

• PO - CH / NL / 0527
PART A

Part A.

Begins: 17/10/88 .
Ends: 24/5/89 .

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Chancellor's (Lawson) papers:
The 1989 Public Expenditure Survey .

DD's: 25 Years

Anderson

13/3/96.

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MP

FROM: MRS R J BUTLER
 DATE: 17 October 1988

PS/CHIEF SECRETARY

cc

PPS/Chancellor of
 the Exchequer
 Mr Turnbull
 Mr MacAuslan
 Mr A White
 Mr Sharratt
 Miss Walker
 Mrs Wiseman
 Mr Dyer -
 Parliamentary
 Section
 Miss Summerfield
 Mr McKinley

[Standard as how
 get's with
 MP]

[Ch] Table 5b is pretty
 interesting - though again
 I am showing you this against
 my better judgement!
 MPW]

1988 TERRITORIAL ANALYSIS

The collection and processing of the data for the annual exercise to produce a territorial analysis of public expenditure has been completed and we are now ready to publish the results. As in recent years, it is proposed to publish the data in an "arranged" PQ. A draft, which has been cleared with ST3 Division, is attached.

2. Last year we succeeded in publishing the PQ in October: earlier than previous years. This year we would like to make the results available as soon as possible after the House reconvenes on 19 October. As last year, we are intending to include a summary of the territorial analysis for the latest year in the next public expenditure White Paper.

3. If the Chief Secretary is content, can Parliamentary Section please make the necessary arrangements.

4. Would copy recipients please note that the figures in this version of the PQ supercede the draft dated 12 October which contained incorrect data submitted by DHSS for Social Security spending in Wales in 1987-88.

RJ Butler

MRS R J BUTLER

DRAFT QUESTION

Mr To ask the Chancellor of the Exchequer if he will publish in the Official Report a table showing, for the latest years now available, identifiable public expenditure by function in England, Scotland, Wales, Northern Ireland and the United Kingdom expressed (a) in cash terms, (b) as an index (United Kingdom total identifiable public expenditure =100), (c) as an amount per capita and (d) as an amount per capita expressed as an index (United Kingdom amount per capita = 100).

DRAFT REPLY

The term 'identifiable expenditure' refers to expenditure that can be identified from official records as having been incurred in a particular country. Total identifiable expenditure accounts for around 80 per cent of total departmental public expenditure.

The remainder, unidentifiable expenditure, includes expenditure on defence, overseas aid and other overseas services which are deemed to have been incurred on behalf of the United Kingdom as a whole. Unidentifiable expenditure also includes Government net lending to, and the market and overseas borrowing of, the public corporations (including nationalised industries), due to the difficulty of allocating this finance to expenditure in a particular country. Privatisation proceeds are also included in unidentifiable expenditure.

Tables 1 to 5 show figures of identifiable public expenditure according to main function in England, Scotland, Wales and Northern Ireland. These are the only available figures comparing public expenditure by function in the four countries of the United Kingdom. The analysis covers 1983-84 to 1987-88, the only period for which data are available on a consistent basis.

Table 6 compares, for the latest year, 1987-88, expenditure in the Scottish, Welsh and Northern Ireland programmes with the total identifiable expenditure in the respective countries by function. It shows that identifiable expenditure has a wider coverage than expenditure within the responsibilities of the Secretaries of State for Scotland and Wales; in the case of Northern Ireland it has a slightly wider coverage than the Northern Ireland programme in the Public Expenditure Survey. This table also shows unidentifiable expenditure by function for 1987-88. It should be noted that the

unidentifiable expenditure for housing is entirely made up of Government net lending to the Northern Ireland Housing Executive which is excluded from identifiable expenditure because it is classified as a public corporation.

In some cases expenditure which cannot be separately identified for England, Scotland or Wales can be allocated to Great Britain rather than the United Kingdom; for example, the majority of the financing of expenditure by the nationalised industries can be allocated to Great Britain. Tables 7a and 7b compare Northern Ireland allocated expenditure with that allocated to Great Britain over the five year period.

The extent to which expenditure can be identified may vary from year to year and between countries. The coverage of particular functions can also vary between countries; for example, in Northern Ireland, expenditure on arts and libraries is contained in the education category.

The tables use the terms and definitions of the last public expenditure White Paper 'The Government's Expenditure Plans 1988-89 to 1990-91' (Cm 288) but they incorporate later information.

MRS R J BUTLER

GEP3

17 October 1988

Table 1a Identifiable public expenditure 1983-84

	£ million					Index (United Kingdom identifiable expenditure = 100)			
	England	Scotland	Wales	Northern Ireland	United Kingdom	England	Scotland	Wales	Northern Ireland
Agriculture, fisheries, food and forestry	711.2	201.2	95.8	149.7	1,157.9	61.4	17.4	8.3	12.9
Trade, industry, energy and employment	3,009.3	723.7	365.4	374.9	4,473.3	67.3	16.2	8.2	8.4
Arts and libraries	515.9	63.8	27.8		607.5	84.9	10.5	4.6	
Roads and transport	4,457.3	547.1	376.2	123.5	5,504.1	81.0	9.9	6.8	2.2
Housing	3,153.6	716.7	195.7	192.6	4,258.6	74.1	16.8	4.6	4.5
Other environmental services	3,465.9	530.3	264.4	176.5	4,437.1	78.1	12.0	6.0	4.0
Law, order and protective services	3,634.1	458.5	189.7	400.4	4,682.7	77.6	9.8	4.1	8.6
Education and science	12,975.6	1,964.4	816.3	581.9	16,338.2	79.4	12.0	5.0	3.6
Health and personal social services	14,711.2	2,036.2	916.2	635.2	18,298.8	80.4	11.1	5.0	3.5
Social security	29,405.6	3,329.5	1,884.7	1,094.3	35,714.1	82.3	9.3	5.3	3.1
Other public services	1,049.7	235.3	99.6	53.7	1,438.3	73.0	16.4	6.9	3.7
Common services	-145.2	-13.6	-0.8	1.9	-157.7				
Planning total	76,944.2	10,793.1	5,231.0	3,784.6	96,752.9	79.5	11.2	5.4	3.9

Table 1b Identifiable public expenditure per head 1983-84

	£ per head					Index (United Kingdom identifiable expenditure = 100)			
	England	Scotland	Wales	Northern Ireland	United Kingdom	England	Scotland	Wales	Northern Ireland
Agriculture, fisheries, food and forestry	15.2	39.1	34.1	97.0	20.5	73.9	190.1	166.0	472.1
Trade, industry, energy and employment	64.2	140.5	130.1	242.9	79.4	80.9	177.0	163.9	306.0
Arts and libraries	11.0	12.4	9.9		10.8	102.1	114.9	91.8	
Roads and transport	95.1	106.2	134.0	80.0	97.7	97.4	108.7	137.2	81.9
Housing	67.3	139.2	69.7	124.8	75.6	89.1	184.1	92.2	165.1
Other environmental services	74.0	103.0	94.2	114.4	78.7	94.0	130.8	119.6	145.2
Law, order and protective services	77.6	89.0	67.6	259.5	83.1	93.3	107.1	81.3	312.2
Education and science	277.0	381.4	290.7	377.1	290.0	95.5	131.5	100.3	130.0
Health and personal social services	314.0	395.3	326.3	411.6	324.8	96.7	121.7	100.5	126.7
Social security	627.7	646.5	671.2	709.1	633.8	99.0	102.0	105.9	111.9
Other public services	22.4	45.7	35.5	34.8	25.5	87.8	179.0	139.0	136.3
Common services	-3.1	-2.6	-0.3	1.2	-2.8				
Planning total	1,642.5	2,095.6	1,863.0	2,452.4	1,717.1	95.7	122.0	108.5	142.8

Table 2a Identifiable public expenditure 1984-85

	£ million					Index (United Kingdom identifiable expenditure = 100)			
	England	Scotland	Wales	Northern Ireland	United Kingdom	England	Scotland	Wales	Northern Ireland
Agriculture, fisheries, food and forestry	682.9	230.5	100.6	160.5	1,174.5	58.1	19.6	8.6	13.7
Trade, industry, energy and employment	3,218.6	766.9	382.5	420.4	4,788.4	67.2	16.0	8.0	8.8
Arts and libraries	551.4	69.1	28.9		649.4	84.9	10.6	4.5	
Roads and transport	4,681.8	563.5	328.7	121.9	5,695.9	82.2	9.9	5.8	2.1
Housing	3,266.6	656.7	136.9	210.6	4,270.8	76.5	15.4	3.2	4.9
Other environmental services	3,677.0	533.8	272.3	183.0	4,666.1	78.8	11.4	5.8	3.9
Law, order and protective services	4,121.2	498.2	209.9	430.6	5,259.9	78.4	9.5	4.0	8.2
Education and science	13,475.2	2,013.0	838.6	610.9	16,937.7	79.6	11.9	5.0	3.6
Health and personal social services	15,757.9	2,182.2	986.3	666.9	19,593.3	80.4	11.1	5.0	3.4
Social security	31,870.9	3,603.2	2,049.3	1,186.1	38,709.5	82.3	9.3	5.3	3.1
Other public services	1,163.9	247.4	102.6	57.9	1,571.8	74.0	15.7	6.5	3.7
Common services	-79.2	-8.2	4.5	2.4	-80.5				
Planning total	82,388.2	11,356.3	5,441.1	4,051.2	103,236.8	79.8	11.0	5.3	3.9

Table 2b Identifiable public expenditure per head 1984-85

	£ per head					Index (United Kingdom identifiable expenditure = 100)			
	England	Scotland	Wales	Northern Ireland	United Kingdom	England	Scotland	Wales	Northern Ireland
Agriculture, fisheries, food and forestry	14.5	44.8	35.8	103.5	20.8	69.9	215.3	172.3	497.6
Trade, industry, energy and employment	68.5	149.0	136.3	271.2	84.8	80.8	175.7	160.7	319.7
Arts and libraries	11.7	13.4	10.3		11.5	102.1	116.8	89.5	
Roads and transport	99.7	109.5	117.1	78.6	100.9	98.8	108.5	116.1	77.9
Housing	69.6	127.6	48.8	135.8	75.6	92.0	168.7	64.5	179.6
Other environmental services	78.3	103.7	97.0	118.0	82.6	94.8	125.5	117.4	142.8
Law, order and protective services	87.8	96.8	74.8	277.7	93.2	94.2	103.9	80.3	298.1
Education and science	287.0	391.2	298.7	394.0	300.0	95.7	130.4	99.6	131.3
Health and personal social services	335.6	424.1	351.3	430.1	347.0	96.7	122.2	101.2	124.0
Social security	678.7	700.2	730.0	765.0	685.6	99.0	102.1	106.5	111.6
Other public services	24.8	48.1	36.5	37.3	27.8	89.0	172.7	131.3	134.1
Common services	-1.7	-1.6	1.6	1.5	-1.4				
Planning total	1,754.6	2,206.9	1,938.3	2,613.0	1,828.5	96.0	120.7	106.0	142.9

Table 3a Identifiable public expenditure 1985-86

	£ million					Index (United Kingdom identifiable expenditure = 100)			
	England	Scotland	Wales	Northern Ireland	United Kingdom	England	Scotland	Wales	Northern Ireland
Agriculture, fisheries, food and forestry	676.0	250.6	106.7	155.1	1,188.4	56.9	21.1	9.0	13.1
Trade, industry, energy and employment	3,373.4	794.6	397.5	449.7	5,015.2	67.3	15.8	7.9	9.0
Arts and libraries	581.7	75.2	31.6		688.5	84.5	10.9	4.6	
Roads and transport	4,759.3	582.3	337.2	122.6	5,801.4	82.0	10.0	5.8	2.1
Housing	2,962.0	616.2	128.1	227.0	3,933.3	75.3	15.7	3.3	5.8
Other environmental services	3,660.3	535.6	285.1	194.7	4,675.7	78.3	11.5	6.1	4.2
Law, order and protective services	4,199.9	521.0	219.5	470.0	5,410.4	77.6	9.6	4.1	8.7
Education and science	13,927.2	2,058.5	848.7	637.5	17,471.9	79.7	11.8	4.9	3.6
Health and personal social services	16,613.8	2,317.1	1,052.0	699.1	20,682.0	80.3	11.2	5.1	3.4
Social security	34,904.1	4,026.3	2,218.6	1,292.9	42,441.9	82.2	9.5	5.2	3.0
Other public services	1,284.6	254.5	106.5	63.8	1,709.4	75.1	14.9	6.2	3.7
Common services	-97.2	-10.3	1.7	2.2	-103.6				
Planning total	86,845.1	12,021.6	5,733.2	4,314.6	108,914.5	79.7	11.0	5.3	4.0

Table 3b Identifiable public expenditure per head 1985-86

	£ per head					Index (United Kingdom identifiable expenditure = 100)			
	England	Scotland	Wales	Northern Ireland	United Kingdom	England	Scotland	Wales	Northern Ireland
Agriculture, fisheries, food and forestry	14.3	48.8	37.9	99.6	21.0	68.4	232.4	180.8	474.3
Trade, industry, energy and employment	71.6	154.7	141.4	288.7	88.6	80.8	174.6	159.6	325.9
Arts and libraries	12.3	14.6	11.2		12.2	101.5	120.4	92.4	
Roads and transport	101.0	113.4	119.9	78.7	102.5	98.6	110.6	117.0	76.8
Housing	62.9	120.0	45.6	145.7	69.5	90.5	172.7	65.6	209.8
Other environmental services	77.7	104.3	101.4	125.0	82.6	94.1	126.3	122.8	151.3
Law, order and protective services	89.1	101.4	78.1	301.7	95.6	93.3	106.1	81.7	315.7
Education and science	295.6	400.8	301.8	409.2	308.6	95.8	129.9	97.8	132.6
Health and personal social services	352.6	451.1	374.1	448.8	365.3	96.5	123.5	102.4	122.9
Social security	740.9	783.9	789.0	830.0	749.6	98.8	104.6	105.3	110.7
Other public services	27.3	49.5	37.9	41.0	30.2	90.3	164.1	125.5	135.6
Common services	-2.1	-2.0	0.6	1.4	-1.8				
Planning total	1,843.4	2,340.4	2,039.0	2,769.7	1,923.7	95.8	121.7	106.0	144.0

Table 4a Identifiable public expenditure 1986-87

	£ million					Index (United Kingdom identifiable expenditure = 100)			
	England	Scotland	Wales	Northern Ireland	United Kingdom	England	Scotland	Wales	Northern Ireland
Agriculture, fisheries, food and forestry	632.1	227.3	115.3	160.2	1,134.9	55.7	20.0	10.2	14.1
Trade, industry, energy and employment	3,802.4	938.7	509.0	395.8	5,645.9	67.3	16.6	9.0	7.0
Arts and libraries	623.6	81.7	33.1		738.4	84.5	11.1	4.5	
Roads and transport	4,666.5	586.5	362.9	126.9	5,742.8	81.3	10.2	6.3	2.2
Housing	2,597.8	635.9	174.2	238.0	3,645.9	71.3	17.4	4.8	6.5
Other environmental services	3,693.5	581.9	330.6	208.4	4,814.4	76.7	12.1	6.9	4.3
Law, order and protective services	4,641.4	567.1	230.7	517.2	5,956.4	77.9	9.5	3.9	8.7
Education and science	15,172.3	2,272.8	934.8	730.8	19,110.7	79.4	11.9	4.9	3.8
Health and personal social services	17,915.4	2,444.7	1,132.5	750.6	22,243.2	80.5	11.0	5.1	3.4
Social security	37,307.8	4,272.7	2,395.4	1,400.1	45,376.0	82.2	9.4	5.3	3.1
Other public services	1,417.7	283.5	119.4	76.0	1,896.6	74.7	14.9	6.3	4.0
Common services	-84.6	-6.3	0.2	-0.2	-90.9				
Planning total	92,385.9	12,886.5	6,338.1	4,603.8	116,214.3	79.5	11.1	5.5	4.0

Table 4b Identifiable public expenditure per head 1986-87

	£ per head					Index (United Kingdom identifiable expenditure = 100)			
	England	Scotland	Wales	Northern Ireland	United Kingdom	England	Scotland	Wales	Northern Ireland
Agriculture, fisheries, food and forestry	13.4	44.4	40.9	102.2	20.0	66.9	222.0	204.4	511.4
Trade, industry, energy and employment	80.5	183.3	180.4	252.6	99.5	80.9	184.3	181.4	254.0
Arts and libraries	13.2	16.0	11.7		13.0	101.4	122.6	90.2	
Roads and transport	98.8	114.5	128.6	81.0	101.2	97.6	113.2	127.2	80.1
Housing	55.0	124.2	61.8	151.9	64.2	85.6	193.3	96.1	236.5
Other environmental services	78.2	113.6	117.2	133.0	84.8	92.2	134.0	138.2	156.8
Law, order and protective services	98.2	110.7	81.8	330.1	104.9	93.6	105.5	77.9	314.6
Education and science	321.1	443.8	331.4	466.4	336.7	95.4	131.8	98.4	138.5
Health and personal social services	379.1	477.4	401.5	479.1	391.9	96.8	121.8	102.4	122.3
Social security	789.5	834.3	849.1	893.6	799.4	98.8	104.4	106.2	111.8
Other public services	30.0	55.4	42.3	48.5	33.4	89.8	165.7	126.7	145.2
Common services	-1.8	-1.2	0.1	-0.1	-1.6				
Planning total	1,955.1	2,516.4	2,246.8	2,938.3	2,047.3	95.5	122.9	109.7	143.5

Table 5a Identifiable public expenditure 1987-88

	£ million					Index (United Kingdom identifiable expenditure = 100)			
	England	Scotland	Wales	Northern Ireland	United Kingdom	England	Scotland	Wales	Northern Ireland
Agriculture, fisheries, food and forestry	685.4	226.8	89.6	167.0	1,168.8	58.6	19.4	7.7	14.3
Trade, industry, energy and employment	3,698.0	759.7	466.0	371.2	5,294.9	69.8	14.3	8.8	7.0
Arts and libraries	666.7	84.9	38.1		789.7	84.4	10.8	4.8	
Roads and transport	4,820.6	628.5	404.0	131.2	5,984.3	80.6	10.5	6.8	2.2
Housing	2,536.5	670.8	210.9	237.3	3,655.5	69.4	18.4	5.8	6.5
Other environmental services	3,676.2	674.0	321.9	232.2	4,904.3	75.0	13.7	6.6	4.7
Law, order and protective services	5,218.5	629.8	263.2	593.0	6,704.5	77.8	9.4	3.9	8.8
Education and science	16,601.4	2,442.4	1,040.7	786.8	20,871.3	79.5	11.7	5.0	3.8
Health and personal social services	19,677.0	2,696.3	1,257.0	812.4	24,442.7	80.5	11.0	5.1	3.3
Social security	38,660.7	4,561.9	2,500.8	1,465.4	47,188.8	81.9	9.7	5.3	3.1
Other public services	1,558.3	301.0	126.2	81.3	2,066.8	75.4	14.6	6.1	3.9
Common services	-16.4	1.7	3.9	0.6	-10.2				
Planning total	97,782.9	13,677.8	6,722.3	4,878.4	123,061.4	79.5	11.1	5.5	4.0

Table 5b Identifiable public expenditure per head 1987-88

	£ per head					Index (United Kingdom identifiable expenditure = 100)			
	England	Scotland	Wales	Northern Ireland	United Kingdom	England	Scotland	Wales	Northern Ireland
Agriculture, fisheries, food and forestry	14.5	44.4	31.6	106.0	20.5	70.4	216.1	153.9	516.4
Trade, industry, energy and employment	78.0	148.6	164.3	235.7	93.0	83.9	159.8	176.7	253.4
Arts and libraries	14.1	16.6	13.4		13.9	101.4	119.7	96.8	
Roads and transport	101.7	122.9	142.4	83.3	105.1	96.7	117.0	135.5	79.2
Housing	53.5	131.2	74.4	150.7	64.2	83.3	204.4	115.8	234.6
Other environmental services	77.5	131.8	113.5	147.4	86.1	90.0	153.0	131.7	171.1
Law, order and protective services	110.1	123.2	92.8	376.5	117.8	93.5	104.6	78.8	319.7
Education and science	350.2	477.8	366.9	499.5	366.6	95.5	130.3	100.1	136.3
Health and personal social services	415.1	527.4	443.2	515.8	429.3	96.7	122.8	103.2	120.1
Social security	815.5	892.4	881.7	930.4	828.9	98.4	107.7	106.4	112.2
Other public services	32.9	58.9	44.5	51.6	36.3	90.5	162.2	122.6	142.2
Common services	-0.3	0.3	1.4	0.4	-0.2				
Planning total	2,062.6	2,675.6	2,370.2	3,097.2	2,161.6	95.4	123.8	109.6	143.3

Table 6 Planning total analysed by territorial area 1987-88

£ million

	ENGLAND	SCOTLAND Programme (TOTAL)	Scotland 15(1) other	WALES Programme (TOTAL)	Wales 16(1) other	NORTHERN Programme IRELAND 17(1) (TOTAL)	Northern Ireland other	UNITED KINGDOM	NON IDENTIFIED	TOTAL			
Defence									18,662.4	18,662.4			
Overseas services									3,611.1	3,611.1			
Agriculture, fisheries, food and forestry	685.4	226.8	175.1	51.7	89.6	70.9	18.7	167.0	166.8	0.2	1,168.8	1,239.0	2,407.8
Trade, industry, energy and employment	3,693.0	759.7	229.3	530.4	466.0	160.5	305.5	371.2	369.2	2.0	5,294.9	782.9	6,077.8
Arts and libraries	665.7	84.9	84.9		38.1	38.1		(2)			789.7	220.2	1,009.9
Roads and transport	4,820.6	628.5	626.1	2.4	404.0	331.8	72.2	131.2	131.2		5,984.3	-323.3	5,661.0
Housing	2,536.5	670.8	670.8		210.9	210.9		237.3	237.3		3,655.5	113.8(3)	3,769.3
Other environmental services	3,676.2	674.0	662.6	11.4	321.9	315.6	6.3	232.2	232.2		4,904.3	101.4	5,005.7
Law, order and protective services	5,218.5	629.8	613.8	16.0	263.2		263.2	593.0	569.8	23.2	6,704.5	1,056.0	7,760.5
Education and science	16,601.4	2,442.4	2,130.6	311.8	1,040.7	877.0	163.7	786.8	785.0	1.8	20,871.3	110.8	20,982.1
Health and personal social services	19,677.0	2,696.3	2,696.3		1,257.0	1,257.0		812.4	812.4		24,442.7	12.4	24,455.1
Social security	38,660.7	4,561.9		4,561.9	2,500.8		2,500.8	1,465.4	1,453.9	11.5	47,188.8	510.6	47,699.4
Other public services	1,558.3	301.0	116.6	184.4	126.2	38.6	87.6	81.3	48.7	32.6	2,066.8	551.0	2,617.8
Common services	-16.4	1.7		1.7	3.9		3.9	0.6		0.6	-10.2	1,356.6	1,346.4
Public expenditure on programmes	97,782.9	13,677.8	8,006.1	5,671.7	6,722.3	3,300.4	3,421.9	4,878.4	4,806.5	71.9	123,061.4	28,004.9	151,066.3
Privatisation proceeds												-5,108.4	-5,108.4
Planning total	97,782.9	13,677.8	8,006.1	5,671.7	6,722.3	3,300.4	3,421.9	4,878.4	4,806.5	71.9	123,061.4	22,896.5	145,957.9

(1) Programmes 15, 16 and 17 relate to the Scotland, Wales and Northern Ireland programmes covered by the respective chapters of Volume II of the 1988 public expenditure White Paper (Cm 288).

(2) Expenditure on arts and libraries in Northern Ireland is contained in the education and science category.

(3) Unidentified expenditure for housing is entirely made up of Government net lending to the Northern Ireland Housing Executive.

Table 7a Identifiable public expenditure 1983-84 to 1987-88(1)

	£ million			Index (United Kingdom identifiable expenditure = 100)	
	Great Britain	Northern Ireland	United Kingdom identified	Great Britain	Northern Ireland
1983-84	95,359.4	3,875.2	99,234.6	96.1	3.9
1984-85	102,383.4	4,180.7	106,564.1	96.1	3.9
1985-86	106,489.0	4,430.3	110,919.3	96.0	4.0
1986-87	113,542.0	4,662.2	118,204.2	96.1	3.9
1987-88	119,228.8	4,998.8	124,227.6	96.0	4.0

(1) Financing of nationalised industries' expenditure can be allocated between Great Britain and Northern Ireland, and has therefore been included in this table.

Table 7b Identifiable public expenditure per head 1983-84 to 1987-88(1)

	£ per head			Index (United Kingdom identifiable expenditure = 100)	
	Great Britain	Northern Ireland	United Kingdom identified	Great Britain	Northern Ireland
1983-84	1,740.0	2,511.1	1,761.1	98.8	142.6
1984-85	1,864.6	2,696.5	1,887.4	98.8	142.9
1985-86	1,934.1	2,843.9	1,959.1	98.7	145.2
1986-87	2,057.1	2,975.6	2,082.4	98.8	142.9
1987-88	2,153.9	3,173.6	2,182.1	98.7	145.4

(1) Financing of nationalised industries' expenditure can be allocated between Great Britain and Northern Ireland, and has therefore been included in this table.

BACKGROUND NOTE

This answer presents the results of the 1988 Territorial Analysis exercise, covering the years 1983-84 to 1987-88. The format which has been used for several years to present the results has again been adopted. The results of the previous exercise covering the period 1982-83 to 1986-87 were given in answer to the question tabled by Mr William Powell on 23 October 1987 (copy attached at Annex A - top copy only).

2. As last year, government net lending to, and the market and overseas borrowing of, the public corporations (including nationalised industries) have been omitted from the exercise. They are included in the 'Not identified' column of Table 6. At the request of the Department of Finance and Personnel, Northern Ireland a footnote has been added to the non identified expenditure for housing in Table 6 to explain that the expenditure relates entirely to Government net lending to the Northern Ireland Housing Executive.

4. Tables A and B (attached at Annex B) summarise total identifiable public expenditure in the countries in £ million and £ per head. These figures are taken from Tables 1 to 5 in the answer.

5. This draft reply and background note has been cleared with ST3 Division.

Table A Identifiable public expenditure 1983-84 to 1987-88

	£ million					Index (United Kingdom identifiable expenditure = 100)			
	England	Scotland	Wales	Northern Ireland	United Kingdom	England	Scotland	Wales	Northern Ireland
1983-84	76,944.2	10,793.1	5,231.0	3,784.6	96,752.9	79.5	11.2	5.4	3.9
1984-85	82,388.2	11,356.3	5,441.1	4,051.2	103,236.8	79.8	11.0	5.3	3.9
1985-86	86,845.1	12,021.6	5,733.2	4,314.6	108,914.5	79.7	11.0	5.3	4.0
1986-87	92,385.9	12,886.5	6,338.1	4,603.8	116,214.3	79.5	11.1	5.5	4.0
1987-88	97,782.9	13,677.8	6,722.3	4,878.4	123,061.4	79.5	11.1	5.5	4.0

Table B Identifiable public expenditure per head 1983-84 to 1987-88

	£ per head					Index (United Kingdom identifiable expenditure = 100)			
	England	Scotland	Wales	Northern Ireland	United Kingdom	England	Scotland	Wales	Northern Ireland
1983-84	1,642.5	2,095.6	1,863.0	2,452.4	1,717.1	95.7	122.0	108.5	142.8
1984-85	1,754.6	2,206.9	1,938.3	2,613.0	1,828.5	96.0	120.7	106.0	142.9
1985-86	1,843.4	2,340.4	2,039.0	2,769.7	1,923.7	95.8	121.7	106.0	144.0
1986-87	1,955.1	2,516.4	2,246.8	2,938.3	2,047.3	95.5	122.9	109.7	143.5
1987-88	2,062.6	2,675.6	2,370.2	3,097.2	2,161.6	95.4	123.8	109.6	143.3

Note:- Not for publication

MANAGEMENT IN CONFIDENCE

From: SIR PETER MIDDLETON

Date: 24 October 1988

Ch. Content?

CHANCELLOR

CHIEF SECRETARY

cc Financial Secretary
Paymaster General
Economic Secretary
Planning Board
Dr Freeman
Mr Simpson
Mr A M White
Mr D E G Griffiths
Miss G Noble.

*OK subject to
changes 24/10/88.
CS*

TREASURY PES 1988

OK

!!!

1. I am afraid that this submission seems rather late; we failed to forecast the extent to which the timetable would be brought forward. The baseline for the Treasury's Public Expenditure Survey compared with what I believe we require is as follows:

	1988-89 Estimate	1989-90	1990-91	1991-92 ^{£m}
Baseline	185.726	213.450	195.015	201.225
Requirement		233.716	199.037	223.352
Net Bids		+ 20.266	+ 4.022	+ 22.127

A note describing the additional bid in detail, is attached.

2. The Treasury PES is a mixed programme. We have no control over some parts and no real responsibility for others. These parts account for almost the whole of the additional requirement.

