	574		21		610		39		625		72	
19. DES	3,418	0		168	3,505	-11		182	3,593	-36		198
20. OAL*	333		6		342		13		350		18	
21. HEALTH & PSS	14,945	0		409	15,622			484	16,012			870
22. SOCIAL SEC.	41,547	931		1199	43,553	572		1144	44,642	636		1885
23. CIVIL SUPER*	1,114		65		1,226		86		1,257		147	
24. SCOTLAND	4,300	-93		7	4,373	-130		20	4,482	-188		12
25. WALES*	1,708		-1		1,735		-1		1,779		-4	
26. N. IRELAND*	4,464		53		4,603		76		4,717		105	
27. Territorial conseq.		-70		310		-130		410		-130		530
28. CHANCELLOR'S DEPT*	1,825		163		1,842		169		1,888		143	
29. OTHER DEPTS*	366		68		396		64		406		68	
30. LA REL CUR(UK)(ELA)	26,032		601		26,301		760		26,959		360	
31. teachers pay			228				300				400	
NAT IND												
32. E(A)target ind settled*	1,495		-4		1,265		-77		1,299		-459	
33. Electricity E&W	-1,447	-100		189	-1,487	-350		-93	-1,524	150		379
34. Water E&W	123	0		34	15	0		103	15	-60		78
35. Coal	382	408		508	392	233		333	402	97		198
36. RAPS & SRPS*	309		194		318		-41		326		-50	
37. BGC.(3)	-470	152		272	-390		390		-400		400	
38. SPECIAL SALES OF ASSETS	-2,250		-2250		-2,250		-1250		-2,250		-1250	
39. RESERVE	6,000		-1000		7,000		-1000		7,000			
40. 3 per cent increase in 1988-89 total									1,127		-1127	
less double counting(4)	-252				-249				-258			
41. TOTALS	139,062	740	-1283	4528	143,894	-870	339	4524	148,200	-798	-587	6380
42. ROOM FOR MANOEUVRE		-543		3245		-531		4863		-1385		5793

* agreement reached or near agreement-forecast outcomes included for those not finally agreed.

(1) Officials have agreed a revised baseline switching £2m from 1987-88 to 1986-87.

(2) E(LA)figure for 1986-87 agreed. Figures for later years are forecast outcomes.

(3) When British Gas is privatised in 1986-87 the planning total loses the benefit of the negative EFL.

(4) DAFS and WOAD are in the baselines of both IBAP/AFF domestic and Scotland/Wales.

BRIEF NOTES ON AGREEMENTS REACHED IN BILATERALS

£ million

4. <u>FCO Other</u>	+ 36	+ 39	+ 57
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The settlement includes increased provision to offset increases in overseas costs, and for BBC external services. In the last year an extra £20m is included to compensate for the ending of loan repayments by Yugoslavia.

£ million

5. <u>EC</u>	+ 10	+320	+100
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The figures reflect higher forecast UK contributions to the European Communities.

£ million

6. <u>IBAP/AFF CAP</u>	+324	+345	+346
------------------------	------	------	------

The net change largely reflects higher forecasts of intervention stocks due to agricultural surpluses in the CAP. The forecasting increases are offset by economy measures on support for beef and cereals in each year and a once and for all saving of £14m in 1986-87 achieved by delaying payments for intervened cereals.

£ million

7. <u>AFF domestic</u>	+ 8	+ 5	+ 3
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Domestic agriculture has been settled slightly above baseline partly as a result of volume changes in domestic demand led programmes.

£ million

8.	<u>Forestry Commission</u>	0	0	0
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Forestry Commission was settled at baseline with bids for new planting, conservation and restoration absorbed by the Commission.

£ million

9.	<u>D/Trade and Industry</u>	- 13	+ 12	- 25
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The net changes include increases for aircraft and aeroengine projects, assistance to the shipbuilding and steel industries; and reduced requirements for the Government Emergency Communications, aircraft and aeroengine projects and manpower. The settlement also includes offsetting savings on regional policy.