3. We can neither predict nor control Treasury payments to the Royal Mint. Additional bids for the Royal Mint are as follows:

	£m		
	1989-90	1990-91	1991-92
	+ 20.531	+ 2.046	+ 20.694

They mainly result from increased demand and higher metal prices. But they also include the need to reschedule provision to reflect the decision to bring forward the issue dates of new 5p and 10p coins; it was accepted at the time that these particular costs should be met from the Reserve.

4. The coinage provision thus accounts for nearly all my net bids. Without it there would be no increase in 1989-90, and small additional requirements in the two later years of £2.0 m and £1.4 m respectively.

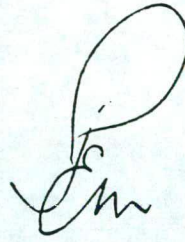
5. The remaining addition for 1990-91 is for Parliamentary bodies, the pay of MPs and Royal Household/Civil List Pensions, for which we are not responsible.

Running Costs

6. There is an addition for 1991-92 for the Treasury's running costs. I have made no additional bid for running costs for the first two years of the Survey. We seem to be alone among Government departments in sticking to the agreements reached last year which committed us to savings of £1.8 m and £2.2 m in the two years. I have considered carefully whether this is too tough an objective, but have concluded that it is manageable. It will require continued restraint on the part of Treasury Ministers and some desirable but marginal activities may have to be postponed. If recruitment picks up to an extent which I do not expect or if pay awards are significantly above the average 5½% assumed, I may have to re-examine the position next year.

7. Alas, I cannot confine the provision in 1991-92 to the 2.5% increase allowed for in the baseline. Pay and other cost increases make this unrealistic. The increased provision I have suggested is largely responsible for the bid in 1991-92.

8. I should be glad to have your agreement to these proposals.

A handwritten signature in black ink, appearing to be 'P E Middleton', written in a cursive style.

P E MIDDLETON

MANAGEMENT IN CONFIDENCE

FROM: SIR PETER MIDDLETON
24 October 1988

1. CHANCELLOR
2. CHIEF SECRETARY

cc - Financial Secretary
Economic Secretary
Paymaster General
Planning Board Members
Mr C D Butler
Dr Freeman
Mr Simpson
Mr White
Mr D E G Griffiths

PUBLIC EXPENDITURE SURVEY (PES): HM TREASURY

This submission sets out the Treasury's own PES requirements. It reflects the recommendations of the Treasury's Planning Board and has been agreed with ST3, the Treasury's expenditure division. It does not include Civil Superannuation, Rates on Government Property or Privatisation Votes which are dealt with separately.

Cash Requirement

2. An analysis of the changes required to the Treasury PES compared with the baseline established last year is at Annex 'A'. A summary of the main components of Treasury PES baseline is at Annex B. Bids by areas are shown in the table below:

	1989-90	1990-91	1991-92
UK Coinage Vote	+20.531	+ 2.046	+20.694
Treasury Vote	- 0.900	- 0.631	+ 0.542
Non-Voted Items	+ 0.337	+ 2.386	+ 0.203
CCTA Vote	-	- 0.100	+ 0.354
CISCO Vote	+ 0.008	+ 0.019	+ 0.027
Other Vote Items	+ 0.290	+ 0.302	+ 0.307
Total Bid	+20.266	+ 4.022	+22.127

£million

Coinage Vote

3. The demand for coins, and the price of metals is extremely volatile. It has been accepted that there is no practical alternative to meeting demand and that costs should be treated as non-discretionary demand-led estimating changes in the Survey. The bids for existing coinage, accounting for some £16.9m, £6.4m and £16.0m in each of the PES years reflect for 1989-90 the exceptionally high demand in 1988-89 and assume for the later years that demand falls back to an average level; they also take account of the very sharp rise in metal prices over the last 12 months. Further sums of £3.6m and £4.7m in 1989-90 and 1991-92 respectively with a saving of £4.4m in 1990-91 is the provision required to bring forward the issue dates of new 5p and 10p coins. The Chancellor has accepted that these additional costs should be treated as an agreed bid and that they should not be met from savings elsewhere on the Treasury Vote.

4. Abstracting from the Coinage, the baseline and bids for the rest of Treasury PES in each of the years is:

	<u>£million</u>		
	1989-90	1990-91	1991-92
Baseline	191.538	171.377	176.996
Bid	<u>191.273</u>	<u>173.353</u>	<u>178.429</u>
Difference	- 0.265	+ 1.976	+ 1.433

Administration Votes

5. The main items in this are a bid for running costs in 1991-92, which is discussed at paras 11-13 below, and a transfer from capital to running costs to finance the CCC computer replacement.

6. As part of the 1987 Survey, capital provision was earmarked for the purchase of a mainframe replacement for CCC. Under the method of financing chosen, exchange-hire, which provides savings over the life of the project and more flexibility in future upgrades, the expenditure is counted as running costs. It therefore requires an increase in each year's running cost limit of £631,000. This is of course a reclassification only and is more than offset by the capital provision previously earmarked of £1.5m for 1989-90 and 1990-91 and brought forward into the 1991-92 baseline.

Parliamentary Bodies/Non Voted Items

7. I need to use this provision to meet increased requirements for Parliamentary Bodies and certain other "non Treasury" items.

8. Increased costs for Parliamentary Bodies in 1990-91 (£219,000) and 1991-92 (£303,000) arise mainly from extra visits planned by the Commonwealth Parliamentary Association and the Inter Parliamentary Union. Increases of £337,000, £393,000 and £203,000 are also required in each of the PES years for the pay/pensions of European MPs and for Royal Household/Civil List Pensions. The former reflects the expected turnover of MEPs following the election and the tying of salaries to Civil Service Grade 6 level; the latter is for pensions uprating and to provide for pensioners living longer. With experience of the General Election, increased provision is sought for the residual costs of the European Election (£1.993m in 1990-91).

9. These increases are difficult to resist and largely beyond Treasury control. I can absorb these increases for 1989-90 but there is an additional bid of £1.976m in 1990-91 and £1.433m in 1991-92. The former is the result of "non Treasury items" described above, the latter a running cost bid.

Other Vote Items

10. The reduction in ASLC⁺ from 1 April 1989 will reduce the level of our expected receipts. We cannot realistically break down receipts on a customer department basis, because services provided can vary quite radically and the amounts involved can be quite small - as low as £60 - making a running tally exercise impossible.

We estimate that the extra PES provision required in each year is:

* Accounting Superannuation Liability Change - £ million

	£000		
CCTA	+ 156	+ 163	+ 167
CISCC	+ 50	+ 51	+ 52
CCC	+ 84	+ 88	+ 88
	<u>+ 290</u>	<u>+ 302</u>	<u>+ 307</u>

Running Costs

11. Within the total overall requirements, the requirement for running costs is as follows:

	£million		
	1989-90	1990-91	1991-92
Baseline	73.946	76.891	78.812
Bids	<u>74.577</u>	<u>77.522</u>	<u>81.390</u>
Difference	+ 0.631	+ 0.631	+ 2.578
Difference excluding the CCC computer	-	-	+ 1.947
Year on year increase % excluding CCC computer	(3.9)	(4.0)	(5.0)

The 1991-92 requirement (excluding the CCC computer) is a 5% addition over the 1990-91 baseline (which was reduced by £611,000 to the then GDP plus one per cent).

12. The provision for 1989-90 and 1990-91 was set as part of last years Survey. That settlement committed Treasury to savings of £1.8m and £2.2m respectively (based on what are now seen to be inadequate pay assumptions). I am pinning running costs to these levels for 1989-90 and 1990-91 but to do this will require further efficiency savings from functional reviews, staff inspection, savings in purchasing/provision of services and careful scrutiny of all staffing and expenditure requirements. Also, our continuing vacancy position requires an in-built assumption that staff in the Treasury will raise their productivity even further to maintain existing levels of output and performance. It is on this basis that I am planning to keep within the agreed settlement for 1989-90 and 1990-91 and to bring forward the savings into 1991-92. This has been set out in a "Running Costs Management Plan" (Annex C). Much will depend on whether recruitment difficulties ease and on movements in pay and other staff costs over the Survey period. If we were able to recruit to complement or if there were pay awards significantly above the levels assumed further bids would be required in future PES rounds.

13. However, the effect of pay and other cost rises (which are likely to be much higher than 2.5% per year) are not containable into 1991-92. I am therefore seeking a running cost addition of £1.947m (5%) above the baseline in that year.

Recommendations

14. I invite you to agree the PES bids for Coinage (para 3) and "non-Treasury/other" items (paras 7/10) the transfer to running costs for expenditure on the computer replacement (para 6) and the running cost bid for 1991-92 (para 13).



P E MIDDLETON

Encs

P E S B I D S (£ 0 0 0)

1989-90 1990-91 1991-92

	1989-90	1990-91	1991-92	
Image Vote	+20,531	+ 2,046	+20,694	Introduction of new coins/increased demand/increased metal prices
Parliamentary Voted Items				
- to MPs/Royal Household Pensions/ - Civil List/Tithe Redemption	+ 337	+ 393	+ 203	To reflect pension upratings and increased longevity of pensioners, and tying of MPs pay to CS Grade 6
- Parliamentary Elections	-	+ 1,993	-	Residual costs of the European Election
- Treasury Vote				
- Royal Trustees: grant in aid	- 92	- 91	- 92	
- Parliamentary bodies: grant in aid	- 25	+ 219	+ 303	Increased costs of Commonwealth Parliamentary Association and Inter-Parliamentary Union
- in Treasury (incl CCC and RGPD)				
- Running costs	+ 75	+ 98	+ 1,499	
- Departmental banking charges	+ 100	+ 103	+ 105	Bank of England will charge departments from 1989-90
- CCC computer replacement:				
- Transfer to running costs	- 631	+ 631	+ 631	Purchase of CCC replacement computer by means of exchange/hire
- from capital	- 1,500	- 1,500	- 1,500	
- Other capital and non running costs	-	+ 126	- 245	
- Receipts	+ 137	+ 52	+ 99	Reduced forecasts
- DO	- 233	- 269	- 252	Residual reduction following re-organisation
- Other minor adjustments	+ 7	-	- 6	
- STA Vote	-	- 100	+ 354	
- of which running costs	- 60	- 16	+ 443)
- ISCO Vote	+ 8	+ 19	+ 27	Reduced CFERs
- of which running costs	- 15	- 82	+ 5)
- Other Vote Items				
- CCTA	+ 156	+ 163	+ 167	Reduced receipts following reduction in accrued Superannuation charge, which cannot be readily identified to particular customers, so as to arrange PES transfers
- CISCO	+ 50	+ 51	+ 52	
- CCC	+ 84	+ 88	+ 88	
	+ 290	+ 302	+ 307	
Total	+20,266	+ 4,022	+22,127	

TREASURY P E S

Main Components of Baseline and Requirement (£000)

Annex B

	1987-88	1988-89	1989-90			1990-91			1991-92		
	Outturn	Estimate	B/line	Bids	Diff	B/line	Bids	Diff	B/line	Bids	Diff
Treasury Vote	50,022	54,046	55,953	55,137	- 816	57,348	56,805	- 543	58,784	59,414	+ 630
CCTA Vote	16,563	18,083	14,087	14,243	+ 156	13,102	13,165	- 63	13,430	13,951	+ 521
CISCO Vote	- 591	- 206	- 207	- 149	+ 58	- 212	- 142	+ 70	- 217	- 138	+ 79
UK Coinage Vote	19,071	16,575	21,912	42,443	+20,531	23,638	25,684	+ 2,046	24,229	44,923	+20,694
Non-Voted:											
Bank of England		88,662	90,879	90,879	-	93,151	93,151	-	95,480	95,480	-
Civil List		5,047	5,047	5,047	-	5,047	5,047	-	5,173	5,047	- 126
Royal Household Pensions		896	918	1,038	+ 120	942	1,086	+ 144	966	1,133	+ 167
Euro MPs Pay & Pensions		1,910	2,173	2,390	+ 217	2,006	2,255	+ 249	2,056	2,225	+ 169
Election Expenses		3,025	25,000	25,000	-	1,007	3,000	+ 1,993	1,032	1,032	-
Tithe Redemption		285	285	285	-	285	285	-	292	285	- 7
Zimbabwe Receipts		- 2,597	- 2,597	- 2,597	-	- 1,299	- 1,299	-	-	-	-
TOTAL		185,726	213,450	233,716	+20,266	195,015	199,037	+ 4,022	201,225	223,352	+22,127
TOTAL - EXCLUDING UK COINAGE		169,151	191,538	191,273	- 265	171,377	173,353	+ 1,976	176,996	178,429	+ 1,433
Running Costs Requirement											
Treasury		44,633	46,571	47,277	+ 706	48,549	49,278	+ 729	49,763	51,893	+ 2,130
CCTA		15,780	16,650	16,590	- 60	17,335	17,319	- 16	17,768	18,211	+ 443
CISCO		10,741	10,725	10,710	- 15	11,007	10,925	- 82	11,281	11,286	+ 5
TOTAL		71,154	73,946	74,577	+ 631	76,891	77,522	+ 631	78,812	81,390	+ 2,578

HM TREASURY

RUNNING COSTS MANAGEMENT PLAN 1989-90 - 1991-92

Context

1.1 Management of resources in the Treasury is normally considered under three main heads of expenditure: central Treasury (mainly policy divisions), programme expenditure (eg Bank of England, Coinage Vote) and the "businesses" (CCTA, CISCO, CCC). For the latter, delegated arrangements are in place, targets are set as part of the planning process and a range of output and performance measures have been drawn up against which management is judged. For programmes, expenditure divisions seek to exercise control by setting similar targets and performance measures/indicators through planning or contractual arrangements. Central Treasury policy work cannot necessarily be managed in the same way. Policies are kept under review as part of the normal activities of the department, but at the day to day level it is more difficult to demonstrate efficient use of resources in carrying out policy work. Work is being done to devolve more budgets into the line as an aid to cost control and to define aims, objectives and performance indicators more clearly.

1.2 The focus for resource management is the annual planning round in which line management and the Treasury's Planning Board reviews past performance, sets forward objectives and work programmes within budgets which reflect the resources required to do the work.

Central Treasury

1.3 A range of monetary, borrowing and expenditure objectives and targets are set and published in the Autumn Statement, the PEWP and the FSBR. Economic Forecasts and statistics and analysis on public expenditure and Civil Service manpower are published. These objectives provide the framework within which the Central Treasury's performance on policy formulation and implementation may be judged.

1.4 As stated, policy work dominates but there are also a number of "central" functions concerned with advising or running a service for other Government departments (eg AA, FMG, CUP, SIED, Superannuation). The Treasury staff complement is dominated by Grade 7 level and above (some 20% of complement as compared with 3.7% nationally). The majority of staff are located in Central London.

IA

A's main role is policy development for IT. 40% of the Agency's staff are in receipt of ADP allowances, which have tended to rise faster than general pay. The rising cost of consultancy is also a major problem for CCTA. In 1989-90 consultancy costs will represent about 15% of the Agency not running costs. About 40% of consultancy costs (excluding telecommunications) will be recovered directly from client departments but these recoveries do not count as an offset to running costs.

CISCO

CISCO provides a catering service on behalf of Government departments. At 1.4.88 it comprised 123 directly managed and 123 managed service units. The staff are overwhelmingly industrial. CISCO charges Government departments for its services, it operates a memorandum trading account and has a net Vote, but running costs are scored gross.

CCC

CCC provides a computerised payroll service to some 70 departments, covering 250,000 civil servants and computerised personnel, accounting and superannuation awarding services. Demand for its payroll service is growing. CCC recovers just under a third of its running costs from its customers. It is located at Chessington. It too has many staff in receipt of ADP allowances.

Treasury Budget Management Systems

2.1 Details of the Treasury's budget management systems were set out in Finance Division's response to the MDR on Budgeting (see Budgeting Report 1987 dated 16.11.87). This describes:

- budget coverage
- timetable
- links from budgets to Survey
- Inputs and outputs/targets
- Monitoring reports.

2.2 Developments in the Central Treasury system were described in Finance Division's paper for the Planning Board PB(87)4.

CONTEXT OF THE PLAN

3.1 Manpower

	1985-86	1986-87	1.4.88		1988-89	1989-90	1990-91
	Outturn	Outturn	SIP	Target	Plan	Plan	Plan
Central Treasury [†]	1,438	1,436	1,408½	1,486	1,480	1,463	1,452
RGPD	42	41	45½	47	47	46	45
CCC	418	421	422	417	416	414	413
CCTA	512	506	467	489	489	496	503
CISCO	1,046	1,015	789	846	833	808	796
	3,456	3,419	3,132	3,285	3,265	3,227	3,209

[†]Central Treasury figures have been adjusted to include OMCS staff transferred at 1.10.87, for all years.

3.2 Running Costs

	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91
	Outturn	Outturn	Estimate	Plan / Estimate	Plan	Plan
	62,556	63,362	67,317	71,154	74,178	77,127
Percentage increase (%)				+ 5.7	+ 4.2	+ 4.0
GDP deflator (%)				+ 4.0	+ 3.5	+ 3.0

3.3 The Treasury like many other departments is finding it increasingly difficult to satisfy its staff requirements. And in respect of quality staff, particularly fast stream Grade 7 (administrators, economists and statisticians) and the recruitment grades, it is worse placed even than other London departments.

3.4 The general picture is one of decreasing numbers. The level of provision above commits the Treasury to efficiency savings of £1.4m in 1988-89, £1.8m in 1989-90 and £2.2m in 1990-91 (based on what now seem to be inadequate pay assumptions). Current initiatives in financial management, and in flexible pay arrangements, further privatisation work, a flood of new Superannuation legislation etc means there is no sign of a diminution of growth in central Treasury activity. There is thus an inbuilt assumption that the remaining staff in the Treasury will raise their productivity even further to maintain existing levels of output and performance.

RUNNING COSTS REQUIREMENTS

The running cost requirement is built up as follows:

a. For Central Treasury:

i. by revaluing the 1988-89 provision for pay items by 6½% and non pay items by 4% for each Survey year.

ii. by adding net variations from 1988-89 from Responsibility Centres as shown on the work programming returns.

b. Similar revaluation factors were used for CCC and RGPD; CCTA have applied a 6½% addition for London staff, 5% for Norwich and 4% for non pay items except fees to consultants (8%); CISCO have applied 5% to pay items and 4% to non pay items.

NB. Statement on revised assumptions is at Appendix 1. The result is:

		1989-90		1990-91		1991-92		<u>£million</u>	
		B'line Bid	Diff	B'line Bid	Diff	B'line Bid	Diff		
Main Treasury:									
Treasury B1		38.213	39.350 +1.137	39.692	41.523 +1.831	40.684	43.899 +3.215		
RGPD	C1	1.069	1.146 +0.077	1.059	1.150 +0.091	1.086	1.121 +0.035		
CCC	C2	7.289	7.627 +0.338	7.798	8.233 +0.435	7.993	8.391 +0.398		
<hr/>									
Total Treasury Vote		46.571	48.123 +1.552	48.549	50.906 +2.357	49.763	53.411 +3.648		
CCTA		16.650	16.762 +0.112	17.335	17.856 +0.521	17.768	18.889 +1.121		
CISCO		10.957	10.942 -0.015	11.243	11.161 -0.082	11.525	11.530 +0.005		
<hr/>									
		74.178	75.827 +1.649	77.127	79.923 +2.796	79.056	83.830 +4.774		

Manpower Numbers

4.2 The baseline assumes the following manpower numbers shown in the 1988 Public Expenditure White Paper:

	1988-89	1989-90	1990-91
Central Treasury	1480	1463	1452
RGPD	47	46	45
Chessington	416	414	413
CCTA	489	496	503
CISCO	833	808	796
Total	3265	3227	3209

Bids are based on:	1988-89	1989-90	1990-91	1991-92
Central Treasury	1480	1511	1511	1511
RGPD	47	47	42	40
Chessington	416	427½	427½	427½
CCTA	489	493	497	497
CISCO	833	808	784	771
Total	3265	3286½	3261½	3246½

SAVINGS TO BRIDGE FINANCING GAP BETWEEN REQUIREMENTS AND BASELINE

5.1 1987 PES plan:

£000

	1988-89	1989-90	1990-91
Savings			
Reduced bids equivalent to 40 posts	583	619	679
Agency Typists - saving due to increased recruitment of in-house typists, costing approx ½ agency staff	115	121	127
CISCO - Manpower savings	595	940	1,242
CCC - increased output per person over and above that already assumed	110	137	161
Reduced bid in the last year			
Central Treasury	-	-	439
CCTA			172
	<u>1,403</u>	<u>1,817</u>	<u>2,820</u>

1988 Plan

5.2 Savings already taken account of in 1988 PES bids:

- 1½% per year for OMCS functions transferred in 1987;
- Savings in support staff for each year (none transferred with OMCS functions).
- Purchasing savings (£1.5m in 1988-89 (see CUP return for details))
- Staff savings of 28½ (£391,000).
- Further CISCO manpower reductions (£161,000 in 1990-91 (12 staff); £351,000 in 1991-92 (25 staff)).

5.3 Further savings identified:

	1989-90	1990-91	1991-92
*Reduced bids in: Central Treasury	1,062,000	1,733,000	1,951,000
RGPD	77,000	91,000	35,000
CCTA manpower & other cost savings	172,000	537,000	678,000
	(7)	(6)	(6)
CCC manpower savings & other cost savings	338,000	435,000	163,000
	(12½)	(12½)	(12½)

to give bids of

million

	1989-90			1990-91			1991-92		
	B'line	Bid	Diff	B'line	Bid	Diff	B'line	Bid	Diff
Treasury [†]	46.571	46.646	+0.075	48.549	48.647	+0.098	49.763	51.262	+1.499
CCTA	16.650	16.590	-0.060	17.335	17.319	-0.016	17.768	18.211	+0.443
CISCO	10.957	10.942	-0.015	11.243	11.161	-0.082	11.525	11.530	+0.005
	74.178	74.178	-	77.127	77.127	-	79.056	81.003	+1.947
Percentage Saving of Baseline		2.2			3.6			3.6	

*Will include savings identified for last year, but using revised pay increase assumptions.

[†]Excludes the transfer to running cost provision for the CCC computer replacement.

5.4 Reductions in bids will be achieved through:

- "conditional" savings already identified
- close scrutiny of spending levels
- introduction of telephone logging
- marketing testing (stationery, private taxi firm, photocopying and binding, security, catering)
- further negotiated savings on purchasing
- staff inspection and other reviews as follows:

Reviews

- Central Management and Efficiency work
- Fees and Charges policy

Staff Inspection

- IF
- FIM
- Central Support Group CCC
- CCTA CT2/3 or CT6
- CISCO HQ
- EOG2 Library

Accommodation/Relocation Review

- plan required by 1 August 1988
- review programme commenced with preliminary fact finding stage (includes efficiency aspects)
- further study of use of GOGGS building.

STATEMENT OF ASSUMPTIONS

1987 running cost bids included annual uplift factors of 5% applied to pay (except 5½% CCTA to allow for ADP allowances) and 4% applied to other running costs (except consultancy fees CCTA 8%). In the light of 1987-88 experience of pay awards and with annual pay increases reaching something over 8% in the economy as a whole, it is necessary to revise those assumptions. For 1988 PES the following factors have been applied in each year:

Central Treasury inc RGPD CCC	6½% pay 4% other running costs
CCTA	6½% pay London 5% pay Norwich 4% other running costs except consultancy fees 8%
CISCO	5% pay 4% other running costs.

This amounts to an average 5.5% pay, 4% other running costs, 5% overall. The pay figure is justified on the following grounds:

- the 1987 rates used for 1988-89 Estimates took no account of the introduction of Local Pay Additions or of 1.1.88 pay awards.
- the 1988 Grade 5-7 pay agreement adds about 5½% to the 1988-89 pay bill plus 10% on London weighting. It allows "hopping and skipping" and flexibility to deal with particular recruitment/retention problems. There is a further 4% payable from 1.4.89 and new pay arrangements from 1.8.89 (and then annually) based on the "inter quartile range of the annual percentage movements in the remuneration of non-manual employees outside the public services sector".
- we might assume that the NUCPS and CPSA will settle for something similar; the IPCS already have.

The 5.5% average uplift (and in particular the 5% assumption used for CISCO) might not in the event prove sufficient - in which case we will be expected to find further efficiency savings to bridge the financing gap. We must certainly plan on a more realistic basis than the 5% across the board factor used for 1987, but further developments such as the creation of any occupational group eg for IT staff or any awards significantly above the levels assumed would require further review and possibly further bids in future PES rounds.



FROM: J M G TAYLOR
DATE: 25 October 1988

PS/SIR PETER MIDDLETON

cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
Planning Board
Dr Freeman
Miss Simpson
Mr A M White
Mr D E G Griffiths
Miss G Noble

TREASURY PES 1988

The Chancellor has seen your submission of 24 October. He is content with your proposals, subject to any comments the Chief Secretary may have.



J M G TAYLOR

MP ~~Barra~~



Handwritten signature in red ink.

Oh/ you wanted winners/
losers figs on housing
gross. Answers are, on
same basis as Turnbull

note: % chgs

	87-88	88-9	89-90	90-91
gross provision	-1	+5	+2.7	+1.4
gross receipts		+62	+75	+56

Re mpw ✓
relativ
loss



FROM: A C S ALLAN

DATE: 31 October 1988 *AW*

PS/CHIEF SECRETARY

cc Sir P Middleton
Mr Anson
Mr Phillips
Mr Odling-Smee
Mr Turnbull
Mr Gieve
Mr MacAuslan
Mr Pickford
Miss J C Simpson
Miss Walker

GROWTH IN PUBLIC SPENDING

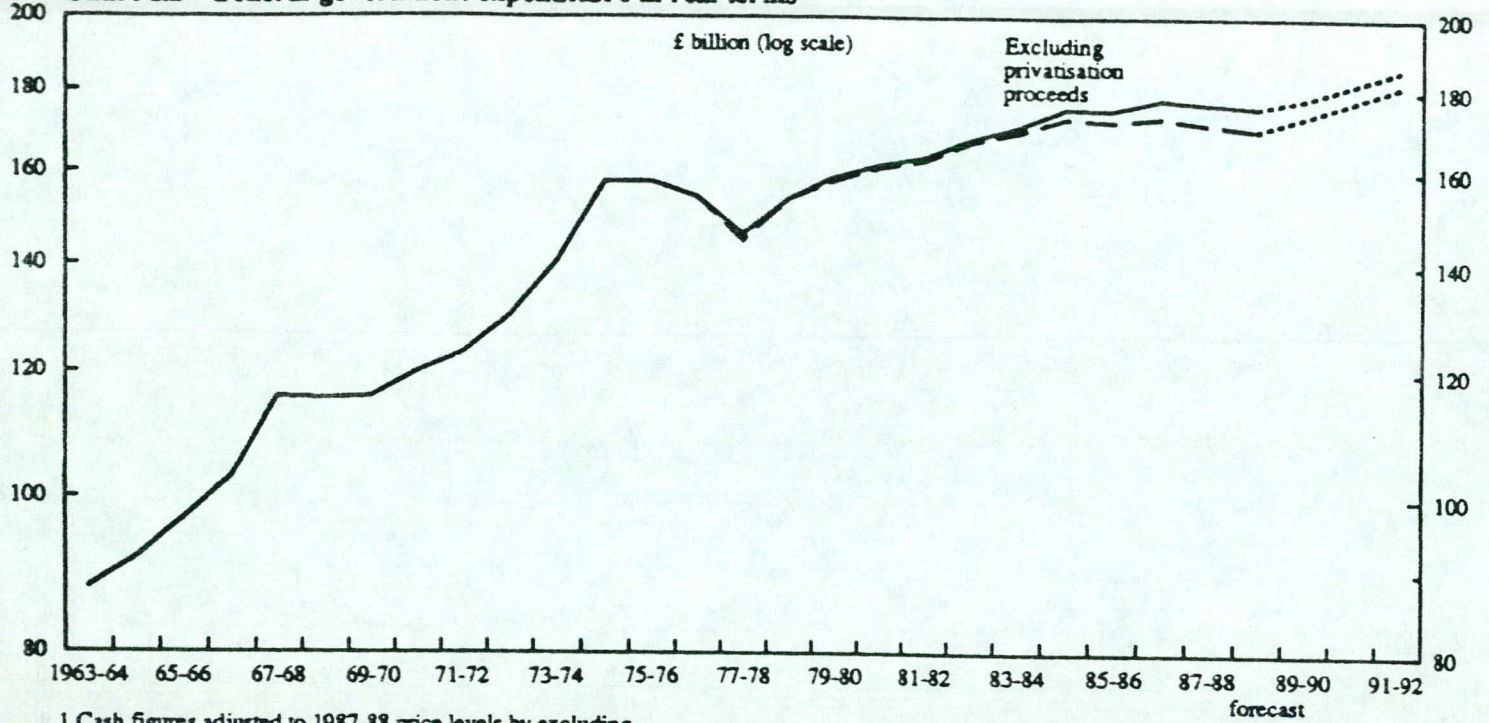
I put to the Chancellor the points made by the Chief Secretary and others on paragraph 14 of the draft Oral Statement circulated by Andrew Hudson this afternoon.

... 2. The Chancellor felt that it was clear even from the graph attached that the growth rate over the survey period compares sharply with virtually nil growth over the previous four years (1984-85 to 1988-89). He feels we will merely look foolish, if not worse, if we seek to hide this. Far better to be "up front" about it: we have a very good story to tell.