£ million

10.	<u>ECGD</u>	+207	+219	+126
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The agreed bids cover the higher forecast costs of the interest support programme and cost escalation scheme. Offsetting savings will be achieved by reducing banks' margins and making increased use of the capital markets.

£ million

12.	<u>Employment</u>	- 74	-207	-125
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Net savings have been agreed, reflecting reduced requirements and the abolition of rebates to employers from the Redundancy Fund. Reimbursement of maternity pay will again be kept at 90 per cent for the next two years. These savings are partially offset by bids of £75 million rising to £155 million a year; for 1988-89 over half is for the expansion of YTS announced in the Budget.

£ million

13. Transport + 25 +34 + 53

The net change includes increases for national roads, local capital and gross running costs offset by savings from fees, other programmes and the introduction of EFL treatment for local authority transport companies (£40 million a year). The agreement on the programme as a whole is conditional on securing the legislation needed to introduce EFL treatment for local authority transport companies.

£ million

15. PSA + 7 0 0

In the first year increased provision has been agreed for maintenance, new works and the International Conference Centre. Increased allowance has also been made for Parliamentary building (scored against other departments).

£ million

17. Home Office + 43 + 44 + 55

A package deal was agreed with the Home Secretary reflecting his bids for the prison service, largely because of the growth in prisoners and the need to maintain the prison building programme. Other bids for drugs, civil defence and the passport and immigration departments will also be accommodated within the agreed figures. The figures imply worsening arrears on the criminal injuries compensation scheme and no addition to provision for fire service capital.

£ million

18. Lord Chancellor's Dept + 21 + 39 + 72

The agreed changes reflect the increased costs of legal aid and administration of legal aid by the Law Society. A confidential review of legal aid controls will be set up.

£ million

20. OAL + 6 + 13 + 18

The Treasury is attempting to reach a deal with OAL allowing some extra provision for the arts council, the British Library project and museums and galleries.

£ million

23. Civil Superannuation + 65 + 86 +147

The figures reflect higher forecasts of the cost of payments to civil service pensioners and their dependants.

£ million

25. Wales - 1 - 1 - 4

The Welsh block will be settled according to the usual formula. On other spending net reductions have been agreed for the Welsh Development Agency and the Development Board for Rural Wales. These savings are partially offset by increases for housing revenue account interest payments.

£ million

26. Northern Ireland + 53 + 76 +105

The Northern Ireland block will be settled on the basis of the normal block/formula arrangements. The agreed additions represent higher forecast costs of social security and housing revenue account interest payments.

£ million

28. Chancellor's Departments +163 +169 +143

Bids of around £35m a year have been conceded to cover the higher forecast costs of life assurance premium and mortgage interest reliefs. The main other increases are for Inland Revenue and Customs and Excise tax collection and enforcement costs. Additional provision is also made for HMSO supplies to Parliament.

£ million

29. Other Departments + 68 + 64 + 68

Most of the additional provision is to cover the cost of the Crown Prosecution Service. Other bids meet higher running costs of the House of Commons and House of Lords together with provision for PSA to continue security work on the Palace of Westminster. Extra provision has also been allowed for staff to speed up the Land Registry's work.

£ million

33. E(A) target industries settled - 4 - 77 -459

Agreement has been reached on EFLs for the Scottish Electricity Boards, BSC, Post Office, National Giro Bank, British Rail, Scottish Transport Group, British Shipbuilders (Merchant), Civil Aviation and London Regional Transport. Small savings were agreed for most industries.

The EA target (other than for Coal, Gas, Airports and Buses) is by comparison with baseline

£ million

86-87	87-88	88-89
0	-250	-150

Apart from Water and Electricity (England and Wales) all the industries within the target are settled contributing

- 4	- 77	-459
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If Departments bids for Water and Electricity were accepted the outcome would be

+219	- 67	- 1
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Giving a shortfall on target of

219	183	149
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£ million

37. RMPS & SRPS

+194

- 41

- 50

Extra provision has been made to cover the cost of the Redundant Mineworkers Pension Scheme. The figures for the Shipbuilding Redundancy Payments Scheme are little changed.