ACSA

A C S ALLAN

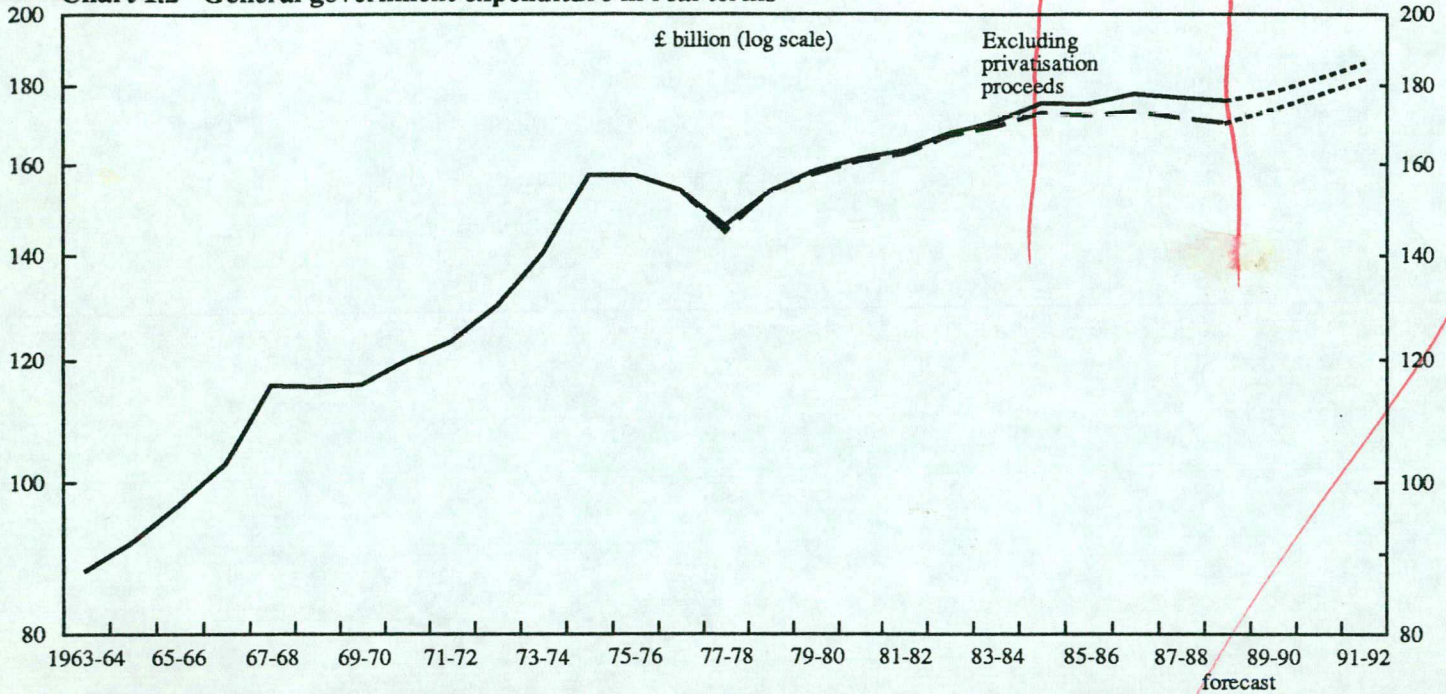
Chart 1.2 General government expenditure in real terms¹



¹ Cash figures adjusted to 1987-88 price levels by excluding the effect of general inflation as measured by the GDP deflator

Thanks. It is clear in even from this graph that the growth rate over the 1980s was low. Company stamp duty withdrawal will not be enough (1984/5 to 1988/9). We will have to look at other measures.

Chart 1.2 General government expenditure in real terms¹



¹ Cash figures adjusted to 1987-88 price levels by excluding the effect of general inflation as measured by the GDP deflator

Forecast of future growth, if we start to think this is for 1980s to be up from 5% to 7% low, ask it: how low can it go?



Post letter
Law fees for 16
to govern a (a)
Central for market

(b) general for
market & (c) the
general market

(i) day to period of
the law letter for

(ii) since the period
for ^{day} the Affm.

~

AT

FROM: A TURNBULL
DATE: 18 NOVEMBER 1988

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Mr Anson
Mr Phillips
Mrs Butler
Mr MacAuslan
Mr S N Wood
Mr G C White
Mr Woolf
Mr Kalen
Miss Simpson
Mr Sparkes
Mr Call
Mr Hudson

*Thanks.
APH: Review of Disatz
on Address spec-
M.*

PUBLIC SECTOR CAPITAL SPENDING

You asked GEP to investigate ways in which the record of the present Government on capital spending could be compared with that of the previous Labour Government. In particular you wondered whether there was any mileage in presenting the figures excluding housing.

2. The public sector capital series was created in the 1984 White Paper and carried back to 1978-79, the start of the normal five year span for outturn years. For the present Government we have a consistent series. It has since been carried forward so that it now covers all three plan years, though ex post we have modified it to take out the capital spending of those industries which have been privatised to provide a series with consistent coverage in order to avoid showing a declining trend for public sector capital spending. We can adjust these figures to take out various components eg defence, housing, public corporations.

3. We currently estimate that the Survey changes will amount to around £2½ billion (to which another £¼ billion of VAT will be added) though these figures have yet to be validated by running tallies from departments. When this sum is added to the baseline, capital spending in 1989-90 in real terms is likely to be at least as high as 1987-88 - see line 4 of Table at Annex A. Thus a familiar pattern is continued. When first published the future plans show capital spending falling away in real terms (despite the warning about possible access to the Reserve, this is interpreted by some such as the CBI as

"Government planning cuts in capital spending"), but successive Survey additions ensure that in the event the level of capital spending is broadly constant as it has been since 1978-79.

4. This year we have a particular presentational difficulty to overcome as taking the water and electricity industries out of the figures, which is necessary in order to prevent the two later years showing a drop of something like £4 billion, would prevent us taking credit for the £600 million increase from water and electricity between 1988-89 and 1989-90. We are investigating ways of reconciling these conflicts.

5. It is possible to adjust the figures in Annex A to take out housing. The comparison is done in terms of 1987-88, the last year for which we have firm figures

	<u>Total Capital† Spending</u>	<u>Total Capital† Spending excl Housing</u>
1978-79	23.0	18.4
1987-88	23.1	19.7
Real change over period	+ 0.7%	+ 6.9%

† excluding Steel which joins privatised industries

Excluding housing turns what was a tiny increase (better described as broadly constant in real terms) into a modest rise, ie one still below growth of public spending generally of 14.9 per cent.

6. In my view it is doubtful if the improvement is sufficient to justify developing a new basis for presenting the Government's record. Once the game of picking and choosing starts, there are simple ways of making the record look much worse. In particular if defence is taken out, which many would regard as not contributing to infrastructure as conventionally understood, the series would show a fall in real terms of about 10 per cent between 1978-79 and 1987-88.

7. You also asked about the Labour Government's record. What is not at issue is that capital spending fell between 1973-74 and 1978-79. This is borne out by various methods of calculation. But it is possible to put different figures on the size of the fall. But the data for the series prior to 1978-79 are far less soundly based. In particular the Treasury does not hold figures for nationalised industries in this period and estimates are based on information provided by the CSO. We know that, in later years, there are differences between the figures provided by the CSO and those given to the Treasury by departments,. While we try to adjust the figures for the earlier years so that they are on a consistent basis inevitably they are less robust.

8. The Treasury's current briefing shows a drop of over 20 per cent. Having examined the old working papers I do not think we should continue to use these figures. When the exercise to extend the new capital spending definition back to 1973-74 was first conducted, total capital spending was shown as rising from £7.1 billion in 1973-74 to £13.3 billion in 1978-79, a fall in real terms of 12 per cent. These figures were published in an Economic Trends article in August 1985 - see Annex B. They show what was actually spent at the time and do not make any retrospective adjustments for privatisation.

9. Since 1985, the extent of privatisation has grown to such an extent that it has been necessary to make successive retrospective adjustments to the series to take out the past expenditure of industries which have left the public sector. This adjustment was also carried back into the Labour era though the data problems noted above make it difficult to be confident about the result. While this can be justified as producing a consistent historical series so that for all years only the capital spending is included for industries which were present all the way through, it is not, in my view, the correct basis for judging Labour's record.

10. The Opposition could rightly argue that it is nonsensical to change the record of their Government because a decade later an industry with a large investment programme was privatised. This is in effect rewriting the rules retrospectively.

11. I conclude, therefore, that we should revert to the figures in the 1985 Economic Trends article which are already in the public domain. Indeed it may be better to put no figure on the reduction. It is unlikely that Labour will seek clarification of the figure as there is no mileage in disputing whether the fall was 20 or 10 per cent.

12. When the historical figures were put together, the data was compiled by economic category not by programme. It is not possible, therefore, to calculate totals excluding eg housing investment. The various figures quoted for reductions in individual programmes are not components of the total but figures independently calculated and may therefore be on different bases. We believe the following can be quoted with reasonable assurance:

	<u>Real terms change</u> <u>1973-74 to 1978-79</u>
NHS capital	- 30%
Motorways and trunk roads	- 41%
Schools capital (England)	- 63%
Prisons (England and Wales)	- 64%

Conclusions

13. i. The £2½ billion increase in plans has yet to be validated by running tallies, but we have pitched the figure conservatively. In the event, after including territories and minor departments the figure is likely to be larger.

ii. Adding £2½ billion to the previous plans enables us to claim that capital spending in 1989-90 is likely to be slightly higher than in 1987-88 but still close to the level of 1978-79.

iii. Taking out housing improves the record slightly but not by enough to make it worth presenting the record on an alternative basis.

iv. It can still be demonstrated that capital spending fell in real terms under Labour, but if asked to quantify this figure we should use the original figures without the

privatisation adjustments. These show a fall in real terms of 12 per cent.

v. It is still possible to point to reductions in selected programmes especially roads and hospitals.



A TURNBULL

CAPITAL SPENDING IN REAL TERMS

		<u>£ million</u>		
		<u>1978-79</u>	<u>1987-88</u>	<u>1989-90</u>
1.	Baseline	11,519	23,342	24,308
	less Steel	344	241	274
2.	Revised baseline	11,185	23,101	24,034
	plus Survey changes			2,250
3.	New figures	11,185	23,101	26,284
4.	Ditto real terms 1987-88 prices	22,951	23,101	23,560
	Increase 1978-79 to 1987-88		+ 0.7	
	Increase 1987-88 to 1989-90			+ 2.0

Public sector capital spending¹

TABLE K

£ billion

	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85
Goods and services												
General government ⁽²⁾												
Defence	0.8	0.9	1.2	1.5	1.7	1.8	2.4	3.2	3.7	4.2	4.7	5.5
Other	3.4	4.0	5.3	5.4	5.0	5.2	6.3	7.0	6.7	7.8	8.0	8.1
Total general government	4.2	5.0	6.5	6.9	6.7	7.1	8.7	10.1	10.5	11.9	12.7	13.6
Public corporations including nationalised industries	2.1	3.0	4.0	4.1	4.3	4.7	5.5	6.4	6.9	6.9	7.5	6.5
Total goods and services	6.3	8.0	10.5	11.0	11.0	11.8	14.2	16.5	17.3	18.8	20.2	20.0
Capital grants to the private sector	0.8	0.9	0.9	1.2	1.3	1.6	1.6	2.0	2.0	2.6	3.5	3.3
Total goods and services plus capital grants to the private sector	7.1	8.9	11.4	12.2	12.3	13.3	15.9	18.5	19.4	21.4	23.6	23.3
Real terms (base year 1983-84)	25.7	27.0	27.6	26.0	23.1	22.6	23.1	22.6	21.6	22.4	23.6	22.3

¹ The definition and coverage of capital spending used in this table is the same as in Tables 1.13 and 2.9 of the most recent Public Expenditure White Paper (Cmd. 9428) except that it includes those nationalised industries which have been, or are being, privatised.

² Includes List III public corporations.

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BF to mps 4/1
MP MP

FROM: J. ANSON
19th December, 1988.

CHIEF SECRETARY

c.c. **Chancellor**
 Sir P. Middleton
 Sir T. Burns
 Dame A. Mueller
 Sir A. Wilson
 Mr. Byatt
 Mr. Monck
 Mr. Phillips
 Mr. Scholar
 Mrs. Lomax
 Mr. Riley
 Mr. Spackman
 Mr. MacAuslan
 Mr. S. J. Davies
 Mr. Gieve
 Mr. Parsonage
 Mr. Call

REVISED LONG-TERM PROJECTIONS OF TAX AND EXPENDITURE

behind /

Mr. MacAuslan is sending you the main post-mortem on the 1988 Survey, which has been thoroughly discussed with those concerned, and with which I agree. I thought it might also be useful, as a separate exercise, to compare the outcome of the Survey with the long-term fiscal projections to 1996-97 which I submitted to you on 10th May. This is done in the attached note (at Annex A) for which I am indebted to Mr. S. J. Davies.

Background

2. The outcome of the Survey was an average annual growth in "spending on programmes" (the same concept as "departmental spending" in my submission last May) of 3¼ per cent from 1988-89 to 1991-92. To illustrate the current prospects in the light of this outcome, the note therefore looks at the implications for the non-oil tax burden if departmental spending were to continue growing at 3¼% after 1991-92. It also considers the implications for departmental spending of holding the non-oil tax burden constant at its 1988-89 level throughout the period.

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3. In both these scenarios, the analysis distinguishes two alternative cases for the PSDR (i) keeping it at the present level of 2.1% of GDP in 1989-90 and zero thereafter, and (ii) holding it at 2.1% of GDP throughout. None of these assumptions are of course meant to be policy prescriptions; they merely help to draw out the lessons of the analysis.

4. The main conclusion of the May submission was that on central economic assumptions:

- if departmental spending grew from 1988-89 at an average annual rate of $1\frac{1}{2}\%$ (roughly the growth rate since 1978-79) the non-oil tax burden would fall by 1996-97 to below 34%, slightly lower than in 1978-79;
- if departmental spending grew at $2\frac{1}{4}\%$, the tax burden would fall slightly (mostly in the first half of the period) but remain above 1978-79 levels;
- if departmental spending grew at 3% , the tax burden would fall very slightly by 1991-92, but rise thereafter.

The two key tables are attached for ease of reference (Annex B).

Prospects to 1991-92

5. The analysis in Mr. Davies' paper suggests that with a $3\frac{1}{4}\%$ growth in departmental programmes as in the Autumn Statement, and if the PSDR returns to zero after next year, the non-oil tax burden can fall by $1\frac{1}{4}\%$ of GDP between 1988-89 and 1991-92. At first sight it is paradoxical that in the event a $3\frac{1}{4}\%$ growth in departmental spending has been accommodated within a satisfactory Survey outcome. The revised projections in Mr. Davies' note explain why. The key point is that the room for increased departmental

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spending over that period is significantly enlarged by the shortfall of expenditure in 1988-89, coupled with the assumption that the PSDR would return quickly to zero.

6. This fall in the tax burden does however depend on the assumed elimination of a PSDR of over 2% of GDP. With an unchanged PSDR, the tax burden would actually rise slightly. And although the level of the tax burden in 1991-92 is still lower than was projected in May with spending growth at 2½%, this is all accounted for by what has happened to expenditure in 1988-89. The faster growth of departmental spending in the Autumn Statement means that (as a proportion of GDP) it will be catching up with the May projection, but will not have completely caught up by 1991-92.

Prospects to 1996-97

7. After 1991-92, the picture alters. Between then and 1996-97, with a continuing zero PSDR, the annual growth in departmental spending compatible with a flat non-oil tax burden is 2½%. The growth in departmental spending would therefore need to be set appreciably lower than that if the tax burden is to continue to decline during this later period. Putting it more simply, because the various other elements in the calculation happen to cancel out, departmental spending during this period must rise slower than GDP.

8. This result again depends on the assumption of an early return to a zero PSDR. Other variants can be imagined; for example, if the budget had got only part of the way back to balance by 1991-92, but completely by 1996-97, the room for manoeuvre would be eased somewhat in the later period, but at the expense of being correspondingly tightened in the earlier period.

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Conclusion

9. For the Survey period, therefore, the outcome in the Autumn Statement looks consistent with a decline in the non-oil tax burden on the assumption that the PSDR returns to zero during the period. Thereafter, however the annual growth in departmental spending would need to be considerably lower (appreciably below 2½% per cent) if the tax burden is to go on declining. [Every silver lining has a cloud]

10. The danger, perhaps, is that the Government's ability, for the special reasons above, to finance a 3¼% annual growth in departmental spending during the Survey period may lead your colleagues and others to believe that such a growth could be financed indefinitely. Without going back to the "Gradgrind" image, it will be important not to raise expectations beyond the level at which they can be delivered.

11. Apart from that general presentational point, there is no action which needs to be taken on this analysis. MP have now set up a method for making these projections, which will make it possible in future to produce them quickly whenever the assumptions need to be revised. We will let you have some further revised projections shortly after next March's Budget, as part of the background to your decisions on handling the 1989 Survey.



J. ANSON

LONG TERM FISCAL PROJECTIONS

This note presents fiscal projections from 1988-89 up to the year 2000-01, updating the projections submitted to the Chief Secretary and the Chancellor by Mr Anson on 10th May. The purpose of the new projections is to illustrate the implications for the tax burden of the projected growth in public spending on programmes resulting from the outcome of the Survey. Two sets of calculations are discussed:

- (i) the $3\frac{1}{4}$ per cent growth in spending on programmes mentioned in the Autumn Statement is assumed to continue, and non-North Sea taxes are derived as a residual
- (ii) the non-oil tax burden is held flat at its 1988-89 level and the rate of growth of spending on programmes that this will permit is derived as a residual.

2. The calculations have been based on two alternative assumptions about the future level of government borrowing

- (i) a PSDR of 2.1 per cent of GDP in 1988-89 and 1989-90, as assumed in the Autumn Statement forecast, with a balanced budget thereafter
- (ii) a PSDR of 2.1 per cent of GDP in every year up to 2000-01.

3. The economic assumptions underlying the calculations are the same as those used in the Autumn Statement up to 1991-92. Thereafter:

- real GDP is assumed to grow at $2\frac{1}{2}$ per cent a year (a $\frac{1}{4}$ per cent upward revision compared with the "central case" of the May fiscal projections, but in line with the long term macroeconomic assumptions that Mr Odling-Smee sent to the Chancellor on 29 July).

- inflation falls to zero by 1997-98 (as in the "central case" in the May fiscal projections)
- real interest rates fall to 3 per cent by 1997-98 (again as in the May projections)
- over the next three years, oil revenues are likely to be somewhat lower than expected in May. We have not reassessed the prospects for oil revenues in the 1990s since the May exercise: they are forecast to be 0.2 per cent of GDP in the mid 1990s
- privatisation proceeds are assumed to be constant in nominal terms at £5 billion a year.

4. The projections of debt interest payments and receipts to 1991-92 are central forecasts given the economic assumptions used in the Autumn Statement; for the period after 1991-92, debt interest flows have been projected using the same method as in the May exercise.

5. In the case of the first borrowing assumption - a balanced budget after 1989-90 - the debt interest payment projections are almost unchanged from the May exercise. In the case of the second borrowing assumption - a continuing PSDR equal to 2.1 per cent of GDP - debt interest payments fall considerably more; indeed net debt interest payments may fall to zero by the year 2000. However, the method we have used is not likely to be very reliable over a long period when a considerable amount of stock is being bought in. So the debt interest projections for this case may not be very accurate.

Results

6. Table 1 shows the implications for the tax burden in 1991-92 and 1996-97 of real expenditure on programmes growing at a rate of $3\frac{1}{4}$ per cent a year from now on, assuming that the PSDR is zero from 1990-91 onwards. (More detailed annual tables covering the period to 2000-01 are attached at the end of this note.)

Table 1: Summary of expenditure and tax burden with long term budget balance

	(per cent of money GDP)					
	1973-74	1978-79	1987-88	1988-89	1991-92	1996-97
Planning total excluding privatisation proceeds (=spending on programmes)	39.0	38.0	35.5	33.9	34.6	35.8
GGE excluding privatisation proceeds	42.5	43.2	41.6	39.7	38.9	39.1
PSBR	5.7	5.3	-0.8	-2.1	0.0	0.0
Non-North Sea taxes as % of non-North Sea GDP	33.2	34.3	37.8	37.2	35.4	36.6

7. The non-oil tax burden falls by 1.8% between 1988-89 and 1991-92; but this is more than accounted for by the assumed fall in the PSDR from 2.1 per cent of GDP to zero. Over the following five years, the non-oil tax burden rises by 1.2 per cent in total.

8. We have also calculated the rate of growth of expenditure that would be consistent with keeping the non-oil tax burden flat at its 1988-89 level, assuming a zero PSDR after 1989-90: the annual expenditure levels implied by a flat tax burden are shown in the detailed tables attached to this note. Keeping the tax burden flat would allow real growth in programme expenditure of 5 per cent a year on average over the next three years - it is obviously not a very ambitious objective for this period given the assumed large reduction in the PSDR. Over the following five years, real growth in programme expenditure needs to be held to 2½ per cent a year if a rise in the tax burden is to be avoided. More generally one can say that programme expenditure after 1991-92 can grow no faster than GDP, because the reduction in net debt interest is balanced by the reduction in privatisation proceeds and North Sea revenues (all relative to GDP).

9. Table 2 shows the projections obtained when the PSDR is assumed to be kept at 2.1 per cent of GDP.

Table 2: Expenditure and receipts with PSDR held at 2.1 per cent of GDP
(per cent of money GDP)

	1973-74	1978-79	1987-88	1988-89	1991-92	1996-97
Planning total excluding privatisation proceeds	39.0	38.0	35.5	33.9	34.6	35.8
GGE excluding privatisation proceeds	42.5	43.2	41.6	39.7	38.6	38.4
PSBR	5.7	5.3	-0.8	-2.1	-2.1	-2.1
Non-North Sea taxes as % of non-North Sea GDP	33.2	34.3	37.8	37.2	37.3	38.0

10. In this case the non-oil tax burden rises marginally over the three years to 1991-92: the planned $3\frac{1}{4}$ per cent average annual real growth in expenditure on programmes is just above the rate that would hold the tax burden flat. Continuing expenditure growth of $3\frac{1}{4}$ per cent a year produces a $\frac{1}{4}$ point rise in the non-oil tax burden by 1996-97. Expenditure would have to rise by no more than $2\frac{3}{4}$ per cent a year after 1991-92 to prevent a rise in the tax burden.

Comparisons with May results:

(i) up to 1991-92

11. The conclusion of the May exercise was that on central economic assumptions and with a zero PSDR from 1989-90 onwards:

- a $2\frac{1}{4}$ per cent per annum real growth in Departmental spending from 1988-89 would permit a 1.2 percentage point fall in the non-oil tax burden by 1991-92
- 3 per cent per annum real growth in Departmental spending would permit only a 0.5 percentage point fall in the non-oil tax burden by 1991-92.

12. The conclusion of the present exercise is that on the assumption of a zero PSDR after 1989-90 the non-oil tax burden would fall by about $1\frac{3}{4}$ points between 1988-89 and 1991-92 even

with 3¼ per cent growth in Departmental spending: an apparently much more optimistic conclusion than was reached in May. The changes compared with the May projection are:

- lower Departmental spending in the current year: it is now expected to be 33.9 per cent of GDP in 1988-89, compared with 35.6 per cent assumed in May
- of this 1.7 percentage point reduction in the share of spending, most (1.4 percentage points) is reflected in a higher PSDR in 1988-89
- with little net change to the rest of the public sector accounts, getting back to a zero PSDR allows public expenditure to rise faster from now until 1991-92 to make good the shortfall in 1988-89 relative to the level expected in May.

(ii) after 1991-92

13. In May we calculated that on the central economic assumptions growth in Departmental expenditure of 2.4 per cent a year would be consistent with maintaining a flat non-oil tax burden after 1991-92. As we are now assuming slightly higher economic growth, the estimate of growth in expenditure consistent with a flat tax burden has risen - but only to 2.5 per cent, in the case where the PSDR is set at zero from 1989-90. Somewhat higher growth in Departmental expenditure is possible after 1991-92 in the case where the PSDR continues at 2.1 per cent of GDP from now to the end of the period: a faster decline in debt interest payments makes room for more expenditure on programmes.

BUDGET BALANCE AFTER 1989-90: 3½ PER CENT ANNUAL GROWTH IN SPENDING ON PROGRAMMES

FISCAL PROJECTIONS IN RELATION TO GDP (PER CENT OF MONEY GDP)

	PLANNING											
	TOTAL	DEBT INT	OTHER	GGE EXCL	GGOVT	NNSEA TAX	N SEA	INTEREST	OTHER	GEN GOVT	PCMOB	PSBR
	EXCL PP	PAYMENTS	ADJ	PP	EXP	& CONTR	TAXES	DIVIDEND	RECEIPTS	RECEIPTS		
1973-74	39.0	3.9	-0.4	42.5	42.5	33.2	0.0	1.9	2.7	37.7	0.9	5.7
1978-79	38.0	4.3	1.0	43.2	43.2	33.6	0.3	1.6	2.4	38.0	-0.2	5.3
1986-87	37.2	4.6	2.1	43.9	42.7	36.7	1.2	1.6	1.7	41.4	-0.4	0.9
1987-88	35.5	4.1	1.9	41.6	40.4	37.0	1.1	1.4	1.4	40.9	-0.4	-0.8
1988-89	33.9	3.8	2.0	39.7	38.4	36.7	0.7	1.4	1.3	40.1	-0.4	-2.1
1989-90	33.9	3.3	1.9	39.1	38.1	36.7	0.5	1.3	1.3	39.9	-0.3	-2.1
1990-91	34.2	3.0	1.8	39.0	38.0	34.8	0.4	1.2	1.3	37.8	-0.2	0.0
1991-92	34.6	2.7	1.6	38.9	38.0	35.0	0.4	1.2	1.3	38.0	-0.0	0.0
1992-93	34.8	2.5	1.5	38.8	38.0	35.3	0.4	1.0	1.3	38.0	-0.0	0.0
1993-94	35.1	2.3	1.5	38.9	38.1	35.6	0.4	0.8	1.3	38.1	0.0	0.0
1994-95	35.3	2.1	1.5	38.9	38.2	35.8	0.3	0.7	1.3	38.2	0.0	0.0
1995-96	35.6	1.9	1.5	39.0	38.2	36.1	0.3	0.6	1.3	38.2	0.0	0.0
1996-97	35.8	1.7	1.5	39.1	38.3	36.3	0.2	0.5	1.3	38.3	0.0	0.0
1997-98	36.1	1.5	1.5	39.1	38.4	36.4	0.2	0.4	1.3	38.4	0.0	0.0
1998-99	36.4	1.4	1.5	39.2	38.5	36.6	0.2	0.4	1.3	38.5	0.0	0.0
1999-00	36.6	1.2	1.5	39.3	38.6	36.7	0.2	0.3	1.3	38.6	0.0	0.0
2000-01	36.9	1.1	1.5	39.4	38.8	36.9	0.2	0.3	1.3	38.8	0.0	0.0

BUDGET BALANCE AFTER 1989-90: 3¼ PER CENT ANNUAL GROWTH IN SPENDING ON PROGRAMMES

TAX BURDEN AND DEBT RATIO

PT EXCL PP AT 1987-88 PRICES

	GDP (Bn)	NNSGDP GDP(Bn)	TAX BURDEN	NNSTAX BURDEN	GDP DEFLATOR	DEBT	DEBT/GDP	ACTUAL	FLAT TAX BURDEN
1973-74	75.1	75.1	33.2	33.2	6.8	N/A	N/A		
1978-79	173.1	169.9	34.0	34.3	10.8	95.3	55.1		
1986-87	386.3	378.6	38.0	37.5	3.4	171.1	44.3		
1987-88	424.5	415.4	38.1	37.8	5.3	171.3	40.4	150.9	147.6
1988-89	471.0	464.3	37.4	37.2	6.3	162.3	34.5	150.0	150.1
1989-90	508.0	501.9	37.2	37.2	5.0	152.7	30.1	154.2	154.3
1990-91	539.0	533.1	35.3	35.2	3.5	155.2	28.8	159.7	168.9
1991-92	569.0	563.1	35.4	35.4	3.0	156.7	27.5	165.3	174.0
1992-93	597.8	592.3	35.7	35.6	2.5	157.5	26.3	170.6	178.4
1993-94	625.0	619.5	35.9	35.9	2.0	156.3	25.0	176.2	182.8
1994-95	650.2	644.2	36.1	36.2	1.5	155.4	23.9	181.9	187.1
1995-96	673.2	667.2	36.3	36.4	1.0	154.4	22.9	187.7	191.8
1996-97	693.4	687.4	36.5	36.6	0.5	153.7	22.2	194.1	197.3
1997-98	710.8	704.8	36.7	36.7	0.0	152.8	21.5	200.4	202.9
1998-99	728.6	722.8	36.8	36.9	0.0	151.9	20.8	206.9	208.7
1999-00	746.8	741.1	36.9	37.0	0.0	151.0	20.2	213.6	214.9
2000-01	765.5	760.2	37.1	37.2	0.0	150.2	19.6	220.6	220.8

TABLE 1A (continued)

PSDR REMAINS AT 2.1 PER CENT OF GDP: 3¼ PER CENT ANNUAL GROWTH IN SPENDING ON PROGRAMMES

FISCAL PROJECTIONS IN RELATION TO GDP (PER CENT OF MONEY GDP)

	PLANNING											PSBR
	TOTAL	DEBT INT	OTHER	GGE EXCL	GOVT	NNSEA TAX	N SEA	INTEREST	OTHER	GEN GOVT	PCMOB	
	EXCL PP	PAYMENTS	ADJ	PP	EXP	& CONTR	TAXES	DIVIDEND	RECEIPTS	RECEIPTS		
1973-74	39.0	3.9	-0.4	42.5	42.5	33.2	0.0	1.9	2.7	37.7	0.9	5.7
1978-79	38.0	4.3	1.0	43.2	43.2	33.6	0.3	1.6	2.4	38.0	-0.2	5.3
1986-87	37.2	4.6	2.1	43.9	42.7	36.7	1.2	1.6	1.7	41.4	-0.4	0.9
1987-88	35.5	4.1	1.9	41.6	40.4	37.0	1.1	1.4	1.4	40.9	-0.4	-0.8
1988-89	33.9	3.8	2.0	39.7	38.4	36.7	0.7	1.4	1.3	40.1	-0.4	-2.1
1989-90	33.9	3.3	1.9	39.1	38.1	36.7	0.5	1.3	1.3	39.9	-0.3	-2.1
1990-91	34.2	2.9	1.8	38.9	38.0	36.9	0.4	1.2	1.3	39.8	-0.2	-2.1
1991-92	34.6	2.5	1.6	38.6	37.8	36.9	0.4	1.2	1.3	39.8	-0.0	-2.1
1992-93	34.8	2.2	1.5	38.5	37.6	37.0	0.4	1.0	1.3	39.7	-0.0	-2.1
1993-94	35.1	1.9	1.5	38.4	37.6	37.2	0.4	0.8	1.3	39.7	0.0	-2.1
1994-95	35.3	1.5	1.5	38.3	37.6	37.4	0.3	0.7	1.3	39.7	0.0	-2.1
1995-96	35.6	1.3	1.5	38.3	37.6	37.5	0.3	0.6	1.3	39.7	0.0	-2.1
1996-97	35.8	1.0	1.5	38.4	37.6	37.7	0.2	0.5	1.3	39.7	0.0	-2.1
1997-98	36.1	0.8	1.5	38.4	37.7	37.8	0.2	0.4	1.3	39.8	0.0	-2.1
1998-99	36.4	0.6	1.5	38.4	37.7	37.9	0.2	0.4	1.3	39.8	0.0	-2.1
1999-00	36.6	0.4	1.5	38.4	37.8	38.0	0.2	0.3	1.3	39.9	0.0	-2.1
2000-01	36.9	0.3	1.5	38.6	38.0	38.2	0.2	0.3	1.3	40.1	0.0	-2.1

PSDR REMAINS AT 2.1 PER CENT OF GDP : 3½ PER CENT ANNUAL GROWTH IN SPENDING ON PROGRAMMES

TAX BURDEN AND DEBT RATIO

	GDP (Bn)	NNSGDP GDP(Bn)	TAX BURDEN	NNSTAX BURDEN	GDP DEFLATOR	DEBT	DEBT/GDP	PT EXCL PP AT 1987-88 PRICES	
								ACTUAL	FLAT TAX BURDEN
1973-74	75.1	75.1	33.2	33.2	6.8	N/A	N/A		
1978-79	173.1	169.9	34.0	34.3	10.8	95.3	55.1		
1986-87	386.3	378.6	38.0	37.5	3.4	171.1	44.3		
1987-88	424.5	415.4	38.1	37.8	5.3	171.3	40.4	150.9	147.6
1988-89	471.0	464.3	37.4	37.2	6.3	162.3	34.5	150.0	150.1
1989-90	508.0	501.9	37.2	37.2	5.0	152.7	30.1	154.2	154.3
1990-91	539.0	533.1	37.3	37.3	3.5	143.9	26.7	159.7	159.4
1991-92	569.0	563.1	37.3	37.3	3.0	134.5	23.6	165.3	165.1
1992-93	597.8	592.3	37.4	37.3	2.5	123.9	20.7	170.6	170.0
1993-94	625.0	619.5	37.5	37.5	2.0	110.9	17.7	176.2	174.6
1994-95	650.2	644.2	37.6	37.7	1.5	99.8	15.3	181.9	179.3
1995-96	673.2	667.2	37.8	37.9	1.0	86.4	12.8	187.7	184.2
1996-97	693.4	687.4	37.9	38.0	0.5	72.5	10.5	194.1	189.8
1997-98	710.8	704.8	38.0	38.1	0.0	58.3	8.2	200.4	195.4
1998-99	728.6	722.8	38.1	38.2	0.0	43.7	6.0	206.9	201.2
1999-00	746.8	741.1	38.2	38.3	0.0	28.8	3.9	213.6	207.4
2000-01	765.5	760.2	38.4	38.5	0.0	13.5	1.8	220.6	213.1

SUMMARY OF THE MAY PROJECTIONS

Table 3 Real growth in Departmental spending and the Tax Burden(*)

	(1)	(2)	(3)	(4)	(5)	(6)
	Ratios in 1988-89		Change in tax burden 1988-89- 1991-92+	Change in tax burden 1991-92- 1996-97	Ratios in 1996-97	
	Tax burden	GGE			Tax burden	GGE
<u>Central economic assumptions</u>						
1½% pa growth)			-2.0	-1.5	33.9	36.4
2¼% pa growth)	37.4	41.0	-1.2	-0.3	35.9	38.4
3% pa growth)			-0.5	+1.1	38.0	40.5
<u>Pessimistic scenario</u>						
1½% pa growth)			-1.4	-0.2	35.9	38.6
2¼% pa growth)	37.5	41.2	-0.6	+1.1	38.0	40.7
3% pa growth)			+0.2	+2.6	40.3	43.0

(*) Departmental spending and GGE exclude privatisation proceeds; the tax burden is non-North Sea taxes and contributions as a per cent of non-North Sea GDP.

+ The return to a balanced budget accounts for a reduction in the tax burden of 0.7 points in this period.

Table 4 Real growth in departmental spending for constant tax burden*

	1988-89 - 1991-92	1991-92 - 1996-97
Central economic scenario	3.5 (2.7)	2.4
Pessimistic economic scenario	2.0 (2.2)	1.6

* Figures in brackets show growth rates consistent with a fall in the tax burden limited to the 0.7 points from the return to budget balance.

BF 20/12

FROM: J MACAUSLAN
DATE: 19 DECEMBER 1988

CHIEF SECRETARY

cc: Chancellor
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Mr Anson
Sir T Burns
Mr Monck
Mr Phillips
HEGs
Mr Luce
Mr Odling-Smee
Mr Sedgwick
Mr Spackman
Mrs Butler
Mrs Brown
Mr Gieve
Mr Hansford
Mr Mowl
Mr Potter
Mr Richardson
Miss Walker
Mr Call
Mr Tyrie

*A v. good paper.
2.1 825 to further
for a further note on
para 3.10.
I do not recall this decision
how it can be taken, nor do I see
how it can be taken in advance
of the CC/RPI decision. AW No
consequences for the ~~CC/RPI~~ ~~AW No~~ ~~ratio~~ appear somewhat*

AW No
disadv.
u

1988 PUBLIC EXPENDITURE SURVEY POST MORTEM

I attach GEP's post mortem on the 1988 Survey. The first section is a summary of the main points.

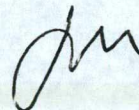
2. The post mortem looks at what happened, how far we met our objectives, and our success with the tactics and the mechanics. It is a retrospective analysis; but we have tried to highlight the aspects that hold lessons for the future. The next Survey will be much affected by the new planning total, and by the new regime for local government finance.

3. The post mortem includes a note by LG on local authority capital and current. There are references to the IFR throughout the report, but no dedicated section. The IFR is increasingly integrated with the Survey, and the lessons for the future seemed best handled within the main report.

4. The report does not cover running costs, management plans, and relocation (on which RC are putting up a separate post mortem); or Europes (on which EC will put up a report soon).

5. The report condenses a number of detailed comments supplied by divisions. We have been highly selective. If experience in any particular area concerns you, or shows up lessons for the future that you think should be drawn out, we would be very grateful if you could let us know. We would also welcome any other comments.

6. On most of the issues for the future highlighted in the report, work is in hand, and submissions will come forward as appropriate. But there is a question whether you would like to look with divisions at the threats and scope for options for reductions for the next Survey. Divisions will in any case be setting preparatory work in hand; and we will be looking again at the range of policy reviews in progress to see where savings might be found. But in previous years, you and your predecessors have sometimes found it helpful to have discussions on selected issues with the relevant Groups early in the New Year to discuss preparatory work. We could, if you want, put up a submission in the New Year, summarising the threats and possible options, and bringing out the issues which might be treated in this way.



J MACAUSLAN

1988 SURVEY POST MORTEM

1. SUMMARY: OVERALL ASSESSMENT AND MAIN LESSONSOutcome

1.1. The main features of the outcome were:

- the planning total for 1989-90 was held unchanged; the addition for 1990-91 was £3.3 billion, below the £5.6 billion in the middle year of the 1987 Survey. But the real growth rates emerging from the Survey were higher than those in the baseline.

- we did not provide fully for all the needs we can now foresee: there will be pressures on the new totals in later Surveys.

- the average real growth rate of GGE from 1987-88 to 1991-92 is unchanged from that in the baseline; and the GGE ratios were kept on a declining path, even from the very low likely outturn for 1988-89; but there is little room within our objectives for the ratios for faster real growth of programme spending.

- within the totals, there were large increases for priority programmes such as health, law and order, roads, and other capital investment.

- the outcome compared favourably with outside expectations for the totals, the GGE ratio, and the provision for priority programmes.

- the outcome was well received in the press, markets, and the House; the Opposition have not yet found a fruitful general line of attack; and the TCSC has not yet found any significant criticisms.

- the operation went relatively smoothly, despite the expansion of the Autumn Statement, although the acceleration of the timetable caused some difficulties.

Overall the Survey can be judged a success for the Treasury.

1.2. The circumstances of the Survey were not typical. Economic growth was unexpectedly high in 1988-89, and inflation only beginning to rise. As a result, the demand led services did not put undue pressure on the available room for manoeuvre, and some substantial savings, and extra receipts, were within reach. The most difficult issue to handle was the gradual increase in expected inflation. But it was less difficult than it could have been. Departments may not have perceived the full extent of the acceleration in inflation - and did not have access to all the information. That, and the low 1988-89 outturn, weakened the pressure for full compensation for the increase; and the overall economic prospects strengthened the Treasury's case as much as Departments'. The question how to handle Star Chamber against a background of changing economic assumptions did not have to be answered. Higher money GDP helped reduce the GGE/GDP ratios.

1.3. Next year the circumstances may be different. Inflation may again be higher than we have allowed for. The money illusion may have evaporated. Unexpected growth may not provide offsets for the costs of higher inflation, nor help to reduce the GGE/GDP ratios. Non-discretionary bids may be higher, and savings harder to find.

Tactics

1.4. The eventual outcome for 1989-90 was much better than our assessment in June and July suggested. This vindicated our approach to the July Cabinet of setting an elastic objective, but one which implied downward pressure. This avoided the risks involved in setting quantified targets - that the targets would turn out to be too generous, or, if missed, seem to mean a defeat for the Treasury.

1.5. These risks are likely to be the same next year. But the advent of the new planning total will affect the formulation of the objective: there will not be authoritative and agreed baseline planning totals to which Cabinet can decide to stick closely. (We can consider formulations nearer the time).

1.6. We may want to try to create an atmosphere of greater rigour in the spring and early summer than was possible in the confident atmosphere of spring 1988. Departments may have come to expect both real growth of at least 3 per cent a year, and that Surveys are more likely to increase the growth rate than reduce it. We will want to try to counter these expectations.

1.7. The difficulties of handling changing inflation assumptions seem likely to be crucial next year too. If increases seem in prospect, we will have to try (again) to strike the right balance in setting economic assumptions in March and July, neither stimulating bids unnecessarily, nor leaving too great an adjustment till October. We will also have to handle the final stages of the Survey so that revisions to assumptions in October can be taken on board without unravelling all the settlements already reached. Star Chamber is more likely to be needed, complicating these final stages.

1.8. Some success was had with Treasury options. We will probably need to do even better next year. We will be looking over the coming weeks at what preparatory work might be done.

1.9. Other aspects worked reasonably well. We will over the next few months have to look carefully at the implications for the Survey (procedures, timetable, and Autumn Statement presentation) of the new local Government finance system and of the new planning total. These will involve major changes. We will also need to consider how to handle the territories, and to what extent to be prepared to depart from the formula. We will consider how to develop our use of output and performance information. This seems enough change to keep departments off balance - and possibly Treasury divisions too! Other non-essential changes should be avoided.

2. THE OVERALL OUTCOME

The new totals

2.1. As departments prepared their bids, economic circumstances seemed uniquely favourable for discretionary increases, with high growth and low inflation in prospect. Demand for public services seemed to be rising sharply - especially for health, roads, prisons, police, and capital investment.

2.2. As a result, there were some huge bids. See Table 2.1. Home Office bid for additions to the baseline in each year of one-third or more. Bids for Transport, OES and housing (on a gross basis), education, and health were also large compared to the baseline.

2.3. Gross bids totalled nearly £12/16/21 billion. These totals are for the bids as summarised for the November Cabinet paper, but without netting off 3 major sets of reduced requirements (social security savings from lower unemployment, DOE capital receipts, and IBAP savings). Table 2.2 shows these bids, and the main offsets achieved, totalling £8/9/9 billion.

2.4. The result was additions to programmes of £3.5/6.8/11.3 billion. This made the case for sticking with the same Reserves and privatisation proceeds as in the last Survey all the more compelling: doing so would mean a draw down of the Reserve of £3.5 billion in each year, neatly cancelling out the addition to programmes in 1989-90. Hence the previous planning total for 1989-90 was held unchanged, with an addition of $£3\frac{1}{4}$ billion in 1990-91. GGE is expected now to be higher than the 1988 PEWP figures by £0.6 billion in 1989-90 and £3 billion in 1990-91.

Resulting trends

2.5. The main trends in public expenditure resulting from the Survey outcome are shown below, compared with those implied by the previous plans. (Table 2.3 shows more detail).

Average real growth rates (%)

	<u>1991-92 over 1988-89</u>	<u>1991-92 over 1987-88</u>
Planning total: baseline	2¼	2.2
outcome	3.7	2.5
GGE: baseline	1.4	1.3
outcome	1.9	1.3

2.6. The growth rates between 1988-89 and 1991-92 are much higher than in the baseline. But a significant part of this increase is due to the 1988-89 underspend, as can be seen from figures for 1991-92 over 1987-88.

2.7. In the Survey outcome, the GGE/GDP percentage falls by under 1 percentage point between 1988-89 and 1991-92, compared to nearly 2 percentage points in the baseline. The decline is small in the later years.

2.8. To keep the ratio declining, we shall need in future Surveys to ensure that GGE grows significantly more slowly than GDP. What this means in practice depends on how the path of money GDP is revised in the 1989 MTFs. But in any event it probably means that the rate of growth of expenditure on services from the (untypically low) 1988-89 level is higher than can be afforded, if the tax burden is to fall in the 1990s.

How tight an outcome?

2.9. This section looks at the tightness of the outcome on four measures - outside expectations; the extent of the squeeze on departments in real terms; the policy changes resulting from the Survey; and the extent of under-provision in the outcome.

2.10. Table 2.4 compares the Survey outcome for the planning total and for GGE with the Treasury's internal forecasts, and with outside forecasts. The Survey outcome for the planning total in 1989-90 was lower than most outside expectations. Right up to the

announcement, the press was looking for increases to the planning total of up to £3 billion. The Goldman Sachs and LBS forecasts of a lower figure were not widely noticed. The outcome was also lower than the Treasury's forecasts (although these are of course forecasts not of the Survey outcome but of the eventual outturn).

2.11. There is a squeeze in real terms compared to previous plans. Since the last PEWP, the inflation assumptions have been increased. The result is a cumulative increase in the price level for 1989-90 of 4 percentage points over what was assumed in the PEWP; for 1990-91 the increase is 4½ percentage points. Holding the 1989-90 planning total unchanged from previous plans therefore means that the new plans are worth 4% less in real terms than the old plans. This squeeze is shown below (with more detail in Table 2.5):

Squeeze in real terms compared to previous plans (%)

	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
Planning total	-4	-3	-
GGE excl priv proc	-3	-3	-1

2.12. Table 2.6 illustrates the point by showing Survey additions as a percentage of departments' baselines. Where the addition is less than about 4 per cent for 1989-90 (and 4½ per cent for 1990-91), that implies a squeeze in real terms. There are squeezes in this sense on defence in the first two years, on nationalised industries in the first year, and on agriculture, energy and employment.

2.13. This real terms squeeze does not affect all departments. Some departments got additions representing far more than 4-5 per cent of their baselines. The biggest increases by far were for the Home Office and for Transport.

2.14. The Treasury achieved some policy changes as a result of the Survey. Child Benefit was frozen for 1989-90. MOD agreed a 3 year

settlement which they are prepared to defend as adequate to deliver UK defence policies. A 12 per cent nominal price increase was agreed for LRT, and 3½ per cent real for Network South East. Three coal power stations were postponed. AEG was reduced as a percentage of local authority relevant expenditure. We achieved some switch from DEN, DTI and MAFF science spending to offset the large increases for DES science: tough decisions were taken on nuclear research; some progress was made on DTI near market R&D; and there was fairly successful trench warfare against MAFF on charging for advisory and research services (as also on capital grants).

2.15. On the other hand, we did not succeed in cash limiting RSA because Lord Young demanded too high a price; and the prospects may be no better next year. Nor did we make much progress on cutting aeroengine research. Unsurprisingly, we did not get further NHS charges, nor cut the welfare food budget; and some of CFS remains outside cash limits; but we increased slightly the estimate of cost improvement savings.

2.16. Equally unsurprisingly, we did not this year make progress on disability, or housing benefit, beyond getting agreement that DSS would on each consider measures to reduce future expenditure growth. We raised but did not force the issue of coal restructuring. We will have to return to this. (Indeed, since the Survey British Coal have taken decisions leading to additional bids for this year and 1989-90). Although no specific policy points were lost, we did not do as well as we had hoped on Wales, or on Transport (where we may in July have underestimated the strength of the factors favouring DTp - see 3.28).

2.17. We did not win on Scottish over provision. We did not get an explicit population adjustment; but Mr Rifkind will find about £75 million from within his block to fund excess local authority spending; and will bear half the costs of the slower Dounreay rundown. He accepted an offer of extra provision to make up for RTB receipts, but only at the same level as Wales (ie half the level needed to give him proportionately equal help). We will no doubt want to return to Scottish over-provision.

2.18. We will also want to return to DE for more savings, especially if unemployment continues to fall. Large cuts were made; but without requiring Mr Fowler to change his policies much. ET is probably still overprovided, and the necessary rethinking of the role of YTS has yet to take place. None of his smaller schemes has been dropped (despite our doubts about their value for money).

2.19. There were therefore some difficult policy decisions taken in the Survey; and some of these will bear yet more fruit next year (especially those in the E(ST) area). But there are other issues where we face tough battles in the 1989 Survey.

2.20. Within the new plans some areas of under-provision can already be identified:

<u>Area of under provision</u> (£ million)	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
DH (mainly RB pay)	400	1,100	1,700
DSS	100	350	400
Other departments	680	560	760
Nationalised industries (excl priv proc)	80	475	-
Local authorities	2,500	4,000	5,750
Other	-	400	400
Privatisation proceeds	-500	-500	-500
	-----	-----	-----
TOTAL (£ billion)	>3	>6	>8

See Table 2.7 for more detail.

2.21. These figures take no account of other bids arising from new policies or higher inflation, nor of possible estimating bids on social security, EC contributions etc - but neither do they allow for other offsetting savings.

2.22. The conclusion is that the Reserves of £3.5/7/10.5 billion are unlikely to prove too big.

2.23. Turning the question round the other way, could we have achieved a tighter outcome? For 1989-90, the politics of the Survey would have been radically altered if it could have been presented as yielding spending cuts; the outcome already represents a 4 per cent squeeze in real terms.

2.24. This squeeze in 1989-90 coexists with a less favourable outcome in the later years because:

- (a) the big IBAP/unemployment/DOE savings fall from £4.1 billion in 1989-90 to £3.5 billion in 1991-92;
- (b) the loss of negative EFLs climbs from £0.2 billion in 1989-90 and 1990-91 to £1.8 billion in 1991-92;
- (c) the estimating and pay and price additions (mainly DSS and DH) climb from £3.1 billion to £7.2 billion; and
- (d) LA relevant (excluding police) climbs by £½ billion.

2.25. These ineluctable factors account for nearly a £7 billion deterioration between 1989-90 and 1991-92. (See Table 2.8 for more detail). To bring down the totals for the later years, we would have had to scale back the additions to priority programmes (meaning principally defence and health); or to have achieved far more radical Treasury options (on social security, health charges, Scottish over provision, industry and employment); or to have milked the nationalised industries dry; or to have reduced the Reserves or increased privatisation proceeds.

Nature of the Survey changes

2.26. How big a shift was there into priority areas? Identification as a priority programme is somewhat arbitrary. But the Autumn Statement highlighted health, law and order, defence, basic science, roads, and other capital investment on pollution,

safety etc. There are also other discretionary increases to which I think both the Treasury and the Department would attribute some priority.

2.27. Paragraphs 2.12-13 above have already noted big additions for some of these areas, along with a squeeze elsewhere.

2.28. We can also look at the real terms increases between the 1988-89 estimated outturn and the 1989-90 provision. (See the final column of Table 2.6). There are spectacular increases for the Home Office and Transport, although Transport still feel they were hard done by. Education and the Legal Departments also do well. (The large increases for OES mainly reflect a number of special factors). Energy, Employment, and Agriculture are losers. Local Authority relevant expenditure would decline by 3 per cent if the plans held.

2.29. Finally, we can assess, very roughly, how much of the total additions made in the Survey was for priority areas:

<u>Nature of additions made</u>	(£ billion)		
	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
Priority increases	4.0	5.1	6.4
Other increases	5.8	8.3	11.9
Total additions	9.8	13.4	18.5
Reductions	-6.3	-6.5	-7.3
Additions to programmes	+3.5	+6.8	+11.3

See Table 2.8 for further details. The priority increases shown here include all additions made to the territories, which are mainly the formula consequentials of English priority increases. On this rough basis, about $\frac{2}{5}$ of the total additions were for priority areas. The priority increases are analysed further in Table 2.9.

2.30. On all these measures, the Survey achieved substantial shifts into priority areas. An outsider might query only the squeeze on defence in the first two years, and the scale of the increases for Industry in the first two years, and for OES.

3. MAIN TACTICAL ISSUES

July Cabinet

3.1. We asked the July Cabinet to endorse the objectives of holding as close as possible to the existing planning totals, and of ensuring that the ratio of public expenditure to GDP should continue to decline steadily over the three Survey years. We decided not to seek endorsement of specific figures for the planning totals nor for more precise targets for the ratios.

3.2. That decision still looks right, even with hindsight. We would probably have set planning totals in July that were too high; likewise for the ratios.

3.3. Nor did we fix internally on a strategy for achieving any particular outcome for the planning totals or the ratios and, if we had, it would have turned out equally inappropriate.

3.4. Between July and October, the savings from lower unemployment, the DOE capital receipts, and the IBAP reductions all increased. The changed economic climate contributed to success in scaling down the Transport, Education, and Home Office bids, and to cutting the Employment programme. And increased money GDP reduced the ratios.

3.5. There was no hit list in the Chief Secretary's paper to Cabinet. But the Chief Secretary listed the target programmes orally. He mentioned scaling back DES, DH, DTp, and HO bids; policy savings on DSS; difficult decisions on MOD, DTI, MAFF, DE; and scrutiny of territorial expenditure, "especially in areas where spending was at a higher rate than in England". This hit list was tactfully worded: there were no explicit protests. It

was largely achieved, with the partial exceptions of DTI and the territories.

3.6. Since we did not put up a precisely quantified objective, there was no need for detailed explanation of its derivation. The justification rested squarely on Government commitments and policy objectives, and on economic circumstances.

3.7. Overall, our approach seems to have been the right one this year. Next year the dangers in setting specific quantified targets for the Survey outcome - either setting too generous a target, or making the Survey look like a defeat for the Treasury - will be just as now.

3.8. But the economic circumstances may be very different. The RPI is forecast to peak at 7.2 per cent in May, when departments will submit their bids. Pay and price pressures will have been building up for over a year. Expenditure in 1989-90 may not be held below plans by unexpectedly high growth. Departments may thus be beginning to experience a squeeze. They may plan their bids on the basis of projecting forward the early 1989 inflation rate: the lags in the system, which helped us this year, will probably be working against us next year. There may not be such large savings from unemployment benefit; and Departments may not be prepared to offer further savings from housing receipts (higher interest rates and a less buoyant housing market may depress RTB receipts; and in any case housing receipts will not directly reduce the new planning total as they do the existing one, though they will still reduce GGE).

3.9. Also, the move to the new planning total means that we will not be able to frame the remit to Cabinet in terms of "the existing planning totals". Local authority expenditure will fall out of the planning total, to be replaced by central government finance for local authorities. We will construct new baselines for the components of that finance. But the baselines will not be derived directly from the planning totals agreed by Cabinet in November and published in the Autumn Statement. They will not

therefore have as authoritative a status as the baselines used in previous Surveys.

3.10. A third new feature is that it looks likely that from 1990 the measured level of money GDP will be about $1\frac{3}{4}$ percentage points lower than it would otherwise be. This is because whereas local authority rates are classified as an expenditure tax adding to GDP at market prices, it has been decided that the community charge will not be so classified. This is likely to mean that the GGE/GDP ratio will be some $\frac{3}{4}$ percentage point higher from 1990-91 than it would otherwise have been. We will need to deal with this problem, both in the July paper to Cabinet, and in the Autumn Statement.

3.11. All of this means that we will need to consider carefully next year how we frame the remit to the July Cabinet; it cannot be exactly the same as this year. It may also mean that we will want to try to put about from spring next year the message that economic circumstances will require strict restraint in next year's Survey; that the growth rates for departmental spending that emerged for this Survey are the most that can be afforded; that Departments should not assume that spending plans will be increased; and that the scope for discretionary increases looks much less. It would then be a natural development of this for the remit to be in terms of a declining path for GGE as a percentage of GDP over the medium term, and of exercising maximum restraint on expenditure in the light of the economic circumstances. But we will want to consider the formulation nearer the time.

3.12. The agenda letters appear to have been satisfactory. Departments found some of them tough; that was part of the process of scaling back expectations. In one or two cases, this also made departments reluctant to enter serious negotiations for fear that the Treasury's aims were much tougher than they really were. That may have increased the length of time spent in shadow boxing. But it is likely also to have improved the eventual outcome. The defence agenda letter successfully set the agenda for discussions all the way through the Survey.

did we know this?

X

3.13. The agenda letters also set out Treasury options totalling some £2¼/3/3½ billion (see Table 3.1). About a third of the value of these options was achieved (Table 3.2). There were in particular large proportionate savings on DE, HO, and DOE, and also large absolute savings on DSS. In some cases the savings will grow in the years beyond the Survey period (eg for MAFF). In other cases, (eg DTI) we scaled back the options in return for rejection of bids.

3.14. These options were clearly useful. Next year we are likely to need to achieve even more by way of Treasury options. It would be worth preparing the ground for that in advance. We will be discussing that with divisions.

3.15. The bilaterals also seem to have gone well. In the event, July was not as good a time for making progress with early bilaterals as had been hoped. That may always be the case. It was helpful to delay DOE and MAFF discussion till later in September, when more information was available.

3.16. In many cases the timing of the move to discussion with fewer officials (or none) was crucial. This was often linked to the move to bargaining about totals. On health, for instance, after a round of large meetings with somewhat ritual discussion of bids, a well-judged initial offer from the Treasury was enough to get serious negotiations under way. It is often in the Treasury's interest to grind through detailed bids; and for that large and long meetings may be unavoidable. But we will want to consider in each case whether it is sensible to go through such events; and, if so, whether more than one such meeting is necessary.

3.17. The handling of changing economic assumptions was a major tactical issue. The starting assumptions are set out in table 3.3.

3.18. The June internal forecast suggested lower unemployment (about 2.2 million) and higher inflation (with a GDP deflator of 5.7 per cent for 1988-89, and 5.2 per cent, 4 per cent, and 4.1 per cent in the three following years). The Chancellor decided in

July to revise the unemployment assumption to 2.25 million, and the GDP deflators in 1988-89 and 1989-90 to 5½ per cent and 4½ per cent respectively.

3.19. But we did not want to give colleagues time before Cabinet to work up a demand for higher expenditure. The revised GDP deflator for 1989-90 was mentioned by the Chief Secretary at E(LA) a few day before Cabinet; that for 1988-89 was in the Chancellor's paper for Cabinet. PFOs were told of the new assumptions on 11 July.

3.20. This ploy worked. There were rumblings about inflation at Cabinet. But the drift was towards restraint on expenditure as much as increases. After Cabinet, only MOD increased their bids as a result. Mr Baker frequently expressed concern, but did not seriously make anything of it except for student awards. Mr Clarke also used the inflation prospect, but only as a general pressure. Mr Channon was uncertain whether to emphasise rising construction prices, and hence the need for more provision; or the prospect of weaker prices, as evidence that overload on the industry was easing.

3.21. The assumptions were then changed again in September and October. The unemployment assumption was reduced to 1.9 million for the Survey years. The GDP deflators ended up at 6½ per cent for 1988-89 and 5½ per cent for 1989-90 (with corresponding increases for the RPI). Despite this second round of increases, the RSG settlement was not overturned - a surprisingly successful double finesse. But the changes fed through automatically into the social security programme. The Chief Secretary neutralised any possible rebellion in Cabinet by offering £85 million extra for health, and about £20 million extra for ODA/DES. There have not been accusations of bad faith from those not told earlier of the revisions, partly because in negotiation the Chief Secretary was careful to leave the possibility of revisions open.

3.22. In sum, despite two large rises in the deflators amounting to a cumulative increase in the price level over previous plans of 4 percentage points, we paid only a small price. But if the

increases in October had been only fractionally higher we would have been in much more difficulty.

3.23. The July revisions were well judged. They did not add significantly to pressures in the bilaterals. Nor did they leak. But they meant that the October revisions were much smaller than they otherwise would have been.

3.24. But the increases in the deflators seemed to strain cash planning to the limit. It may be much more difficult to contain the consequences if there are similar increases in the assumptions in other Surveys. And departments may be much more alive to the threat than this year (see paragraph 3.8). They may mistrust Treasury inflation assumptions, and try to reserve their positions until the final October assumptions are promulgated.

3.25. There is also the question whether public expenditure requirements constrained the revisions to the economic assumptions. The assumptions eventually agreed were below those implied by the internal forecast. But some shading down would have taken place even in the absence of the public expenditure constraint.

3.26. In the Survey end-game enough settlements had been reached (or nearly reached) by the end of the party conference week to enable us to isolate and put pressure on in particular Mr Channon and Mr Moore. Table 3.4 (showing the outcome as a percentage of bids) does not suggest that settling late meant big additions (but Customs probably did better by holding out so obstinately). In that sense, the fact that Star Chamber was not activated probably helped: it may have suggested to Mr Channon and Mr Moore that there were no other main issues left but their own.

3.27. Would Star Chamber have achieved a better outcome on any individual programmes? The Prime Minister's small group agreed a freeze on Child Benefit, which Star Chamber would probably not have agreed. Nor would we be likely to have got a better outcome in Star Chamber on defence or health. Mr Ridley's desire not to go to Star Chamber probably led to a better settlement for DOE

even than we might have got in Star Chamber. And Mr Fowler's desire to be on Star Chamber may have helped to get him to settle.

3.28. It is conceivable that we would have done better on transport had we gone to Star Chamber. But the factors that helped DTp in bilaterals would have helped them in Star Chamber - the drift of the Roads Review; acknowledged under-provision in previous surveys; and a programme with well established and quantifiable benefits. This last also made it more difficult to challenge the bids except on grounds of affordability.

3.29. There would have been other difficulties in using Star Chamber this year. Given the large likely change in the inflation assumptions, and the strong possibility of hitting baseline in 1989-90, setting the remit convincingly in favour of further tough decisions would have been difficult. And there were great political advantages in not using Star Chamber. Apart from the likely press stories of disunity and defeated barons, the prospect of hitting baseline and of the new inflation assumptions might well have leaked. Avoiding Star Chamber allowed those aspects to be kept to a small group.

3.30. There are bound to be difficult issues of timing at the end of the Survey. We need to complete the forecast, decide on revised economic assumptions, and settle programmes finally - and we need to do all of these more or less simultaneously. In other years, we may also need to fit Star Chamber into this final stage.

3.31. We considered trying to settle new economic assumptions before Star Chamber was due to begin. That would have allowed us to consider the remit for Star Chamber in the light of a fairly stable picture of the outcome on programmes not going to Star Chamber. But it would have involved taking decisions on economic assumptions before the forecast could be fully considered. And it would have increased the risk that the new assumptions would have leaked to other Ministers - who might have sought to reopen settlements - and to the press.

3.32. Similar arguments will tell against trying to decide new economic assumptions next year before Star Chamber starts. We may therefore need to consider feeding the new assumptions into Star Chamber at a late stage, and - if they involve higher inflation assumptions - arguing that such higher inflation must be seen as a reason for yet more restraint. The difficulty will be worse if the main programmes affected by the assumption (eg probably DSS) have already been settled, and if the programmes not yet settled are too small to provide anything like adequate offsets. In that case, it will be necessary for the Treasury to have taken that into account in the settlements reached previously.

3.33. These issues will need to be considered in more detail nearer the time. A major difference is that we may also be deciding what forecast to show of self-financed local authority expenditure in the final stages of the Survey. That is another complication, although it may give the Treasury a marginal degree of extra freedom in relating GGE to the new planning total.

3.34. Another major tactical issue concerned the territories. Mr Walker opened the Survey with complaints about the formula, especially about the penalty imposed on his block by RTB receipts. In the end, we gave him a significant addition to formula consequentials to compensate. We decided to offer similar compensation to Mr King, and (at a lower proportionate level) to Mr Rifkind. The formula was also overridden in other ways for Scotland and Northern Ireland. Indeed we temporarily suspended the formula for Northern Ireland for a thorough scrutiny of bids and baseline (but the eventual settlement was based on consequentials, though with additions).

3.35. Next year we will want to override the formula again to cut back Scottish over-provision. The difficulty will be to find ways of eroding this over-provision on a scale that will be negotiable and publicly presentable. The full population adjustment may again turn out to be too big a bomb. We need over the next year to develop a flexible response. The territories - especially Wales - will have their own complaints about the formula.

3.36. The operation of the formula under the new planning total will be different. In particular RTB receipts will no longer feature directly in the Survey arithmetic. (phew!)

3.37. These issues will need to be considered more fully when the new rules for handling local authority capital and current in the Survey have been more fully worked out.

3.38. There were also crucial tactical issues on local authority capital and current. These are considered more fully in Annex A, written by LG.

4. OTHER TACTICAL ISSUES

4.1. A number of other tactical issues emerged.

4.2. Setting the baseline for the final year. We created the baseline for 1991-92 by increasing the 1990-91 figures by 2½ per cent. Some divisions would have preferred to hold the 1990-91 figures constant in cash. But most think that a modest revaluation is the best way to get a reasonable outcome. We will review the issue for the next Survey. The circumstances will in any case be different, because of the new planning total: some components of even the first and second years' baselines will already be somewhat artificial creations.

4.3. Output and performance measures. These were not always effectively used. The bilateral discussion was overwhelmingly in terms of provision. Much of the information came in late, and in some cases the information provided by departments was not on a consistent basis. We will need to consider ways of improving this ahead of the next Survey.

4.4. The information was patchily used. Some divisions see difficulties in using it. Departments may supply selective information to bolster the case for a bid. Genuinely well justified bids are harder to challenge. Even where the information points clearly to rejecting a bid, or achieving savings, the outcome often goes the other way, especially where

deals are reached on a block basis, with the department left to settle the details. (This shows that departments' priorities do not always reflect output and performance information).

4.5. But in other cases the information was quite useful; even where the Treasury did not achieve its aims on individual items, the information may have helped to reduce the size of the overall settlement. Where there were no useful measures in support of a bid, this lack of information sometimes allowed the Chief Secretary to dismiss the bids quickly.

4.6. Use of outturn data from past years. Low spending in past years was often used successfully as an argument to reject bids or achieve savings in the future. This was true in particular of demand-led expenditure. Sometimes low spending in the years before the plan period is an element in a forecasting model, and leads fairly automatically to lower plans for the Survey years (DSS, IBAP, RDG, RSA, redundancy payments, etc). In other cases the link is far from automatic, but can be a useful negotiating weapon (for example for DE employment and training measures, and MAFF capital grants). Turning to expenditure that is certainly not demand-led, the possibility of carry over from the low outturn for MOD in 1988-89 helped to reduce the settlements in the Survey years, especially 1989-90. It will be worth reminding divisions again next year to consider using such information, along with any EYF entitlements that are in prospect.

4.7. E(ST). The objective agreed by E(ST) for science and technology spending turned out to be a useful weapon. We did not succeed in holding total civil science and technology expenditure within the existing envelope. But we achieved major savings for the longer term on Energy, and worthwhile savings on Agriculture and Industry programmes - helped by the threat of an E(ST) meeting in October. In this, the threat of E(ST) acted a bit like the threat of Star Chamber; but it bit on smaller sums that might escape Star Chamber's notice. The mechanics of liaison with the Science and Technology secretariat turned out to be cumbersome; we will review them. We will need to consider how to exploit E(ST) again next year to keep up pressure on MAFF and DTI, and in particular how to exploit the Prime Minister's endorsement of the Chief Secretary's conclusions in his report of mid-October.

4.8. Small bids. It may in some cases be worth considering referring smaller bids to officials to settle, both to keep them out of the way of the main bilateral discussions, and to try to achieve Treasury aims that might be overlooked in a block settlement. This may be a useful tactic where the department feels pressure to concede on small bids in order to get a better deal on its big bids. On the other hand, it is also helpful for the Chief Secretary to attack small bids in the bilaterals: such surprise attacks often throw spending Ministers; and they demonstrate determination to challenge every aspect of a programme.

4.9. Three year settlements. These were reached for OAL (again), MOD, and most running cost deals. A further year of experience with the OAL settlement was mildly encouraging. The division's view is that the additions in the 1987 and 1988 Surveys taken together were less than they otherwise would have been. Time will tell whether experience with the MOD three year deal will be equally encouraging.

4.10. The press was well handled in the run-up to the Autumn Statement. The figure of £2-3 billion for the increase in the 1989-90 planning total became well established, and was presented by the press as acceptable. But there were no accusations of bad faith when the outcome turned out much better. We got over the message that there was more for priority services; but still impressed the financial markets with overall restraint.

4.11. The Chancellor decided to focus presentation on trends in expenditure from 1988-89 to 1991-92 rather than from 1987-88 to 1991-92. This meant focusing on a higher growth rate (since the 1988-89 outturn was low); but it prevented any criticism that the figures were being misrepresented. This switch may well be helpful next year, in presenting trends in GGE, if, as may occur, spending in 1989-90 is not depressed in the same way as spending in 1988-89. (The growth rates of the planning total will be hard to measure, since 1992-93 will be on the new basis, but 1989-90 on the old).

5. Other Issues

5.1. Acceleration of the timetable. We decided on Wednesday 19 October to aim at an Oral Statement on Tuesday 1 November. This date was chosen in place of the more normal Thursday because of the Prime Minister's absence on 3 November. Particularly because of the extra two days acceleration, the timetable proved extremely tight. The effects of the major changes to economic assumptions agreed by the Chancellor on Wednesday 19 October could not be finalised until Wednesday 26 October. Some basic settlements were not reached until Monday or Tuesday 24 or 25 October. For five major departments (DH, ODA, DES, MOD and DSS), Ministerial agreements changed the figures between Friday 21 October and Friday 28 October. After settlements were reached, the normal process of converting Survey decisions to an Autumn Statement basis revealed other issues which needed to be resolved, often leading to changes in the figures. (See Table 5.4)

5.2. This acceleration had several effects:

a. some divisions think that it slightly worsened the outcome as far as the Treasury was concerned;

b. it meant less time to juggle the figures to achieve our objectives. We wanted to achieve both zero additions and an unchanged planning total for 1989-90. (Because the Autumn Statement reports changes from the PEWP, not just Survey changes, the two are unfortunately not the same). The changes to the figures in the last week amounted to gross additions of £240/750/1000 million, offset by reductions of £420/430/490 million. Most of these had been foreseen, though we often could not predict the exact quantities involved. A good deal of careful juggling was needed to ensure that we achieved our objectives;

c. and that - which took up most of GEPl's time up till at least Thursday 27 October - in turn diverted attention away from briefing for Cabinet and drafting the written Autumn

Statement; and an authoritative Autumn Statement brief was not available until the morning of the Statement.

d. there was insufficient time to ensure that the Treasury and other departments were adequately prepared to handle consistently questions on all the tables included in the press notice released on 1 November (especially the real terms figures).

5.3. Next year, we will want to consider how to handle the problem of preparing departments for the real terms figures given with the oral statement. A less hurried timetable - in particular more time between Cabinet and the Statement - would help. Otherwise, we should consider

a. sending copies of the complete Treasury press notice to Cabinet Ministers, immediately after Cabinet.

b. discouraging (as we did this year) departments from using in press notices real terms figures which will be invalidated by new Treasury deflators revealed at Cabinet.

c. circulating (again, as this year) versions of the real terms tables for the press notice to senior officials in the Treasury, so that they can look at the implications for departments covered by their commands, and consider if any action is needed.

5.4. The main factors affecting the accuracy of divisions' forecasts of outcome were the changes in economic assumptions and in DOE's estimates of receipts. Tables 5.1 and 5.2 show successive forecasts. Changing economic assumptions are likely to be a major factor again next year, and receipts will again be difficult to predict, although their effect on the new planning total will be indirect and smaller.

5.5. Apart from these major factors, most divisions' forecasts were good. But the forecasts of outcome in the early scorecards produced after the summer break were unstable - divisions had not

finalised their bilateral briefing and were not in a position to give fully considered views. This should be taken into account next year - more time may need to be allowed for the preparation and checking of these scorecards, and not too much weight should be placed on them.

5.6. Table 5.3 shows how GEP's assessment of public expenditure trends resulting from the forecast Survey outcome moved over time.

5.7. Annex B notes some other lesser issues that emerged.

SURVEY POST MORTEM: LOCAL AUTHORITY EXPENDITURECapital

A.1. The outcome on gross expenditure on DOE/LA1 was increases of £800/300/65 million, compared to a forecast made in June of £700/440/425 million. On a net basis (ie after taking account of receipts), the outcome was £-1110/-1230/-1300 million, compared to a forecast in June of £+400/-/-50 million.

A.2. In line with the lessons of last year's Survey, we tried to prevent late declarations of extra receipts from inflating gross provision, by:

- taking account in the baseline of likely receipts,
- focussing on gross, as well as net, expenditure,
- holding the DOE bilateral late in September, in order to take account of the latest forecast of receipts, and
- establishing that there was no automatic link between increases in receipts and allocations.

A.3. In the event, substantial extra receipts were declared both in July and in mid-September; and there were further declarations later in the Survey. Such late declarations are to an extent inevitable, given the pattern of information flows about receipts in the current year. But the approach we adopted helped to minimise the effect of the extra receipts on gross expenditure.

A.4. Whether the new totals are sustainable remains to be seen. It will be important next year to make sure that LG again take a lead within the Treasury at an early stage, ensuring the divisions' aims, arguments and bilateral tactics are in line with the overall objective for local authority capital.

A.5. We had not succeeded in relating provision more closely to the Government's view of needs and priorities. A number of departments used this and other defects of the capital control system to argue for higher capital allocations. This argument had more validity for 1989-90 than for later years. Hence the much larger additions for the first year. We will need to marshal arguments carefully to head off any similar tactics under the new capital finance system - under which the problems ought to be less.

A.6. The procedures for setting the baseline and handling the Survey will depend on the precise nature of the capital finance system, which has not yet been settled. But we will want to continue to try to set off credit approvals and capital grants against departments' other central government expenditure, as we do now. We will have to try to apply non-additionality in the case of ERDF capital grants to local authorities consistently under the new regime. We could ensure that extra EC grants reduce the overall total of credit approvals and other grants in the baseline, and resist any bids to restore credit approvals and grants docked in this way. But that will be a difficult aim to achieve. Or, as now, ERDF grants could be non-additional at local level.

A.7. Under the new planning total, the bulk of expenditure financed by receipts, along with the offset to public spending which those receipts represent, will be excluded from the planning total, and scored below the line as part of GGE. Even if extra receipts are declared next year, they will therefore not have the same impact on the planning total as now. We will need to consider how we assess these receipts, and the gross expenditure financed by them and by revenue contributions. We will also need to consider carefully how we agree such assessments with the main departments concerned; and how they should affect negotiations on the elements of capital expenditure within the planning total.

LA Current

A.8. Outcome The Treasury objectives for the Aggregate Exchequer Grant (AEG) settlement and provision for "relevant current" expenditure for England in 1989-90 were achieved in full.

£m

	AEG	Expenditure Provision
Objective	13,550-13,600	29,250
Achieved	13,575	29,140

A.9. At outturn, AEG probably includes around £775 million of new money, compared to AEG for 1988-89. This includes an increase of £600 million at settlement; and an allowance for the fact that there will be no underclaim (because grant will be fixed) but also none of the further payments we normally expect in respect of earlier years. But the changes in the local government finance regime would have allowed authorities to claim yet further payments for earlier years (by declaring artificial underspends), if we had not in effect cash limited the grant. To that extent, the figure of £775m understates the merits of the settlement.

A.10. Realism of provision Expenditure provision is likely again to be overspent by local authorities in 1989-90 - LG's best guess is that the GB overspend may be around £1.4 billion, much as in the current year, whereas the forecasters' is nearer £2 billion. Expenditure provision was therefore no more realistic than for the current year, and may be less so. With hindsight, it is possible to say that provision could have been set perhaps $\frac{1}{2}$ per cent (£150 million) higher to make the plans a little more credible, while still sticking to the baseline overall because other Departments' plans could have been squeezed a little more. But it was not possible to make this judgement in July, ahead of the main Survey; this is a disadvantage of taking local authority decisions earlier than the main Survey.

A.11. The previous two settlements had been based on the idea that the grant percentage (broadly the proportion of LA spending

financed by AEG) should be kept constant from year to year. DOE arguments in the Community Charge debates had also come close to claiming that the Government would finance half of whatever local authorities spent under the Community Charge system. A substantial benefit of the settlement was to remove these arguments from the agenda. At settlement, the grant percentage fell by over 1 per cent. If the idea of an unchanged grant percentage had not been broken before the Community Charge regime began, there is little doubt that we would have been stuck with it for many years thereafter. The settlement was therefore a very useful step towards protecting the Exchequer's interests under the new regime, and permitting us to keep grant down to place greater pressure on local authorities to moderate their spending after 1990-91.

A.12. The main disadvantage of the settlement was that, as a part of "closedown", for the rest of 1988-89 and 1989-90 there will be no marginal grant pressures on authorities to moderate their spending. We anticipate some additional expenditure - perhaps around £600 million - as a result, largely brought forward from later years. There should be little long term effect on the trend of local authority expenditure.

A.13. Scottish and Welsh settlements were reached by analogy with England. With the demise of the grant percentage as a method of setting AEG, broadly similar proportionate increases in grant, and very similar increases in provision, were agreed. The Welsh were not happy with the result, but acquiesced in it. In Scotland, the agreement on provision usefully carried-forward into 1989-90 the squeeze in 1988-89 of around £75 million on central government provision, by requiring the Scottish Secretary to transfer this sum within the block to local authority provision.

A.14. Expenditure provision for the later years was set essentially flat in real terms in England, and by formula consequential for the territories. These plans will be overtaken by plans for grants and business rate payments under the New Planning Total. The Scottish squeeze was not carried forward into

the later year figures in the AS, although it will be in the construction of the baseline for the New Planning Total.

A.15. Tactics This was the last round of the rates support grant system for England and Wales, and the first revenue support grant settlement linked to the Community Charge in Scotland. As in the past, the discussions were in theory held collectively in E(LA), but in practice the outline of the English settlement was settled bilaterally between the Chief Secretary and the Environment Secretary between the only two E(LA) meetings. Colleagues were presented with virtually a fait accompli at the second meeting. E(LA) is both an unwieldy Committee in which to conduct detailed negotiation, and heavily stacked against the Chief Secretary through the inclusion of a phalanx of spending Ministers. There is much to be said for conducting as many of the negotiations as possible bilaterally, although a number of Ministerial colleagues have an interest in the result.

A.16. Looking to the future, the next RSG round is unlikely to be easy, and is likely to be dominated by the introduction of the Community Charge throughout England and Wales. The tone of the debate may be heavily influenced by how well the experiment is then going in Scotland. The right Treasury line will probably be "business as usual". If the Government is confident about its Community Charge reforms there should be no need to bribe local taxpayers to accept them through additional grant; there will be a risk that local authorities will seize on the reforms to increase spending, disguised by the change; and the right response will therefore be an increase in grant only in line with forecast inflation, as has in practice happened over recent years.

A.17. The handling of the discussions under the new system will require further thought over the next few months. The main conclusions emerging so far are:

- baselines for grant will need to be set which are sufficiently credible to provide a starting point for the negotiations, but low enough to avoid conceding anything significant before the discussions begin;

- specific grants will be discussed bilaterally in the main Survey, and should compete with central government expenditure in the main departmental programmes. Unhypothecated grants should similarly be discussed bilaterally if at all possible, although a body like E(LA) will need to consider aggregate and service needs assessments, which will be highlighted by the new system. There is likely to be an enhanced role for PESC(LA), the official-level Committee chaired by the Treasury, to co-ordinate information for Ministers taking these decisions;

- it would be best to take all the decisions in the autumn, so the various strands can be considered together, (although the 3 Environmental Departments may continue to insist on a July RSG announcement);

- we need to decide how to forecast the overall likely level of LA spending, both to consider likely levels of Community Charge with different quanta of grant and to provide a forecast of the local authority component of GGE in the AS, and whether these two forecasts can be kept separate.

MINOR ISSUES

B.(1) One change to baseline figures which had a significant effect on the figures only came to light as the Autumn Statement tables were being prepared. This was because of a failure of communication between divisions: next year we should remind all divisions specifically of the need to ensure that any such changes are fed into the figurework.

B.(2) One department was taken by surprise by the arrangements for transferring provision between departments before the Autumn Statement. There will be more such transfers next year, so this will need to be remembered.

B.(3) GEP's forecasts of formula consequences proved to be underestimates, because some expenditure was not identified correctly as being comparable in the territories (including one item agreed in the IFR). The solution next year should be better liaison between GEP1 and ST3. Also the arrangements for taking account of the territorial blocks in the spending authority figures shown in the Autumn Statement produce different figures for local authority capital from those collected by LG. It will be important next year that the Autumn Statement figures are also used in the briefing.

B.(4) Our predictions of the effects of changes in economic assumptions were of varying accuracy. We are compiling an improved 'ready reckoner' for next year. (But no ready reckoner can offer a guarantee of accurate figures.)

B.(5) There was no systematic check of the assumptions departments had made about future levels of PRS rents, compared with the guidance provided by PSA. RC propose to integrate such a check with the running costs scrutiny next year.

B.(6) We will consider with EA and PSF mechanisms to enable us to reconcile with more confidence the IAF figures for GDFCF with GEP's figures for public sector capital.

B.(7) One of the consequences of taking account of privatisation of the water industry in the IFR was that the land drainage element of the baseline (for which MAFF is responsible) was eliminated, but MAFF did not bid in the Survey for the equivalent provision for the NRA. This was put right at the last minute. The same problem should not recur, but GEPl and PE should watch out for other areas where expenditure is being transferred from nationalised industries to central government.

B.(8) The handling of surplus land and buildings was not always effective. There were some successes, especially with Departments where large sums were at stake. In other cases, there was not much progress in the Survey. The issue was often crowded out by other, bigger issues. Divisions may also not always have communicated about the outcome with LG, who have been given the coordinating role. The Chief Secretary is committed to reporting progress to the Prime Minister, and LG, in preparing a draft and a submission, will consider what lessons there are for the future. There is a question whether, given the amount to be done in the Survey, it is a suitable vehicle for proper consideration of peripheral issues.

BIDS AS A PERCENTAGE OF BASELINE

TABLE 2.1

(%)	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
Home Office	31	40	39
Transport	24	26	32
Education	14	17	20
Health	12	15	19
Industry	10	9	-2
Inland Revenue	7	11	11
Customs	4	7	14
Agriculture (exc IBAP)	5	6	9
Legal Departments	4	5	10
Foreign Office	5	7	8
Employment	5	6	6
Aid	4	5	6
Defence	2	5	7
Housing (gross)	21	15	21
Other environmental (gross)	37	26	22
Social Security (discretionary)	1	1	1

1988 SURVEY: SUMMARY OF OUTCOME ON BIDS

Table 2.2

	(£ billion)		
	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
"Gross" bids*	<u>11.7</u>	<u>15.5</u>	<u>20.6</u>
DSS Unemployment savings	-1.6	-1.7	-1.8
Housing receipts	-1.7	-1.3	-1.1
OES receipts	-0.4	-0.3	-0.3
IBAP	-0.4	-0.4	-0.3
Nat. inds. trading position	-0.5	-0.7	-0.9
Treasury options	-0.8	-0.9	-1.0
Other reductions	-2.8	-3.4	-4.0
	-----	-----	-----
Total offsets	-8.2	-8.7	-9.3
<u>Additions</u>			
to programmes	3.5	6.8	11.3
to planning total	-	3.3	7.8
to GGE	0.6	3	6 †

* Bids as shown in November Cabinet paper, but without allowing for savings on social security from lower unemployment, for DOE receipts, and for IBAP savings which were deducted from gross bids shown to Cabinet.

† Compared to FSBR

PUBLIC EXPENDITURE TRENDS

TABLE 2.3

(a) <u>PEWP</u> (1)	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
<u>Real growth (%)</u>				
Planning total:				
over previous year	1.8	3.0	2.3	1.5
over 1987-88 (average)				2.2
over 1988-89 (average)				2½
GGE ex pp:				
over previous year	1.3	1.8	1.5	0.8
over 1987-88 (average)				1.3
over 1988-89 (average)				1.4
<u>GGE/GDP (%)</u>	42	41½	41½	
FSBR 88	41½	40½	40	39½ (2)
(b) <u>Survey Outcome</u>				
<u>Real growth (%)</u>				
Planning total:				
over previous year	-0.8	3.6	3.8	3.7
over 1987-88 (average)				2.5
over 1988-89 (average)				3.7
GGE ex pp:				
over previous year	-0.4	1.3	2.1	2.2
over 1987-88 (average)				1.3
over 1988-89 (average)				1.9
<u>GGE/GDP (%)</u>	39½	39½	39	38½

(1) 1991-92 figures from FSBR 88

(2) 1991-92 figure not stated in FSBR, but can be deduced

PUBLIC EXPENDITURE: OUTSIDE PROJECTIONS

TABLE 2.

(fbillion)	<u>1989-90</u>		<u>1990-91</u>	
	<u>Planning Total</u>	<u>GGE</u>	<u>Planning Total</u>	<u>GGE</u>
AS 1988	167	194	179	205
Internal Treasury forecast				
January	170	195	182	206
June	170	195	182	206
October	169	194	183	206
LBS February				
June	167	194	176	205
October	166	193	178	204
Goldman Sachs				
June	168	194	179	205
October	168	194	178	204
November ¹	-	194	-	207
Phillips & Drew				
June	170	196	-	-
November ²	171	197	-	-

1. Post AS2. Pre AS

SURVEY OUTCOME COMPARED WITH PREVIOUS PLANS

TABLE 2.5

	<u>89-90</u>	<u>90-91</u>	<u>91-92</u>
Change in real level (%)†			
Planning total	-4	-3	-
of which			
defence	-3	-2	-
NHS England	+2	+3	+5
social security	-4	-2	+2
Nat inds	-2	+1	+340
LA relevant	+1	+1	+1
Priv proc	-4	-5	-5
GGE ex pp	-3	-3	-1
of which debt interest*	-3	-7	-9

† Survey outcome deflated by AS 1988 deflators to 1986-87 prices compared to baseline deflated by PEWP deflators to 1986-87 prices.

* Compared to debt interest assumption underlying FSBR.

OUTCOME BY DEPARTMENT

TABLE 2.8

	<u>A Additions¹ as</u> <u>percentage of baseline</u>			<u>B Real</u> <u>Changes²</u>
	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>	1988-89 to <u>1989-90</u>
Home Office	+18	+25	+22	+19
Transport	+14	+18	+17	+19
Health	+7	+8	+9	+2
Education	+7	+7	+7	+8 ³
Inland Revenue	+6	+9	+10	
Legal departments	+4	+5	+9	+8
Customs	+3	+5	+10	
Foreign Office	+3	+6	+7	-3
Aid	+2	+5	+6	-1
Industry	+6	+6	-6	- ⁴
Agriculture excl IBAP	+2	+1	+1	-2 ⁵
Defence	+1	+3	+5	-1
Energy	+11	-5	-29	-11
Employment	-5	-7	-9	-7
Housing (gross)	+9	+7	+8	-3
OES (gross)	+27	+16	+12	+22
Social Security (discretionary)	-	-	-	
(total)	-	+3	+7	+1

Notes

1 Central government plus local authority capital, as reported to Cabinet.

2 Central government only.

3 Excluding transfer of polytechnics.

4 Excluding the payment for Rover in 1988-89.

5 Including IBAP.

COMMITMENTS AND THREATS

TABLE 2.7

£ million

	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
MOD: BNFL	50	50	50
ODA: Nigeria	40	40	40
DTP Road review	15	150	350
HO Prisons/CICB	75	200	200
DES Student loans	-	120	120
Health Review Body	400	700	1100
Aids	-	50	50
Consultant/junior doctors/PAMS	-	100	150
Capital	-	100	200
RMI	-	150	200
DSS Disability	-	50	100
Poorer pensioners	100	200	200
Community charge benefit	-	100	100
NIO Shorts	500	-	-
Nationalised industries			
Water: technical assessment	+200	-	-
exit EFL	-300	-	-
Coal: pit closures	200	-	-
Electricity: Hunterston	30	30	-
interconnector	20	-	-
exit EFLs	-	400	-50
Post: strike effects	30	20	-
BS	25	5	-
BREL disposal costs	30	15	5
BR Chunnel investment	-	10	35
CLRS	-	?	?
Rover	-150	-	-
Privatisation proceeds	-500	-500	-500
Local authority: current	1500	3000	4500
capital	1000	1000	1250
VAT on fuel power etc	-	100	100
Decapitalisation rate	-	+300	+300
TOTAL (£ billion)	>3	>6	>8

NATURE OF ADDITIONS MADE

TABLE 2
(£ billion)
1991-92

	1989-90	1990-91	1991-92
Priority increases ¹	3.5	4.5	5.8
Territories	0.5	0.6	0.8
Other policy increases ²	1.2	1.1	1.1
Estimating increases ³	1.1	2.0	2.7
Pay and prices etc ⁴	2.0	3.4	4.5
LA relevant exc police	1.3	1.6	1.8
Nat ind: loss of EFLs	0.2	0.2	1.8
Total additions	9.8	13.4	18.5
<u>Less</u>			
IBAP	-0.4	-0.4	-0.3
DSS Unemployment savings	-1.6	-1.7	-1.8
DOE receipts	-2.1	-1.6	-1.4
Nat inds improved trading etc	-0.8	-1.0	-1.4
Other reduced requirements	-0.6	-0.9	-1.4
Treasury options ⁵	-0.8	-0.9	-1.0
Total reductions	-6.3	-6.5	-7.3
Net additions to programmes	+3.5	+6.8	+11.3

Notes

1. See Table 3.5

2. Community charge costs, increases on DE, non-prisons HO, non-priority DES, NRA and other non-priority DOE, other departments, April social security concessions, and admin capital; DH Centrally funded services.

3. DSS estimating, EC, ECGD, legal aid, RDG, LAPR/MIRAS, superannuation.

4. DSS inflation, DH pay, VAT on new construction, student grants, housing subsidies, running costs (except stricter benefit regime and independent taxation).

5. See Table 3.1.

PRIORITY INCREASES

TABLE 2.9

	<u>1989-90</u>	<u>1990-91</u>	(£ million) <u>1991-92</u>
Defence	160	600	1025
FCO scholarships & exchanges	10	10	15
Aid sub Sahara & war service	5	10	20
MAFF R&D and flood protection	5	10	20
DTI relocation	20	15	-
DE stricter benefit regime	35	35	35
DTp roads etc	250	300	300
DOE housing investment	370	300	450
inner cities	80	85	60
countryside/heritage	20	20	15
HO prisons	205	315	300
LCD court building	20	20	20
DES science, schools capital, polytechnics	200	200	180
DSS child allowances in FC	70	70	70
DH capital, management, service development, AIDS, FPS	1,000	1,365	1,963
IR independent taxation	35	24	34
Nat inds pollution and safety investment	620	795	960
LA relevant: police	350	360	370
TOTAL PRIORITY INCREASES	3,455	4,035	5,840

TREASURY OPTIONS SOUGHT IN AGENDA LETTERS

<u>Department</u>	<u>Options Sought</u>			<u>% of Baseline</u>		
	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
	(£ million)					
MOD	-	-	-	-	-	-
FCO - diplomatic	8	10	13	1	1	2
FCO - ODA	-	-	-	-	-	-
MAFF	31	87	125	4	11	15
DTI	47	51	41	4	4	3
DEn	3	2	2	1	1	1
DE	268	434	595	6	10	14
DTp	8	17	17	-	1	1
DOE - housing	530	530	530	22	22	22
DOE - OES	229	229	215	25	25	22
HO	67	85	91	5	6	6
Legal	-	-	-	-	-	-
DES	-	-	-	-	-	-
OAL	-	-	-	-	-	-
DH	550	641	899	3	3	5
DSS	300	500	700	1	1	1
SO	270	330	340	5	6	6
WO	10	10	10	1	1	-
NI	-	-	-	-	-	-
TOTAL	2321	2926	3578	2	2	3

TREASURY OPTIONS ACHIEVED

Department	Options achieved			% Options Sought			% Baseline		
	(£ million)								
	89-90	90-91	91-92	89-90	90-91	91-92	89-90	90-91	91-92
MOD	-	-	-	-	-	-	-	-	-
FCO - dip	-	-	-	-	-	-	-	-	-
FCO - ODA	-	-	-	-	-	-	-	-	-
MAFF	0	14	37	0	16	30	0	2	2
DTI	7	9	11	14	17	27	1	1	1
DEn	2	2	2	80	100	100	1	1	1
DE	256	339	388	96	78	65	6	8	9
DTP	5	9	9	63	53	53	0	0	0
Housing ⁽¹⁾	-	-	-	-	-	-	-	-	-
DOE-OES	24	21	23	11	9	11	3	2	2
HO	34	49	42	51	58	47	4	4	3
Legal	-	-	-	-	-	-	-	-	-
DES	-	-	-	-	-	-	-	-	-
OAL	-	-	-	-	-	-	-	-	-
DH	283	296	304	51	46	34	2	2	2
DSS	169	190	209	56	38	30	0	0	0
SO	-	-	-	-	-	-	-	-	-
WO	-	-	-	-	-	-	-	-	-
NI	-	-	-	-	-	-	-	-	-
TOTAL	779	928	1026	34	32	29	1	1	1

(1) The Treasury option on housing was higher RTB receipts; DOE in the end offered more than had been sought.

CHANGES IN ECONOMIC ASSUMPTIONS

TABLE 3.3

		<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
Money GDP: (£bn)	PEWP	448	475	501	-
	FSBR	456	486	516	545
	AS 88	471	508	539	569
GDP Deflator (%)	PEWP	4½	3½	3	-
	FSBR	4½	4	3½	3
	JULY	5½	4½	3½	3
	AS 88	6¼	5	3½	3
Unemployment (m)	PEWP	2.6	2.6	2.6	-
	JULY	2.25	2.25	2.25	2.25
	AS 88	2.1	1.9	1.9	1.9
3 month interest rates (%)	PEWP	10	10	9	9
	JULY	10	10	9½	9
	AS 88	10¾	11	9½	9
			9/88	9/89	9/90
RPI (%)	PEWP		4½	3¼	-
	JULY		5½	4½	4
	AS 88		5.9	5½	4

OUTCOME AS A PERCENTAGE OF BIDS

TABLE 3.1

(%)	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
Legal departments	91	104	92
Inland Revenue	88	86	87
Customs	70	69	74
Foreign Office	61	76	79
Aid	57	75	67
Transport	59	68	53
Home Office	58	62	57
Health	59	51	49
Education	52	44	35
Defence	48	62	71
Industry	57	71	-296
Agriculture (exc IBAP)	41	18	7
Employment*	-210	-231	-267
Social Security (discretionary)	21	25	13
Housing (gross)	44	47	40
OES (gross)	74	60	54

* Difference between positive bid and negative outcome as a percentage of bids.

1988 SURVEY: SCORECARD ASSESSMENTS OF FORECAST OUTCOME

Scorecard Date	Forecast 1989-90	Outcome, 1990-91	£ billion 1991-92	Main Changes
13 June	5.35	7.01	10.73	
11 July	5.73	7.99	11.76	New and revised bids, primarily VAT and LA relevant
1 September	4.86	6.98	11.43	Extra housing receipts, lower IBAP forecast, DE savings, no renegotiation of Coal contract, revised economic assumptions
12 September	5.03	7.22	11.65	Social Security (community charge compensation) and Energy (fast reactor) increased
16 September	4.79	6.98	11.46	Huge extra Housing receipts; lower OES receipts, increased Health and Defence following bilaterals
23 September	4.46	6.77	11.34	Higher OES and DTI (Rover) receipts; Health (nurses pay) increased
30 September	4.62	7.14	11.09	Higher EC forecast; Rover receipt removed; lower DES settlement
7 October	3.94	6.44	10.23	Revised unemployment assumption; lower Health
12 October	3.75	6.56	10.84	Revised EC and Defence profiles (both lower in yr 1 and higher in yrs 2&3)
14 October	3.65	6.39	10.56	Lower Defence settlement; lower EC
21 October	3.63	6.46	10.70	Higher Health and Transport offers; lower territories and Social Security
Final Outcome	3.50	6.81	11.26	Higher Defence (VAT); revised economic assumptions increase ECGD, reduce Social Security yr 1, increase yrs 2&3

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1988 SURVEY: COMPARISON OF FORECASTS AND OUTCOME

£million

	1989-90			1990-91			1991-92		
	11 JULY	1 SEPT	FINAL	11 JULY	1 SEPT	FINAL	11 JULY	1 SEPT	FINAL
	FORECAST OUTCOME	FORECAST OUTCOME	OUTCOME	FORECAST OUTCOME	FORECAST OUTCOME	OUTCOME	FORECAST OUTCOME	FORECAST OUTCOME	OUTCOME
Ministry of Defence	140.0	150.0	125.0	500.0	500.0	540.0	660.0	650.0	950.0
FCO - Diplomatic, Information, Culture	11.2	9.7	22.4	28.6	27.9	43.7	29.9	31.4	47.4
FCO - Overseas Development Administration	28.0	30.0	33.4	29.0	55.0	75.5	30.0	80.0	101.4
European Communities	380.0	380.0	500.0	260.0	260.0	630.0	157.0	157.0	230.0
IBAP	-99.3	-247.5	-420.9	-98.6	-248.0	-395.6	-97.0	-196.5	-268.2
Ministry of Agriculture, Fisheries and Food	18.2	19.7	14.4	16.9	18.4	8.4	19.1	20.6	5.1
Forestry Commission	9.1	9.8	8.6	11.8	12.5	11.9	13.0	13.7	13.6
Department of Trade and Industry	50.1	73.6	71.5	50.7	67.2	79.2	-115.1	-91.2	-71.7
Export Credits Guarantee Department	8.0	-3.6	56.4	-1.0	-20.5	26.9	-37.7	-63.6	-34.2
Department of Energy	-10.2	-18.5	34.0	-17.7	-26.0	-15.5	-24.1	-32.1	-93.2
Department of Employment	-100.0	-214.7	-204.8	-150.0	-349.2	-304.8	-200.0	-397.0	-404.8
Department of Transport	254.0	323.0	324.2	285.0	307.5	397.9	306.0	328.0	405.5
DOE - Housing	-296.7	-574.9	-1,283.8	-79.2	-508.0	-1,002.2	-71.8	-132.3	-734.2
DOE - Other Environmental Services	128.4	153.2	75.4	24.4	73.2	-71.0	-8.7	74.6	-64.4
Home Office	280.4	307.4	246.1	406.3	419.7	353.9	443.7	459.3	323.7
Legal departments			33.5			61.3			105.8
Department of Education and Science	382.5	395.1	363.4	430.4	442.3	405.0	457.8	469.5	369.7
Office of Arts and Libraries	0.0	0.0	4.1	0.0	0.0	1.6	20.5	20.5	20.4
Department of Health	1,069.2	1,065.2	1,256.0	1,284.1	1,411.1	1,477.0	1,497.6	1,879.6	1,896.0
Department of Social Security	864.3	733.8	-157.3	1,800.2	1,819.8	1,625.9	3,495.3	3,484.2	3,685.2
Scotland	233.2	187.0	171.0	296.3	231.3	254.4	328.4	340.8	347.9
Wales	144.0	124.1	177.1	163.4	140.6	180.3	165.0	165.5	201.5
Northern Ireland	53.4	105.4	135.7	57.4	133.5	184.6	94.5	209.0	269.5
Chancellor's Departments	-39.0	-29.1	35.1	30.4	51.1	90.3	110.2	150.4	192.8
Other Departments	22.5	23.4	24.4	28.4	31.4	33.9	61.4	67.4	72.8
DOE - Property Services Agency	10.0	10.0	27.6	30.0	20.0	16.1	20.0	5.0	-29.0
Nationalised Industries	375.0	450.0	-1.5	425.0	-5.0	-12.9	1,980.0	1,395.0	1,372.6
LA relevant	1,751.0	1,653.0	1,715.0	2,073.0	1,965.0	1,968.0	2,307.0	2,177.0	2,196.0
TOTAL ADDITIONS TO PROGRAMMES	5,727.3	4,860.1	3,500.0	7,994.8	6,980.8	6,811.0	11,762.0	11,433.7	11,256.7

TABLE 5.2

TABLE 5.3

CHANGING ASSESSMENTS OF LIKELY TRENDS

	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>	<u>1991-92/ 1988-89</u> (average)
<u>Real growth of planning total (%)</u>				
baseline	2.5	1.9	1.3	1.9
11 July	3.9	3.1	3.3	3.4
14 October	3.3	3.7	3.4	3.5
Outcome	3.6	3.8	3.7	3.7
<u>Real growth of GGE (%)</u>				
baseline	1.1	0.8	0.6	0.8
11 July	1.7	1.7	2.1	1.8
14 October	0.9	2.1	2.1	1.7
Outcome	1.3	2.1	2.2	1.9
<u>GGE/GDP ratios (%)</u>				
baseline	40.7	40	39.2	
11 July	40.1	39.8	39.6	
14 October	39.5	39.3	39.1	
Outcome	39.1	39	38.9	

DATE OF SETTLEMENTS IN LAST WEEK OF SURVEY

	<u>Main settlements</u>	<u>Extra Ministerial Agreements</u>	<u>Economic Assumptions</u>	<u>Other Changes Agreed</u>
Friday 21 October		DOH, ODA (GDP deflators)		ODA pensions
Monday 24 October	Customs DTP	DES (GDP deflator)	ECGD Inland Revenue	DEn, DE (Nuclear safety) EC
Tuesday 25 October	Treasury OFTEL		FCO Housing DSS	Territorial consequences
Wednesday 26 October		MOD (VAT)	N Ireland	LA relevant (Scottish water and squeeze on blocks)
Thursday 27 October		DSS (Community charge compensation)		
Friday 28 October		DSS (ditto)		MAFF (land drainage)

BE 17/1
FROM: MISS M P WALLACEDATE: 5 January 1989
pw

PS/CHIEF SECRETARY

cc PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Mr Anson
Sir T Burns
Mr Monck
Mr Phillips
Mr Luce
Mr Odling-Smee
Mr Sedgwick
Mr Spackman
Mrs Butler
Mrs Brown
Mr Gieve
Mr MacAuslan
Mr Hansford
Mr Mowl
Mr Potter
Mr Richardson
Miss Walker
Mr Call
Mr Tyrrie

1988 PUBLIC EXPENDITURE SURVEY POST MORTEM

The Chancellor has seen Mr MacAuslan's postmortem on the 1988 Survey, which he thought a very good paper.

2. He has noted the comment in paragraph 3.10 that from 1990 the measured level of money GDP will be about 1½ percentage points lower, because "whereas local authority rates are classified as an expenditure tax adding to GDP at market prices, it has been decided that the community charge will not be so classified". The Chancellor does not recall this decision having been taken, nor does he see how it can be taken in advance of the decision about the treatment of the community charge in the RPI. Furthermore, the consequences for GDP, and the GGE:GDP ratio appear somewhat



absurd. He would be grateful for a further note on this classification issue. I should be grateful if Mr Sedgwick could provide.

A handwritten signature in black ink, appearing to read "Moira Wallace".

MOIRA WALLACE

CONFIDENTIAL

Handwritten initials: HPS for MP



FROM: MISS C EVANS
DATE: 5 January 1989

MR MACAUSLAN

cc: Chancellor
Financial Secretary
Paymaster General
Economic Secretary
Sir Peter Middleton
Mr Anson
Sir T Burns
Mr Monck
Mr H Phillips
Mrs Lomax
Miss Walker
Mr Call
Mr Tyrie

Handwritten red checkmark

1988 PUBLIC EXPENDITURE SURVEY POST MORTEM

The Chief Secretary was most grateful for your submission of 19 December. His reactions and ideas for the 1989 Survey are set out ... in the attached note.

Handwritten signature: C Evans

MISS C EVANS
Private Secretary

**PUBLIC EXPENDITURE SURVEY: POST MORTEM: CHIEF SECRETARY'S
COMMENTS**

Next Survey

We should aim to freeze child benefit again with some off-setting increase in family credit and income support.

We should make clear now that we wish to cash limit RSA next year. We should write to Lord Young and the territories saying so.

We should aim at 3 year deals on running costs for all Departments. How are we progressing with defining MOD running costs?

In advance of the Survey, we need detailed information on Departmental land and building holdings available for sale. We made some progress this year but there is more to be done.

There is scope for more savings on ET and YTS in Employment, R & D, DES, but where else?

There is a downside to 3 year deals (i.e. less flexibility for priorities) but, on balance, we should extend them. Is Transport a possibility? Where else? Views, please.

There are a number of expenditure risks next year - community charge softening in RSG, disability review, health review, Green policies and proposed bill, transport (especially London Docklands and roads generally). Are there others?

Agenda Letters

They were good this year - tough but realistic.

We should produce the same mix next year but our options must be realistic. Paper options that are not possible politically are counter productive in negotiations

We need discussions on options in good time for preparation of the Agenda letters.

Survey Time-table/Tactics

We should aim to take the Security Services in July as a normal bilateral.

It was helpful to delay MAFF (for harvest estimates) and DOE (for RTB receipts) until late - September. We should repeat next year.

On some programmes officials offered clear advice on a strategy for the bilaterals. This was extremely useful and it would be helpful to have similar advice on all programmes with the detailed briefs.

Negotiating Tactics

The wealth of detail (on small bids too) was invaluable. We need more emphasis on:-

output and performance measures
(which should be mentioned in the Agenda Letter)

outturn data (very useful in discussions on bids)

We went wrong tactically only once, I think. That was after the first Transport bilateral when we concentrated on headline totals rather than the composition of bids. Elsewhere, sticking to the details served us well. We should do that next year.

Territories

The territories are beginning to consider the formula differently. The problem for the Treasury is that we are forced to over-ride the formula when it is hard on the territories but we do nothing when it is too generous e.g. Scotland roads provision. Can we stimulate Wales/Northern Ireland to changes that will reduce over-provision for Scotland?

Market Expectations

Will be difficult next year as they were wrong footed this year. We will need to be careful to ensure they do not have unreasonable expectations that will make the outcome disappointing. Press coverage was well handled this year; it is worth some effort to achieve the same result next year. We should discuss with the Press Office at the time of preparing Agenda Letters.

CONFIDENTIAL



Ch/ For info.
✓
D/S

Note of a meeting held in the Chief Secretary's room on 19 January 1989

1988 PUBLIC EXPENDITURE SURVEY POST MORTEM

Present: Chief Secretary
Mr Anson
Mr Monck
Mr H Phillips
Mrs Lomax
Mr MacAuslan
Miss Walker

A large, stylized handwritten signature in grey ink, possibly reading 'M' or 'P'.

It was agreed to take the Chief Secretary's comments on Mr MacAuslan's paper of 19 December as the agenda for the meeting.

Next Survey

2. The Chief Secretary confirmed that we should aim to freeze child benefit once again with some of the saving directed to discretionary increases for people on low income, not necessarily through family credit; increases for the disabled might also serve.

Industry

3. The Chief Secretary had already written to make clear that he wished to cash limit RSA next year. On the DTI programme more generally the Chief Secretary was about to write to Lord Young in response to the large underspend on his budget and indicating that this gave clear evidence for the scope for savings in the next Survey. The Chief Secretary asked that we formulate a clear strategy on how to approach the industry budget, identifying the soft areas. Mr Monck said that IAE would submit a strategy note on this soon. We would also need to consider the territorial implications. There had been a worrying note in Mr Newton's recent letter on the adequacy of regional selective assistance to deal with the regional problems.

Running Costs

4. It was agreed that we should stick to the objective of having 3 year settlements on running costs for the handful of departments still outstanding. Such agreements did not make sense with some departments such as PSA and ECGD. Some progress had been made in defining MOD running costs and the Chief Secretary would be receiving a report fairly soon. Mr Anson thought that the possibility of merging some departments would probably not make a great deal of difference to the running costs profile.

5. The Chief Secretary felt that he had not made a major contribution to the discussions and settlements of running costs in the last Survey since most of the work had been done by officials. He asked what advantage there would be in seeking to involve departmental Ministers in discussion of the running cost bids. This carried some risks since there was no doubt that they would be well briefed on this subject. It was agreed that in some cases it might be advantageous to exercise the sanction of Ministerial involvement.

6. Mr Anson suggested that divisions should select a few departments where a special effort by the Chief Secretary on running costs during the bilaterals might be justified. For example, it might be useful tactically to make a large issue of running costs at the first bilateral. The Chief Secretary thought that it was always worth making an issue of detail with the MOD. Mr Phillips said that it was also useful to regard the quality of control of running costs, and the effectiveness of the management plan, as an indicator of the department's grip on the management of their programme expenditure. The Chief Secretary agreed and thought we should continue to press departments to ensure that the management plan was a relevant and useful management tool and not just a document produced for Survey. His questions on this had revealed some ambiguity amongst departments.

Land and Buildings

7. Mr Anson said that the key task was for LG division to improve their information on departments' surplus land holdings. They would be reporting on this soon. In addition the Chancellor would be raising the point with Mr Ridley. This was clearly a fruitful area in some cases, for example, the progress made with police housing last year.

Scope for savings in 1989 Survey

8. The Chief Secretary thought that there was likely to be scope for further savings on the employment programme, thought not on the same scale as last year. He expected a significant underspend on the ET budget but suspected that Mr Fowler would come forward with proposals to transfer this into a new scheme. We should seek to ensure that he made no commitments which ruled out savings in the Survey. If the fall in unemployment levelled off it would be easier for Mr Fowler to resist Treasury options for reductions. The Chief Secretary asked that officials make maximum use of the indications available on the spending on employment in-year. It might be worth flagging up now that underspend on employment training resulted from over provision and should not be reallocated within DE. Mr MacAuslan said that the Treasury was involved in the Department of Employment's quarterly monitoring groups and this was a useful source. Mr Anson suggested that the Chief Secretary might have an early talk with the IAE 3 to review the schemes and consider how far it was realistic to push for further savings.

R & D

9. Mr Monck said that there were small savings still to come from MAFF, following the ADAS Review. E(ST) had received the Prime Minister's endorsement to take further savings from the DTI and MAFF. It was unlikely that we would succeed in getting more saving from the Department of Energy. It was unlikely that the overall savings secured on science would be sufficient to offset the likely bid from DES for extra provision for science and research.

Social Security

10. The Chief Secretary asked for an early meeting with officials to discuss strategy towards social security and consider what realistic options for saving we could pursue. The main area of pressure would be the disability review. It would be useful to have a meeting towards the end of February.

Health

11. Mr Anson thought it unlikely that we would be able to secure large savings from health charges but we should look at the scope for offsetting savings from efficiency and income generation.

12. Mr Phillips commented that we were unlikely to have the same easement from higher housing receipts that had helped us in the last Survey. Housing receipts would in any case no longer fall within the planning total (though they would be part of GGE).

Three year agreements

13. Mr Anson was most concerned by the downside risks with agreeing three year deals. In the case of defence it was clear that the advantages outweighed the disadvantages. And the Arts settlement had also worked quite well. But in general he thought that it was easier for departments to argue that a three year deal had come unstuck than it was for the Treasury to try and unscramble it. Moreover, in negotiating three year deals departments would insist on a large increase reflecting what they might have got in later years plus a margin for safety. The Chief Secretary asked whether transport was a likely candidate. It was agreed that the price for this would be very high. On the possibility of a three year deal on overseas aid the view was that a settlement would be possible only if it provided for an increasing percentage of GDP. The Chief Secretary agreed that on the face of it there seemed no strong candidates for negotiating a further firm 3 year deal but we should keep an open mind on this.

Main risks

14. The Chief Secretary said that it was clear that there would be enormous pressure for community charge softening. The disability review also presented significant risks, as did the the NHS review. Mr Anson said that he would be able to contain disability benefit spending only if we succeeded in targetting the benefits more successfully. Mr MacAuslan noted that the scope for savings on social security were mainly limited to child benefit, curtailing eligibility for unemployment benefit, and constraints on income support for people in residential homes. Mr Phillips said that the funding implications of specific NHS review recommendations would be very hard to resist. The key would be the extent to which we succeeded in getting offsets from the rest of the health programme. The Chief Secretary was not very optimistic on the scope for significant extra revenue from charges. He saw no purpose in pressing for charges that were clearly not realistic politically. He hoped that we could press for further efficiency savings as a result of the NHS review changes, and higher land sale figures.

15. The Chief Secretary thought that a Bill on green policies was a long way off. Our objectives should be to ensure that new policies were financed by charges levied on the private sector. Proposals for higher spending on research into climatic change should be handled in E(ST).

16. The other main threats identified were transport, coal, student loans, local authority capital, housing, prisons and general pay and price pressures.

The expenditure/GDP ratios

17. Mr Anson said that it would be very difficult to achieve a continuing downward path in the ratio the next Survey. The combination of lower forecasts of GDP, and the upward pressures on the planning total meant that there was a strong risk of the ratio turning up in 1990-91. The Chief Secretary said that it would be difficult to define the Cabinet remit given the changes in the planning total this year. Mr Anson also mentioned that the classification in the national accounts of the community charge was also likely to reduce GDP and thus tend to increase the ratio.

Strategy and Tactics

18. The Chief Secretary said that it would be helpful to have early strategy meetings with the expenditure groups to consider the preparations for and the handling of the next Survey.

19. On the bilaterals, the Chief Secretary said that he had on some programmes received extremely helpful advice from the Head of Group on a strategic approach to the Survey negotiations. This reflected a judgment about the merits of the programme, the department's likely tactics and the approach of the individual Minister. He would find it most helpful to have similar advice for each programme next time.

20. On the briefing, the Chief Secretary said that the vast amount of detail he received in preparation for the last bilaterals had been extremely useful. He recognised that this presented an enormous burden for divisions, but it was very worthwhile. In particular, it helped if he was better briefed than the Departmental Minister on the composition of, and rate of growth assumed in, the baseline. Outturn data for the current year was also extremely useful. He also wished to make more use of performance measures, although this obviously needed to be selective.

21. On the individual bilaterals, the Chief Secretary said that transport was the only one where he felt the tactics could have been improved. He had decided, he felt, to move too quickly to discussion about the overall total. We might have got a better result by scrutinising more closely Mr Channon's estimates of road price inflation. Mr Phillips thought this was debatable given the Department's determination to capitalise on the roads review. Moreover, DTp's forecasts of inflation had proved less inaccurate than they seemed in September.

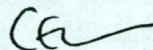
Territories

22. The Chief Secretary noted that the Welsh were likely to press for a change in the block arrangements. In view of this, and the continuing over provision in the Scottish block, he was anxious to look once again at the handling of the territories, and the question of whether we should modify the block arrangements in some way.

Press

23. The Chief Secretary thought that the press handling of the 1988 Survey had been very good. It would be more difficult next year since the commentators would not be taken by surprise again. Mr Anson said that our success in delivering both the ratios and higher programme expenditure would raise expectations for the same achievement next year. The Chief Secretary thought we should use the PEWP debate to start to dampen expectations on this.

H M Treasury
3 February 1989



MISS C EVANS
Private Secretary

Distribution: those present
Chancellor



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

CH/EXCHEQUE	
Date	20 MAR 1989
Time	CST
USES TO	

20 March, 1989.

pwp.

Dear Carys,

GUIDELINES FOR THE 1989 PUBLIC EXPENDITURE SURVEY

The Prime Minister was grateful for the Chief Secretary's minute of 15 March. She is content with the proposed guidelines, and has noted that the Chief Secretary will be formally circulating them by the end of the month.

I am sending copies of this letter to the Private Secretaries to the Members of the Cabinet, to Martin Le Jeune (Office of the Minister for the Arts), Myles Wickstead (Overseas Development Administration), Michael Saunders (Law Officers' Department), Alan Maxwell (Lord Advocate's Department), and Trevor Woolley (Cabinet Office).

*Yours,
Paul*

Paul Gray

Miss Carys Evans,
Chief Secretary's Office,
HM Treasury.

(Hall)

5/4
8/4
BF to mps

MP

Thanks,
to discuss
@ our pub mtg.
1000 speech mtg.

FROM: MRS JUDITH CHAPLIN
23rd March 1989

[Sph Audit
and CST]

CHANCELLOR

cc Chief Secretary
Miss Wallace

[us show
diff take
to x]

PUBLIC SPENDING

I believe it would be helpful if you made a speech which sets out the Government's policy on public spending - not in its narrow sense but as part of overall economic policy. It is the area in which the electorate are most confused. Having listened to and read much comment on the Budget, it is clear that the Government is perceived as being determined to tackle inflation and to lower tax when possible, but the message of whether the Government favours reducing public spending or increasing it is not very clear.

2. This has become increasingly important as the public demand better public services and as the Government tries to reform the Health Service. Too many people perceive the changes solely as attempts to reduce public spending. Opinion polls have always shown that people say they would prefer public spending to lower taxes, but fortunately they do not vote that way. But debt repayment compared with public spending cannot be as popular and the image that the Opposition parties will portray of the Government gathering in taxpayers' money and then refusing to spend it on the services which the public want could be extremely harmful. Certainly the Labour Party will portray this money as being available for infrastructure, health, education etc, and the arguments about the inflationary consequences of this are difficult to get across at a popular level.

3. I think it is vital that the Government policy on public spending should be seen as a continuous policy rather than as a reluctant response to either public or Opposition parties' demands. Any such speech would need to cover:

- i. that without a growing economy, increases in public spending are not possible - and the impertinence of the Labour Party happily planning to spend money they would not have accumulated;

What occasion

if not this, then what for IOD.

ii. that therefore there does need to be a balance between public spending, reducing tax to encourage the supply side of the economy and reducing debt because of the savings in future debt interest;

iii. that there has been continuous increased spending in priority areas, eg pensioners, health, education per pupil, etc.

iv. that there have already been major increases in the areas which people perceive to be underfunded at the moment - roads, rail, and hospital building - but that as the country has become successful again people's expectations have risen. The legacy of the '70s was not so easily perceived when everything was in gentle decline.

v. that savings have been made by reducing Government involvement in areas which are better done by the private sector - the privatisation programme, housing, contracting out etc;

vi. that savings have also come from the state working with the private sector in reducing dependency - from urban development corporations down to charitable giving;

vii. what is being spent is spent efficiently by this Government - relocation, efficiency measures, etc;

4. Such a speech need not be in terms of public spending only; the emphasis could be shifted to deal with the role and limitations of the state, but I do think it is important to get across the image of the Government having well-balanced judgement in the area of public spending. Indeed, perhaps more thought needs to be given to what is to be the Government's future policy on public spending so that credit is received for any chosen increases.

Jc
JUDITH CHAPLIN



OK 2 1/2%

Ch/

Sorry to come back to you with this. Margaret Peirson is unhappy with the 1991 RPI/Rossi assumption of 2% in para 18. On grounds of realism she would prefer at least 2 1/2% if not 3%. The Forecast is 2.2%. (You will see that the GDP deflator shows a less sharp decline, as well.)

I have not minuted out + await your comments.

015

FROM: J S HIBBERD
 DATE: 23 MARCH 1989

CHANCELLOR OF THE EXCHEQUER

cc : Chief Secretary
 Sir Peter Middleton
 Sir Terence Burns
 Mr Anson
 Dame A Mueller
 Mr H Phillips
 Mr Scholar
 Mr Monck
 Mr Culpin
 Mr H P Evans
 Mr C W Kelly
 Mrs Lomax
 Mr Mountfield
 Miss Peirson
 Mr Peretz
 Mr Riley
 Mr Robson
 Mr Sedgwick
 Mr Bottrill
 Mrs R Butler
 Mr Gieve
 Mr Gilhooly
 Mr MacAuslan
 Mr McIntyre
 Mr Mowl
 Mr Owen
 Mr Cunningham
 Mr Call
 Mrs Chaplin
 Mr Tyrie

a
OK?
AA
OK with alternative
(1.9m) unemployment
ass - 8.1m.
(P & C)

ECONOMIC ASSUMPTIONS FOR PUBLIC EXPENDITURE

This submission seeks your approval for a revised set of economic assumptions to be sent to Departments. (The departments who receive the assumptions are set out in Annex 3.) It is usual to circulate revised assumptions at this time of year, reflecting the FSBR, prior to the public expenditure round. These need to go to Departments by 5 April.

2. Assumptions are required on unemployment, retail price inflation, average earnings, interest rates and the GDP deflator, covering years up to 1992-93. None of these assumptions will be published at this stage. The assumptions to be issued now will be reconsidered in July in the light of the June economic forecast and other developments. If appropriate, we will then seek your approval to issue further revised economic assumptions to Departments, for use in the bilaterals. (They may also have to be reconsidered in the run up to the Autumn Statement.) Nonetheless, our general aim is to produce assumptions now that we are not forced to change.

3. A submission in September will cover the assumptions, revised as necessary, to be used in the final stages of the Survey negotiations and for publication (except for the interest rate figures, and also the average earnings figures for later years) in the 1989 Autumn Statement and the 1990 PEWP.

4. The proposed assumptions are consistent with the projections (short-term forecasts and medium term assumptions) in the FSBR.

Proposed assumptions

5. The remainder of this submission considers the proposed assumptions in turn. Tables at the end of this submission set out a comparison of the current proposals with the FSBR forecast; and with the PEWP assumptions originally issued in the 1988 Autumn Statement. A further table shows the main effects on public expenditure of changes in the economic assumptions.

Unemployment

6. The 1988 Autumn Statement assumption for unemployment (GB narrow, ie excluding school leavers etc) was for a flat path of 1.9 million from 1989-90 onwards after 2.1 million in 1988-89.

7. We do not publish a new unemployment assumption until the autumn and we have generally, at this time of the year, adopted something close to our best forecast as the assumption for the first year of the Survey period (ie 1989-90 this time). If the forecast proves correct, the assumption for the first year is partly history when published in November and so does not normally raise presentational problems; if the forecast proves wrong, the assumption can be, and is, revised before publication. The unpublished 1989 FSBR/MTFS projections for GB narrow unemployment are (in millions):

Financial Years				
<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-91</u>	<u>1992-93</u>
2.07	1.78	1.86	1.90	1.91

8. In February, GB narrow unemployment stood at 1.84 million. The forecast has a continuing fall in unemployment over the next few

months, mainly reflecting the current and lagged effects of recent strong growth. But, from the third quarter of 1989, unemployment starts to rise slowly as output growth slows down; unemployment is back to 1.85 million in 1990-91, and 1.9 million thereafter.

9. Given the closeness of the forecasts for 1990-91 and beyond to the last published assumptions for those years, it would be tempting to disregard the forecast for 1989-90 and stick with the 1.9 million assumption for all years (1989-90 to 1991-92) that departments are currently using (see table below). GEP and ST Divisions favour this approach since it would provide a more realistic basis for the survey and avoid difficult upward revisions that we may have to make in the future, if our forecasts turn out to be correct.

10. This could make for a presentational problem for 1989-90. Unemployment has been falling at 45-50,000 a month for the last six months and is likely to go on falling at a fair rate for a while yet. It could be down as low as 1.75 million in April, a number which would be known by departments in late May when they may still be preparing their bids. To persist with the assumption of 1.9 million for 1989-90 would therefore imply that we expected a sharp rise in unemployment over the rest of the year.

11. The rise we actually expect over the second half of 1989-90 is quite gradual. And it will not be until September/October, when we are due to consider what assumption to publish in the Autumn Statement, that we will even begin to be able to assess whether our forecast is likely to be verified for this year, and whether our judgement for later years looks secure.

12. I therefore propose that we should stick with the past conventions, unreliable though that may be when we are at cyclical turning point. That would imply 1.8 million for 1989-90, and over the rest of the Survey period. But you might also like to consider the alternative of sticking for now with 1.9 million for 1989-90 and all subsequent years as preferred by GEP and ST. The table below summarises the old and proposed new assumptions and the FBSR forecast/MTFS projection.

	<u>Unemployment Assumptions</u>				
	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>	<u>1992-93</u>
1989 PEWP	2.1	1.9	1.9	1.9	
FSBR/MTFS	2.07	1.78	1.86	1.90	1.91
Proposed assumptions		1.8	1.8	1.8	1.8
GEP and ST preferred assumption		1.9	1.9	1.9	1.9

Average earnings

13. The average earnings assumption published last November in the Autumn Statement showed a $7\frac{1}{2}$ per cent increase in 1989-90 after an estimated $8\frac{3}{4}$ per cent increase in 1988-89. The forecast underlying the FSBR has 9 per cent in 1989-90 following 9 per cent in 1988-89. (Neither of these figures was published in the FSBR.)

14. The Department of Employment's estimate of underlying growth in whole economy average earnings has drifted up from $8\frac{1}{2}$ per cent in January 1988 to 9 per cent in January 1989. The immediate prospect is for earnings growth to rise further in the next couple of months. Average earnings are unlikely to fall significantly until the end of 1989 or early 1990. It therefore seems likely that when, in the autumn, we come to consider the next set of earnings figures to be published in the Autumn Statement, we will have to raise the current assumption of $7\frac{1}{2}$ per cent for 1989-90 to 9 per cent. It is proposed that we raise the assumption now. For subsequent years it is proposed to assume a steady decline, though these figures will not be published. The assumption has only a relatively small effect on the estimate of demand-led expenditure, so that no serious amount of expenditure is at stake in the choice of earnings assumption.

15. The proposed assumption is a departure from what we did this time last year. Then, rather than take the risk of giving any impression that the government was acquiescing in higher earnings growth than previously anticipated (perhaps to the detriment of public sector pay negotiations), we retained the existing assumption, even though it was patently low. It is now common knowledge that earnings growth is high; many expect a further rise while few expect a quick fall. The risk of using 9 per cent is probably minimal, and it would be more sensible to use that rather than some obviously unrealistic figure.

	<u>Average earnings assumptions</u>				
	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>	<u>1992-93</u>
1989PEWP assumption*	8 $\frac{3}{4}$	7	6	5	
FSBR/MTFS	8.9	9.0	7.8	6.2	5.5
Proposed assumption		9.0	7 $\frac{3}{4}$	6 $\frac{1}{4}$	5

* Only 1988-89 and 1989-90 figures were published in Autumn Statement.

Retail Prices

16. RPI assumptions are needed for September 1989, 1990 and 1991, to determine the size of the social security upratings in the following financial years. The FSBR includes forecasts of RPI inflation at 5 $\frac{1}{2}$ per cent in 1989Q4 and 4 $\frac{1}{2}$ per cent in 1989Q2. The September 1989 inflation figure implied by the FSBR forecast is 6 $\frac{1}{4}$ per cent. The apparent sharp discontinuity between the September 1989 estimate of 6 $\frac{1}{4}$ per cent and the published forecast of 5 $\frac{1}{2}$ per cent for the fourth quarter of 1989 may be presentationally a little awkward. It is largely accounted for by the interest rate increases implemented in the second half of 1988 dropping out of the inflation calculation. The monthly profile for the second half of 1989 consistent with the FSBR forecast (which we sent you in late February) is as follows:

1989	July	7.6	
	August	6.2	- Interest rates rose 2 $\frac{3}{4}$ points in August 1988
	September	6.3	
	October	5.6	- Interest rates rose 1 $\frac{1}{4}$ points in October 1988
	November	5.6	
	December	5.6	

17. The forecast and MTFS path through 1990 and beyond implies a smoothly declining inflation profile, partly due to steadily declining interest rates. We use this to guide the assumptions for September 1990 and September 1991. At the time assumptions on the RPI next have to be published (in the Autumn Statement) the September 1989 figure will be recorded history, and the September 1990 figure will have to be reconsidered in the light of the 1990Q4 inflation forecast to appear in the Autumn Statement. The table below summarises the assumptions used in the 1989 PEWP, the FSBR/MTFS figures and the assumptions that it is now proposed to issue to Departments.

18. The RPI excluding housing (the Rossi index), which is used for uprating about a third of the social security programme is expected to rise by about 5 per cent in the year to September 1989 and by 4 per cent in the year to September 1990 (unpublished figures used in the PEWP were 5 per cent and 4 per cent for 1989 and 1990 respectively). The RPI excluding housing is projected to rise by 2 per cent in the year to September 1991. The Rossi index is never published.

Retail price index assumptions

Yes it is. DSS are prepared to publish it in response to PPS and published the latest figures in 1989 PEWP.

	Increase in September over previous September		
	<u>1989</u>	<u>1990</u>	<u>1991</u>
1989 PEWP	5½	4	
FSBR/MTFS	6.3	3.7	2.2
Proposed RPI assumption	6½	4	2
Proposed RPI (excluding housing) assumptions - Rossi	5	4	2

} 2½ or 3 better?

GDP deflator

19. A path of the GDP deflator over the MTFS period was published in the FSBR, and no changes to this are proposed. It is given below for reference, along with the 1987 MTFS/1988 PEWP figures.

GDP deflator, per cent changes on previous financial year

	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>	<u>1992-93</u>
1989 PEWP	6½	5	3½	3	
FSBR/MTFS	7¾	5½	4	3	2½

Interest Rates

20. The table below summarises the latest interest rates and the assumptions underlying the figuring in the FSBR forecast:

	<u>Latest</u> (close 22 March)	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>	<u>1992-93</u>
3 month interbank	12.9	11.3	12	10.25	8.6	7.1
20 year gilt rate	9.3	9.3	8.8	8.3	7.6	7.3
6 month Dollar LIBOR	10.6	8.7	10.1	9.8	9.3	9.2

21. The FSBR incorporated a 1 point cut in interest rates during the third quarter of 1989 and a further 1 point cut during the first quarter of 1990. It is proposed that the interest rate assumption should track these forecasts, and the steady decline assumed in the MTFs, closely. These assumptions are not published.

	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>	<u>1992-93</u>
<u>3-month interbank</u>					
1989 PEWP	10¾	11	9½	9	
Proposed Assumption		12	10	8½	7
<u>20-year gilt rate</u>					
1988 PEWP	9½	9½	9½	9½	
Proposed Assumption		8½	8	7½	7
<u>6-month dollar LIBOR</u>					
1988 PEWP	9	10	9	9	
Proposed Assumption	10	10	9	9	9

Effects on expenditure

22. Annex 2 sets out a ready reckoner indicating the approximate effect on forecast expenditure of changes to the economic assumptions. The table below shows the changes in expenditure implied by the proposals made in this submission, as compared with the assumptions used in the estimates published on Budget day.

<u>Assumption:</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
Unemployment	- 255	- 265	- 275
RPI	+ 225	+ 225	+ 225
GDP deflator	25	50	50
Interest rates	110	80	- 65
<hr/>			
Total	+ 105	+ 90	- 65
Total (assuming 1.9 million unemployed	+ 360	+ 355	+ 210

Decisions

Are you content for us to proceed as proposed? In particular, which of the unemployment assumptions do you prefer? We would like to circulate revised assumptions by April 5 if at all possible.

Jim Hibberd
J S HIBBERD

ANNEX 1 Table 1

ASSUMPTIONS ON UNEMPLOYMENT, EARNINGS AND INFLATION

<u>Unemployment GB narrow (millions)</u>	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>	<u>1992-93</u>
<u>Published</u> PEWP assumption	2.1	1.9			
<u>Unpublished</u> October 1988 assumption			1.9	1.9	1.9
<u>Unpublished</u> FSBR/MTFS figures	2.06	1.78	1.86	1.90	1.91
<u>Proposed Assumptions</u>	2.06	1.8	1.8	1.8	1.8

	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>	<u>1992-93</u>
<u>Average earnings per head</u> <u>(per cent changes)</u>					
<u>Published</u> PEWP/GA assumption	8¼	7½			
<u>Unpublished</u> PEWP/GA assumption			6	5	
<u>Unpublished</u> FSBR/MTFS figures	8.9	9.0	7.8	6.2	5.5
<u>Proposed Assumptions</u>		9	7½	6	5

<u>RPI (per cent changes)</u>	<u>Year to</u> <u>September</u> <u>1989</u>	<u>Year to</u> <u>September</u> <u>1990</u>	<u>Year to</u> <u>September</u> <u>1991</u>
<u>Published</u> PEWP assumption	5½	4	
<u>Unpublished</u> FSBR/MTFS figures forecast	6.3	3.7	2.2
<u>Proposed Assumptions</u>	6¼	4	2

<u>RPI excluding housing - Rossi index (per cent changes)</u>	<u>Year to</u> <u>September</u> <u>1989</u>	<u>Year to</u> <u>September</u> <u>1990</u>	<u>Year to</u> <u>September</u> <u>1991</u>
<u>Unpublished</u> PEWP assumptions	5	4	
<u>Unpublished</u> FSBR/MTFS forecast	4.7	3.5	2.1
<u>Proposed Assumption for RPI excluding housing</u>	5	4	2

<u>GDP deflator (per cent changes)</u>	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>	<u>1992-93</u>
<u>Published</u> PEWP assumption	6¼	5	3½	3	
<u>Published</u> FSBR/MTFS figures	7¼	5½	4	3	2½
<u>Proposed assumptions</u>		5½	4	3	2½

ANNEX 1 Table 1 (continued)

ASSUMPTIONS ON INTEREST RATES

<u>3-month sterling interbank rate</u>	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>	<u>1992-93</u>
<u>Unpublished</u> PEWP assumption	10½	11	9½	9	
<u>Unpublished</u> FSBR/MTFS figures	11.3	12.0	10.25	8.6	7.1
<u>Proposed Assumptions</u>		12	10	8½	7
<u>20-year gilt rate</u>	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>	<u>1992-93</u>
<u>Unpublished</u> PEWP assumption	9½	9½	9½	9½	
<u>Unpublished</u> FSBR/MTFS figures	9.3	8.8	8.3	7.6	7.3
<u>Proposed Assumptions</u>		8½	8	7½	7¼
<u>6-month Dollar LIBOR</u>	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>	<u>1992-93</u>
<u>Unpublished</u> PEWP assumption	9	10	9	9	
<u>Unpublished</u> FSBR/MTFS figures	8.7	10.1	9.8	9.3	9.2
<u>Proposed Assumptions</u>	9	10	9	9	9

ANNEX 2 Table 2

EFFECT OF CHANGES IN ASSUMPTIONS ON THE PUBLIC EXPENDITURE PLANNING TOTAL

	<u>£ million</u>			
	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>	<u>1992-93</u>
(a) <u>100,000 rise in unemployment</u>				
DHSS	255	265	275	285
(b) <u>One point rise in sterling interest rates</u> <u>for 1989-90</u>				
ECGD (short rates)	50	-	-	-
Housing subsidies (pool rate**) (UK)	25	8	2	-
DTI credit to shipbuilders (short rates)	25	-	-	-
LAPR/MIRAS	25	-	-	-
(c) <u>One point rise in 20 year gilts</u> <u>for 1989-90</u>				
Housing (UK)	3	10	8	8
(d) <u>One point rise in dollar interest</u> <u>rates for 1989-90</u>				
ECGD	9	-	-	-
(e) <u>One per cent higher September</u> <u>1989 RPI ***</u>				
DSS (relevant to April 1990 uprating)	420	420	420	420
N Ireland	12	12	12	12
Civil Superannuation	15	15	15	15
ODA Superannuation	2	2	2	2
(f) <u>GDP deflator 1% higher in 1989-90</u>				
Housing benefits (GB)	50	50	50	50
(N Ireland)	2	2	2	2

* Under the new system, housing lines may be different and there will be a new line for statutory sick pay/maternity pay.

** Housing subsidy pool rate responds with a lag to changes in short and long rates.

*** Ready reckoner applies to one point change in both the all items RPI and the ROSSI index.

ANNEX 3DEPARTMENTS RECEIVING ECONOMIC ASSUMPTION

<u>Unemployment</u>	DHSS, DEmp, Northern Ireland Office, (NIO), GAD
<u>RPI including and excluding housing costs</u>	DHSS, ECGD, NIO, GAD
<u>GDP deflator</u>	DHSS, GAD
<u>Average earnings</u>	DHSS, GAD
<u>Interest Rates</u>	DTI, ECGD, DOE, NIO, Scottish Office, Welsh Office. (The last four receive these to compute housing subsidies.)

- * Superannuation uprating assumptions go to departments paying public service pensions. Though described as superannuation uprating assumptions, the departments are well aware that they are actually the September to September all items increase.



FROM: D I SPARKES
DATE: 3 April 1989

MR HIBBERD

cc PS/Chief Secretary
Sir P Middleton
Sir T Burns
Mr Anson
Dame A Mueller
Mr Phillips
Mr Scholar
Mr Monck
Mr Culpin
Mr H P Evans
Mr C W Kelly
Mrs Lomax
Mr Mountfield
Miss Peirson
Mr Peretz

Mr Riley
Mr Robson
Mr Sedgwick
Mr Bottrill
Mrs R Butler
Mr Gieve
Mr Gilhooly
Mr MacAuslan
Mr McIntyre
Mr Mowl
Mr Owen
Mr Cunningham
Mrs Chaplin
Mr Tyrie

pmp

ECONOMIC ASSUMPTIONS FOR PUBLIC EXPENDITURE

The Chancellor was grateful for your minute of 23 March seeking his approval for a revised set of economic assumptions to be sent out to Departments prior to the public expenditure round. The Chancellor agrees with most of your recommendations, but would prefer the RPI/Rossi assumption in 1991 to be 2½ per cent. Of the two unemployment assumptions, the Chancellor would prefer 1.9 million for all years.

D.I.S.

DUNCAN SPARKES

pw/p



Ch.

Content?

PS / CHANCELLOR

11/5

I attach a copy of a minute which the Chief Secretary proposes to send to the Prime Minister ahead of next week's meeting on the 1989 Jurney.

2. The Chief Secretary would be grateful to know whether the Chancellor is content

Handwritten in red:
Campbell
11 May

SECRET

FROM: CHIEF SECRETARY

DATE: 11 May 1989

PRIME MINISTER

1989 SURVEY

We are to discuss next week the prospects for the 1989 public expenditure Survey.

2. Public expenditure restraint has been a key instrument of our economic strategy over the past ten years. We have held the growth of public spending below that of money GDP, in order to eliminate the borrowing requirement and to make room for reductions in the tax burden. Since 1982-83, the ratio of government spending to GDP has fallen by 7 percentage points, bringing it, for the first time in 20 years, to under 40 per cent.

3. But our success in controlling expenditure has been used primarily to ^{tighten} ~~turn~~ round the fiscal ^{stance.} position. The tax burden has fallen only ^{slightly} ~~gently~~ since ^{the} 1981-82 ^{peak,} and is still ^{well} above the 1978-79 level. If we are to get below that level we must continue to keep a firm grip on expenditure.

4. We have been helped in the last year or two by very strong economic growth. That pushed up money GDP; it also meant savings on expenditure from lower unemployment, more housing sales, better performance by the nationalised industries, and lower debt interest. We took credit in the expenditure plans announced after the 1988 Survey for the progress thus made. We were able to increase provision for key programmes, and find sufficient savings to maintain a modest decline in the ratio of government spending to GDP.

5. The outlook for the 1989 Survey must at this stage remain uncertain - as regards both the extent of spending pressures and the path of the economy. But we have no reason at present to expect anything other than the slowdown in the growth of money GDP projected in the Budget; and some of the developments which worked in our favour in the last Survey will not do so this time.

SECRET

6. As for spending, I have reviewed the prospects for each department carefully. It is clear that after 10 years of searching scrutiny it will be far more difficult to find offsetting policy savings than in the past. It is therefore essential to achieve any savings that are available, and ^{to} restrict increases in all but the highest priority areas.

7. There will be strong upward pressure on many spending programmes. The bids will reflect the commitments we have already made (adding about £1 billion to expenditure in 1990-91) and other proposals are already in view which are unavoidable and amount to another £2½ billion or so.

8. Any increase in investment in housing, rail, or prisons, and any extra for education and science or an expansion of the health service would have to come on top of that. Departments will also be very conscious of the prospects for inflation, particularly those whose programmes ^{have been} ~~were~~ squeezed because inflation ^{has} ~~turned out~~ higher than when last year's plans were set.

9. There will also be great pressure this year for higher grant to local authorities so as to keep down the levels of the community charge in the year of its introduction. However, there is a real danger here that any extra grant would simply pass through into higher spending and ^{not be used} ~~cannot be guaranteed~~ to hold down community charges. Some councils will undoubtedly set a high community charge in order to embarrass the Government. There is clear evidence of that in Scotland, where councils have increased the community charge further than was required, even to finance the excessive levels of spending they budgeted for.

10. It will be important for colleagues to understand that the budget surplus is not a cornucopia. The prospect is that a good deal of it will ^{automatically} disappear as economic growth moderates. Spending it incautiously would risk fuelling inflation, and as I indicated in paragraph 2 above, it needs to be dedicated to reducing the tax burden if we are ^{ever} ~~to~~ ^{bring it back} ~~reduce it~~ to the level ^{of} ~~of~~ ten years ago. ^{which}

not regarded as too high at the time.

not relevant

SECRET

11. Since savings this year will not be available on the scale of last year, neither can we afford ~~similar~~ ^{on last year's scale} increases without damage to our general policy. The first decision - and politically one of the most difficult - will be the settlement for local authorities in E(LF). The outcome of that will invariably have a major impact on the rest of the Survey. I conclude that, as ever, difficult choices will be inescapable.

JOHN MAJOR

SECRET

SECRET

gwp

FROM: J MACAUSLAN (GEP1)

DATE: 11 MAY 1989

x 4780

CHIEF SECRETARY

cc: Chancellor
Sir P Middleton
Mr Anson
Sir T Burns
Mr Monck
Mr Phillips
Mrs Lomax
Mr Riley
Mr Sedgwick
Miss Walker

* *Ch/*

*I have
added
comments*

Any comments on draft
minute to PM? You may wish to
discuss with CST after Prayers.

1989 SURVEY: MEETING WITH PRIME MINISTER

As foreshadowed in Mr Anson's note to you of 9 May, I now attach a short draft minute to the Prime Minister in preparation for your talk with her next week. The draft reflects your meeting this morning, and comments from Mr Anson, Mrs Lomax, Mr Riley, and Mr Potter.

2. You will no doubt want to take on any comments from the Chancellor before sending the minute.

3. Tomorrow I will submit some briefing (comprising, I envisage, some tables of background information, along with a few speaking notes on questions the Prime Minister may raise).

JM

J MACAUSLAN

SECRET

1989 SURVEY: DRAFT MINUTE TO PRIME MINISTER

We are to discuss next week the prospects for the 1989 public expenditure Survey.

2. Public expenditure restraint has been a key instrument of our economic strategy over the past ten years. We have sought to hold the growth of public spending below that of money GDP, in order to bring the budget back into balance and to make room for reductions in the tax burden, and thus to improve the working of the economy. Since 1982-83, the ratio of government spending to GDP has fallen by 7 percentage points, bringing it, for the first time in 20 years, to under 40 per cent.

3. But our success in controlling expenditure has been used primarily to turn round the fiscal position. The tax burden has fallen only gently since 1981-82, and is still above the 1978-79 level. If we are to get below that level we cannot afford to let up on expenditure.

4. We have been helped in the last year or two by strong economic growth. That pushed up money GDP; it also meant savings on expenditure from lower unemployment, more housing sales, better performance by the nationalised industries, and lower debt interest. We took credit in the expenditure plans announced after the 1988 Survey for the progress thus made. We were able to increase provision for key programmes, and find sufficient savings to maintain a modest decline in the ratio of government spending to GDP.

5. The outlook for the 1989 Survey must at this stage remain uncertain - as regards both spending pressures and the path of the economy. But we have no reason at present to expect anything other than the slowdown in the growth of money GDP projected in the Budget; and some of the developments which worked in our favour in the last Survey will not do so this time.

6. As for spending, I have reviewed the prospects for each department carefully. It is clear that after 10 years of searching scrutiny it will be more difficult to find offsetting policy savings than in the past. It is therefore all the more important to achieve any savings that are available, and restrict increases in all but the highest priority areas.

7. There will be strong upward pressure on many spending programmes. The bids will reflect the commitments we have already made (adding about £1 billion to expenditure in 1990-91) and other proposals are already in view which are likely to be accorded a high priority (coming to another £2½ billion or so).

8. Any increase in investment in housing, rail, or prisons, and any extra for education and science or an expansion of the health service would have to come on top of that. Departments will also be very conscious of the prospects for inflation, particularly those whose programmes were squeezed because inflation turned out higher than when last year's plans were set.

9. There will also be pressure this year for higher grant to local authorities so as to keep down the levels of the community charge in the year of its introduction. But any extra grant is likely to pass through into higher spending and cannot be guaranteed to hold down community charges. Some councils will feel little compunction about setting a high community charge in order to embarrass the Government. There is evidence of that in Scotland, where councils have increased the community charge further than was required, even to finance the excessive levels of spending they budgeted for.

10. It will be important for colleagues to understand that the budget surplus is not a cornucopia. The prospect is that a good deal of it will disappear as economic growth moderates. Spending it incautiously would risk fuelling inflation, and as I indicated in paragraph 2 above, it needs to be dedicated to reducing the tax burden if we are to get the tax burden down to the level of ten years ago.

11. I conclude that difficult choices will be inescapable if we are to achieve the fruits of the policy we have followed over the last 10 years. If savings are not available on the scale of last year, neither can increases on that scale be afforded. The first challenge will be the settlement for local authorities in E(LF). The outcome will have a major impact on the rest of the Survey.

CONFIDENTIAL

FROM: J MACAUSLAN (GEP1)
DATE: 12 MAY 1989
x 4780

MAC
AUSLAN
→ CST
12/5

CHIEF SECRETARY

cc: **Chancellor**
Sir P Middleton
Mr Anson
Sir T Burns
Mr Monck
Mr Phillips
Mrs Lomax
Mr Riley
Mr Sedgwick
Miss Walker

Ch/ GEP will need to know on Monday if you require any briefing in addition to the attached.

This will do. DIS

1989 SURVEY: MEETING WITH PRIME MINISTER 17 MAY

As promised in my note of yesterday, I now attach some briefing for your talk with the Prime Minister next week.

2. The briefing consists of several tables of background information:

- 1 recent trends in expenditure, tax and borrowing as a percentage of GDP.
- 2 average annual real growth rates of expenditure over selected periods.
- 3 summary of likely / possible additions in the 1989 Survey.
- 4 commitments already made.
- 5 bids that look virtually irresistible.
- 6 possible Treasury options.
- 7 main economic assumptions.

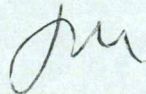
CONFIDENTIAL

3. I also attach at the annex some speaking notes on areas where the Prime Minister might suggest substantial savings might be found.

4. I have not included any briefing on the new planning total. I think it would be best to avoid discussion of that. It would distract from the main business of the meeting. I have suggested as much to Paul Gray, who I think agrees. If the Prime Minister wants to discover about the new planning total she can ask her Principal Private Secretary!

5. You may also want to take with you Mr Anson's note to you of 9 May and the papers it covered. Annex A to my note in that pack set out the prospects for the 1989 Survey as we see them. Annex B set out the outcome of the 1988 Survey.

6. I will be away next week, rebuilding Offa's Dyke. But if you would like any more briefing, others here will no doubt provide it.



J MACAUSLAN

TRENDS IN EXPENDITURE, TAX AND BORROWING

(% of GDP)

	<u>GGE</u> <u>ex priv proc</u>	<u>Tax burden</u> <u>(non-oil)*</u>	<u>PSBR</u>
1978-79	43½	34½	5½
1979-80	43½	35	4½
1980-81	46	36½	5½
1981-82	46½	38½	3½
1982-83	46¾	38½	3½
1983-84	45¾	37¾	3½
1984-85	46½	37¾	3
1985-86	44½	37½	1½
1986-87	43¾	37¾	1
1987-88	41½	37¾	-¾
1988-89	39½	37½	-3
1989-90	39½	37½	-2¾
1990-91	39	36¾	-1¾
1991-92	38¾	36	-1
1992-93	38	35½	-½

(Source: FSBR)

* Non-oil taxes and NICs as % of non-oil GDP

AVERAGE ANNUAL REAL EXPENDITURE GROWTH

(%)	Planning total (old)	Planning total ex priv proc	GGE	GGE ex priv proc	Debt interest
<u>FSBR</u>					
1968-69 to 1978-79	2.8	2.8	2.9	2.9	3.5
1978-79 to 1988-89	0.4	0.9	0.9	1.3	1.2
1984-85 to 1988-89	-1.4	-0.7	-0.8	-0.2	-1.8
				ie -0.8 1988-89 on 1984-85	
1984-85 to 1989-90	-0.1	0.1	-0.1	0.2	-3.8
				ie +0.9 1989-90 on 1984-85	
1988-89 to 1991-92	4.1	3.4	2.2	1.7	-10.7
<u>MacAuslan Annex A</u>					
1989-90 to 1992-93	4½	4¼	3	2¾	-9½

LIKELY ADDITIONS

(£ million)

		<u>1990-91</u>	<u>1991-92</u>	<u>1992-93</u>
COMMITMENTS (see table 4)		950	1,000	1,050
STRONG BIDS (see table 5)		2,500	2,300	2,900
OTHER		2,650	3,300	5,000
[Defence, EC, rail, DOE, prisons and courts, education and science, health service development, territories, etc, except where covered in Tables 4-5]				
AEF		1000	1250	1350
Reserve	A	-3,500	-3,500	-3,500
TOTAL NPT	B	3,600	4,350	6,800
Local authority self financed	C	2,000	2,250	2,500
TOTAL GGE		5,600	6,600	9,300
[Memo item Change to programmes on old planning total basis (=C + B - A)]		[9,100	10,100	12,800]

TABLE 41989 SURVEY: COMMITMENTS

(£million)

	<u>1990-91</u>	<u>1991-92</u>	<u>1992-93</u>
<u>MOD</u>			
BNFL	25	25	25
<u>ODA</u>			
Nigeria	45	45	45
<u>DES</u>			
Student loans	175	175	175
University pay	35	38	45
<u>DSS</u>			
Poorer pensioners	205	215	220
Pensioners' earnings	400	415	425
Community Charge benefit	100	100	100
Student loans	-60	-60	-60
<u>IR</u>			
Relocation	14	17	20
<u>SO</u>			
Extra RSG for UBR	20	30	40
	<u>950</u>	<u>1,000</u>	<u>1,035</u>

MAY 1989

TABLE 5

1989 SURVEY; STRONG BIDS
(£million)

	<u>1990-91</u>	<u>1991-92</u>	<u>1992-93</u>
<u>DEn</u>			
Coal restructuring	250	250	250
Electricity exit EFL	400	-50	
<u>DTP</u>			
Roads	150	250	600
<u>HO</u>			
Police	150	200	250
<u>DH</u>			
Review Bodies 1989	145	150	155
Consultants	25	40	40
Other review related	300	400	500
Community care	50	50	50
<u>DSS</u>			
Higher rpi	220	230	235
Estimating	160	165	170
<u>N Ireland</u>			
Harland	60	-	-
Shorts	100	50	-
<u>Other</u>			
VAT on fuel etc	185	185	185
Non Domestic Rates	300	325	400
TOTAL (£billion)	2.5	2.3	2.9
<u>Memo</u>			
Rail (BR + LRT)	300	400	500

POSSIBLE MAIN TREASURY OPTIONS

	<u>1990-91</u>	<u>1991-92</u>	<u>1992-93</u>
DTI [various]	-50	-70	-100
DE [ET, YTS]	-100	-150	-200
DOE [HATs, urban, New Towns, etc]	-100	-100	-100
DH [land sales/CIPs]	-150	-350	-800
DSS [CB, UB]	-200	-275	-300

Note: achievement of some Treasury options is already assumed in the figures in Table 3 above.

ECONOMIC ASSUMPTIONS

	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>	<u>1992-93</u>
<u>GDP deflator</u>				
AS 1988	5	3½%	3%	
March 1989	5½	4%	3%	
<u>Unemployment</u>				
AS 1988		1.9m	1.9m	1.9m
March 1989		1.9m	1.9m	1.9m
<u>Rpi (year to previous September)</u>				
AS 1988		5½%	4%	
March 1989		6¼%	4%	2½%
<u>ROSSI (year to previous September)</u>				
AS 1988		5%	4%	
March 1989		5%	4%	2½%
<u>Effect on DSS expenditure of RPI change</u>				
(£ million)		+220	+230	+235

SPEAKING NOTES FOR MEETING WITH THE PRIME MINISTERPossible Savings

Local authority receipts: realistic forecast of RTB receipts made last autumn. If anything, conditions since more likely to mean forecast too high rather than too low. NB such receipts not in planning total any more (but in GGE).

Agriculture: provision reflects average of recent harvests. No reason to expect another below average harvest.

Unemployment: provision based on assumption of 1.9 million. Could be small further savings (about £¼ billion); but if so, may be more than offset by RPI increases. No prospect of savings on scale of £1¼ billion we were able to project last year.

Nationalised industries: credit for much improved trading performance taken in last Survey. Reflected economic growth and productivity improvements. Any such further improvement likely to be modest, and more than offset by greater need for investment (transport industries even after allowing for fare increases) and restructuring costs (coal).

Science and technology: very welcome savings achieved last year. Some further savings possible on agriculture and DTI, but savings at best modest (a few tens of millions of £s). Need to make room for "green" environment/climate bids, by making spending Ministers change their priorities.

Privatisation proceeds: £5 billion now in plans is target. In any case, Government expenditure objective expressed in terms of GGE excluding privatisation proceeds.

Debt interest: provision already reflects Budget PSDR projections (lower than in Autumn Statement; but offset by higher other national accounts adjustments within unchanged GGE cash figures and ratios). No reason to expect change, could go either way.

Reserve: to be decided in autumn. Need to set at prudent level. Even if set slightly lower because new planning total covers only ¾ of local authority expenditure, that does not allow any higher spending on departmental programmes; needed for higher LA self-financed expenditure if we are to hit GGE targets.

dti

the department for Enterprise

CONFIDENTIAL

The Rt. Hon. Lord Young of Grafton
Secretary of State for Trade and Industry

The Rt Hon John Major MP
Chief Secretary
H M Treasury
Parliament Street
LONDON SW1P 3AG

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Date 17 May 1989

L. Young
Mr. Kevatta with attachments
CX Sir Peter Phillips
Mr. Frison Mr. Morale
Mrs. Komax Mr. P. Wilson
Mr. Luce Mr. MacIntosh Mr. Hamford.
Mr. Call Mrs. J. Walker

Dear Chief Secretary,

1989 PUBLIC EXPENDITURE SURVEY

I have reviewed with the Chancellor of the Duchy my Department's expenditure programmes for the 1989 Survey. This letter sets out our proposals for the Department's programme expenditure and running costs. As required, I enclose with it the Department's running cost management plan for 1990-91 to 1992-93.

Overview

2 As the table at Annex A shows, my bids total +£18.2m, +£51.0m and -£27.1m. My net bids therefore total just over £40m, and lead to a baseline declining to under £1140m by 1992-93. My bids for cash-limited programmes are below baseline in each PES year. The Department's expenditure has of course decreased very significantly in recent years: it now spends less than any other Department identified separately in the Public Expenditure White Paper except Energy and the Office of Arts and Libraries.

3 I have sought to keep as close to baseline as possible, and I have in particular examined my bids closely in the light of underspends in 1988-89. I have however concluded that I need the resources for which I am bidding to consolidate the Department's active role in the stimulation of enterprise and competition. My bids show some shift from programme expenditure to running costs. This reflects increases in pay and accommodation bids which are outside my control, and which



offset accommodation savings arising from relocation : it is also in line with the new objectives I have set for the Department which reflect my determination to promote enterprise and competition without throwing money at problems.

4 I should add that I am still reviewing the case for additional bids for the Research Establishments and standards. However, I shall only be making an additional bid for the Research Establishments if I am convinced that this would allow the rationalisation of the National Physical Laboratory site and lead to savings which could be shown in investment appraisals to outweigh initial costs. Any extra bid on standards would be 1992-related and would be relatively small.

Non cash limited programme expenditure

5 I am making a significant bid for Regional Selective Assistance which reflects the scope I see for marketing the UK aggressively to inward investors seeking to set up operations in the EC in the run-up to 1992. I attach considerable importance to making the most of the window of opportunity which will undoubtedly arise in this connection. Following consultation with Malcolm Rifkind and Peter Walker, Tony Newton wrote to you about this on 15 May and he will be discussing our proposals with you in detail before long. The bid also continues to reflect the likelihood of a knock-on increase in demand for RSA as a result of the closure of the RDG scheme. Since the reductions in RDG and Regional Enterprise Grants (see paragraph 15 below) more than outweigh the RSA bids, the figures for regional expenditure as a whole show a marked decrease. However I should make clear that there are a number of issues under review that could affect them: besides the initiative we are taking on Regional Selective Assistance, an evaluation of the REG scheme will be completed in June; decisions also need to be taken on the future strategy for English Industrial Estates Corporation. I do not exclude the possibility that some upward revision of the figures may be necessary as a result of all this.

6 I need deal only briefly with my other non-cash-limited programmes. The aerospace changes principally reflect a revised profile of launch aid payments in respect of the A330/340 : over the three PES years, the bids for aerospace are still nearly £20m below baseline. The shipbuilding bids result from revised forecasts for interest relief under the Home Credit Shipbuilding Guarantee Scheme, and from the need to provide intervention fund (IF) support from the private sector IF budget for the Appledore yard following its privatisation : this money would otherwise have had to come

from provision for British Shipbuilders. The bids also cover estimated likely IF requirements for the Ferguson yard, about the future of which Tony Newton is writing separately to you. The steel bid results from revised forecasts of payments to redundant steelworkers under the statutory Iron and Steel Employees Readaption Benefits Scheme (ISERBS). There are reductions in the requirements for Regional Development Grants and National Selective Assistance. | 06/10

7 I should note that I have not made any allowance in my regional expenditure bids for offsetting savings to match ERDF receipts for English Local Authority measures to assist small and medium sized firms : these are estimated at some £5m a year, although the figures are still highly uncertain. These ERDF receipts are of course merely channelled through the Department to local authorities and others, and mostly relate to projects which are far closer to the objectives of the Environment and Employment Departments than to those of my Department. There is no case for this Department having to find offsetting savings in respect of these projects: I shall be writing separately to Nicholas Ridley and Norman Fowler about this. | can
6/10

Cash limited programme expenditure

8 I am sure you will note with pleasure and approval that, as I have already pointed out, my bids for cash-limited programmes are below baseline in each of the three PES years and, taken together, are more than £6m below baseline. I regard this as highly satisfactory.

9 The innovation baselines have again been reduced significantly as a result of the operation of the Europes system : over the three PES years, the baseline reductions this year total some £46m, on top of the £30m reductions made in last year's Survey. The total Europes reductions in innovation baselines this year and last therefore total some £76m. I am prepared to accept a further considerable baseline reduction this year, particularly given the underspend on this budget in 1988-89 (about which I warned you during last year's bilaterals). However, I expect expenditure under my new innovation programmes to build up, and I cannot accept the whole of this year's enormous additional Europes reductions, which are based on the wholly erroneous assumption that all EC R&D spending is of benefit to my Department's objectives. I am therefore bidding to reinstate part of these reductions : even with these bids, the innovation baselines would be over £30m below their 1989 pre-Europes levels, and

that is without taking account of the Europe's reductions made in last year's Survey.

10 As you know, I have concluded that a case could be made for UK participation in the proposed second European Remote Sensing Satellite (ERS-II), and offered to fund 50% of the costs. There is no scope for finding these costs from within the existing baseline for space: I am therefore bidding for these costs, which I propose to offset against reductions in other cash-limited programmes, in line with my undertaking to you in correspondence on ERSII. I look to customer Departments to provide PES transfers to fund the other 50% of the costs. ERS-II notwithstanding, our prime objective in space remains the commercial exploitation of earth observation services. To achieve this I am convinced on the evidence of negotiations in ESA to date that we need to step up our level of participation in the relevant ESA programmes so as to achieve leadership and drive these programmes in the direction needed to secure our objectives. I am therefore also bidding for the costs of increasing our participation in the Columbus Polar Platform and its instruments. Actual payment of an increased subscription would be conditional on ESA choosing a satellite configuration and payload clearly offering greater scope for development directed towards commercial operations.

11 My bid for exports arises principally from a small increase in expenditure in 1990-91 before the costs of new export services are offset by other reductions, together with extra funding for EXPO 92. In line with the Prime Minister's direction that the costs of EXPO 92 should be met without any additional funding, I also propose to offset these costs against reductions in other cash-limited programmes. The bid makes no allowance for receipts from any new cost-based charging regime, and may therefore need to be reviewed in the light of any decisions on this subject.

12 The Departmental administration bid relates to computers and major works. I am determined to ensure up to date computer systems to improve the delivery of the Department's service and to increase internal efficiency. My assessment is that a significant increase in provision is necessary to fund key projects within the Department's overall strategy and to improve efficiency: in the long run this will produce savings, although it means a short-term increase in running costs. All such projects would of course first be established as worthwhile in line with Treasury guidance. There is a major works bid in 1990-91 only: this is needed for relocation and for essential accommodation works, and is partially offset by increased receipts.

13 I am also making bids over baselines on other programmes. On standards, almost all the overbid results from likely expenditure in support of Sir Basil Feldman's Quality Mark Campaign, to be offset by savings on other cash-limited programmes : the rest reflects the increasing importance of standards in the run-up to 1992. The overbid on miscellaneous support services is for inward investment promotional expenditure and similarly reflects anticipated higher demand from overseas investors in the run up to 1992. The overbid for the protection of innovation results from increases in international subscriptions and from expenditure on computers and relocation, which will lead to longer term running cost savings. The regulation and consumer protection programme covers support for a number of bodies, and my overbids reflect increased workloads and staff costs for the MMC and for investor protection prosecutions, together with increased staff and accommodation costs for the Citizens Advice Bureaux. The overbid from the Companies House Executive Agency relates to capital expenditure : it is consistent with the Companies House 1988 Corporate Plan, which has of course been agreed with the Treasury.

14 I am content to hold to baseline funding for the Inner Cities Initiative, and for education and training, aircraft and aeroengine R&D and other services. I am also entering a provisional bid at baseline for the English Industrial Estates Corporation pending decisions on a number of issues affecting its future strategy.

15 I am prepared to offer major reductions against baseline for the Business Development programme, which covers the Consultancy Initiatives and Regional Enterprise Grants. The underspend on the Consultancy Initiatives in 1988-89 was principally a transitional problem caused by a slower than expected build-up in the rate at which consultancies were taken up, but the rate of initial applications and of consultancies is much higher than a year ago : I am therefore bidding to baseline for this part of the Business Development programme. Take-up in 1988-89 of the Regional Enterprise Grant scheme was very low. Subject to the evaluation of the scheme I anticipate that there will continue to be major savings against baseline. This enables me to offer offsetting savings which greatly exceed the overbids on those programmes where I am committed to covering particular increases by compensating cash-limited reductions elsewhere (ERSII in the space programme, EXPO 92 in the exports programme, and the Quality Mark in the standards programme).

16 I am also prepared to offer reductions against baselines on two other programmes. The reductions for trade co-operation reflect revised assumptions about the future costs of our subscription to GATT. The reductions for Research Establishments capital follow major baseline cuts last year, and would mean far lower baselines than in previous years: however, the Touche Ross costings for the National Technology Centre option for NEL, which as you know is the option I propose to pursue, allow me to offer yet further savings this year. I should however stress that the detailed NEL figures are still under discussion: I may therefore need to review these reductions at a later date.

17 I should add that the main elements of paid publicity in my bids continue to be Consultancy Initiatives advertising and the Single Market Campaign. Proposed expenditure on paid publicity for the Consultancy Initiatives amounts to about £12m in each PES year: for the Single Market Campaign, it declines from £6m in 1990-91 to £4.9m in 1992-93. The proposed paid publicity element of all other programmes is minor, and remains in line with past expenditure.

Running costs and Management Plan

18 My running costs bid is based on the current structure of the Department and will need to be adjusted before the bilateral to take account of machinery of Government changes following the Pickford report. The bid also covers the DTI's current and prospective executive agencies except for Companies House which is subject to a net running cost control system and whose PES bids are set out in its corporate plan, and for the National Measurement Advisory Service, which is excluded for the same reason. Before the end of the Survey technical adjustments will need to be made to take account of our agreement in principle to move Warren Spring Laboratory to net running cost controls, which will involve converting running cost provision into programme expenditure. I also hope that we will be able to agree on net running cost controls being applied from 1 April 1990 to Radiocommunications Division, the Laboratory of the Government Chemist, and possibly also the National Physical Laboratory. These too will require technical adjustments to the bid.

Management Plan

19 I attach a revised DTI management plan for 1989 which, you will see, reflects a further shift in the emphasis of the Department's work. Tony Newton and I have continued the process I began last year of transferring staff resources from

activities linked to programme expenditure into work on the delivery of services. We have given more resources to the Regions and Inner Cities, and have also strengthened our work on investigations under the Companies Acts by the creation of a new Investigations Division.

20 At the same time we have kept up the pressure on DTI line managers to deliver efficiency savings. The management plan chapters dealing with individual Deputy Secretaries' areas of responsibility show that progress is being made on a broad front, and they provide good anecdotal evidence of improvements in efficiency in the face of substantial increases in demand. The wide variety of the Department's activities means that any single percentage figure for the Department as a whole has to be treated with caution. We have, however, made an attempt at this and believe that the overall improvement in 1989/90 will be around 3.3% - comfortably above your own target figure of 1.5%.

21 Against this background I would have hoped to avoid making a running costs bid in this PES round. I find, however, that for a combination of reasons a bid is inescapable. It flows from factors outside my control such as pay and accommodation. However, in order to minimise the bid and despite the shift in emphasis in the Department's work away from straightforward subsidies towards more labour-intensive work, I am able to offer some further reduction in manpower below baseline.

Running cost bid

22 My bid is as follows:

(£m)	<u>1990/91</u>	<u>1991/92</u>	<u>1992/93</u>
Running cost bid	347.4	349.1	360.1
Excess over baseline	+ 21.3	+ 14.8	+ 17.4
comprising:			
Pay	+ 7.4	+ 11.5	+ 16.0
Accommodation	+ 6.1	+ 1.8	- 0.3
NEL	+ 6.7	- 0.2	- 0.6
Other	+ 1.2	+ 1.7	+ 2.3
Manpower (excluding Companies House and NAMAS)	11508	11408	11318
Reduction on manpower baseline	- 50	- 50	- 140

Amended 25/5

Pay

23 The situation on pay is particularly difficult. I have done what I can to reduce manpower, but with inflation and pay settlements now running at levels considerably in excess of levels forecast last year, a bid is inevitable. My assumptions on pay this year by comparison with last are set out below. While the restructuring of Civil Service pay to encourage performance and reflect market pressures is a move which I welcome, the consequences could well be more expensive than I now anticipate, especially if inflation does not fall in line with the forecasts in this year's Financial Statement and Budget Report and does not continue to fall further through the PES period.

	88/89	89/90	90/91	91/92	92/93
	(% increases)				
1988 PES	8.5	6.5	4.5	3.0	
1989 PES		8.9	7.0	5.7	5.7

Accommodation

24 Last year I made a number of decisions aimed at achieving major savings in accommodation costs towards the end of the PES period. The Patent Office is relocating in Newport and part of the Insolvency Service is to move to Birmingham. These decisions will produce savings of over £10 million a year by the end of the PES period. But it may not be possible to implement special measures to enable Radiocommunications Division to relocate outside London and, in case this is so, I have bid for £3.3 million a year to cover its continuing accommodation in London.

25 I also understand that Government buildings are likely to be subject to VAT. Although no clear guidance has been issued on the subject it seems likely to be levied at an average rate of about 10% and against this possibility I am therefore making a technical bid (since the sums involved would automatically revert to the Treasury) of £3.3 million a year over the PES period. In the last few days there has been an indication that changes may also be made to the application of rates to Government buildings. We have yet to establish the facts and work out their implications for the DTI but I may need to adjust the accommodation bid later to take account of such changes. In addition, I may need to increase the bid if,

*paid or
50%?
As a minimum
would?
1st 1990?*

as I understand, PSA are unable to pass on to the Department sufficient baseline provision for the maintenance work which they think we will need over the Survey period.

National Engineering Laboratory

26 The National Engineering Laboratory will contribute to the manpower savings I am looking for over the PES period. But I need extra running costs provision to finance the up-front costs, primarily for redundancies, envisaged in the report by Touche Ross on the future of the laboratory.

Other costs

27 As I have said, as part of my drive to focus the DTI on delivery of services I wish to invest more in office computing and associated training in the use of modern office techniques. This investment should pay off in the long term in reduced costs and manpower savings in the mid 1990s as the benefits of the investment begin to show through, as well as in quality of service, but it necessitates a modest additional bid in this PES round.

Contingent Liabilities

28 I propose only one new contingent liability during the PES period, and that is a minor one arising from my decision to introduce an export service card. Details will be provided by my officials.

Conclusion

29 I attach high priority to all the bids which I have put forward, and I have set out briefly in this letter why I regard them as essential. My officials can of course let yours have further details on any points upon request, including further details of objectives where relevant.

30 I am copying this letter to the Prime Minister. Copies of the passages dealing with regional expenditure also go to Malcolm Rifkind and Peter Walker.

Yours sincerely

N. R. Tib

(Approved by the Secretary of State
and signed on his behalf)

PES 1989 : DTI BASELINES AND BIDS

Annex A

Prog.	NON CASH LIMITED	1990-91			1991-92			1992-93		
		Base.	Bid	+/-	Base.	Bid	+/-	Base.	Bid	+/-
4.1.1	RDG	107.1	85.8	-21.3	53.4	43.0	-10.4	54.7	10.3	-44.4
4.1.3	RSA	148.3	157.6	+9.3	159.0	181.7	+22.7	162.9	205.5	+42.6
	National									
4.1.9	Selective Assistance	15.0	7.0	-8.0	7.5	2.2	-5.3	7.7	7.3	-0.4
4.3.1/2/3	Aerospace (Launch Aid)	73.2	70.9	-2.3	-24.1	-1.7	+22.4	-24.7	-64.2	-39.5
4.3.5/6	Shipbuilding	37.8	48.9	+11.1	35.2	41.6	+6.4	36.1	35.0	-1.1
	Assistance for									
4.3.7	Redundant Steelworkers	8.1	18.3	+10.2	8.3	11.1	+2.8	8.5	8.5	0
	TOTAL (non-cash limited)	389.5	388.5	-1.0	239.3	277.9	+38.6	245.2	202.4	-42.8
	CASH LIMITED -									
4.1.4	Business Development									
	i) Consultancy Initiative	106.9	106.9	0	109.3	109.3	0	112.0	112.0	0
	ii) REG	49.2	16.0	-33.2	50.4	20.4	-30.0	51.7	22.2	-29.5
4.1.15	Inner Cities	31.1	31.1	0	31.8	31.8	0	32.6	32.6	0
4.2.1	Research Estab. (Capital)	5.7	5.4	-0.3	5.1	4.0	-1.1	5.2	2.1	-3.1
4.2.2	Industrial R&D									
	i) Innovation (post									
	Europes)	146.0	146.0	0	144.5	149.5	+5.0	148.5	155.5	+7.0
	ii) Education & Training	36.0	36.0	0	36.9	36.9	0	37.9	37.9	0
	iii) Other (net)	8.4	2.4	-6.0	8.3	1.1	-7.2	8.4	0.7	-7.7
4.2.3	Standards	8.2	10.7	+2.5	8.4	9.7	+1.3	8.7	8.9	+0.2
4.2.4	Protection of Innovation	-35.5	-33.6	+1.9	-36.4	-35.0	+1.4	-37.5	-31.9	+5.6
4.2.5	Aircraft & Aeroengine R&D	25.4	25.4	0	24.6	24.6	0	25.2	25.2	0
4.2.6	Misc. Support Services	4.7	5.7	+1.0	4.8	5.8	+1.0	4.9	5.7	+0.8
4.2.9	Space	71.4	85.0	+13.6	72.6	91.6	+19.0	74.4	92.9	+18.5
4.5.1	Exports	40.4	42.7	+2.3	41.9	45.7	+3.8	43.2	44.9	+1.7
4.5.2	Trade Co-operation	1.9	1.8	-0.1	2.1	1.8	-0.3	2.1	1.9	-0.2
4.6.2	Regulation of Trade and									
	Industry and Consumer									
	Protection	8.3	9.8	+1.5	8.1	10.0	+1.9	8.3	10.8	+2.5
4.6.2	Companies House Exec.									
	Agency	4.7	4.7	0	5.3	5.9	+0.6	5.4	5.6	+0.2
4.8.1	Dept. Administration	27.7	39.4	+11.7	16.9	19.1	+2.2	17.4	19.7	+2.3
4.8.3	Other Services	8.3	8.3	0	8.3	8.3	0	8.6	8.6	0
4.14.6	EIEC	17.4	17.4	0	17.9	17.9	0	18.4	18.4	0
	EUROPES non R&D	-3.0	0	+3.0	0	0	0	0	0	0
	TOTAL (cash-limited prog.)	563.2	561.1	-2.1	560.8	558.4	-2.4	575.4	573.7	-1.7
	TOTAL (all programme)	952.7	949.6	-3.1	800.1	836.3	+36.2	820.6	776.1	-44.5
	Running Costs	326.1	347.4	+21.3	334.3	349.1	+14.8	342.7	360.1	+17.4
	TOTAL DTI Cash limited									
	(programme and RC)	889.3	908.5	+19.2	895.1	907.5	+12.4	918.1	933.6	+15.7
	TOTAL DTI BIDS									
	(Programme and RC)	11278.8	1297.0	+18.2	1134.4	1185.4	+51.0	1163.3	1136.2	-27.1

NB. Innovation (programme 4.2.2) includes Europes reductions to baseline of £15.3 M in each PES year.

FROM: THE CHAIRMAN

22/6



Mr Isaac

THE BOARD ROOM
INLAND REVENUE
SOMERSET HOUSE

19 May 1989

Mr Isaac (with the 3 Enclosures)
cc Mrs Homoux } this doc only
self

- 1. FINANCIAL SECRETARY
- 2. CHIEF SECRETARY

PUBLIC EXPENDITURE : INLAND REVENUE

In this minute I am reporting on the Inland Revenue's financial position at the start of the 1989 Survey.

2. This is the first year of the three year running cost agreement which we reached with you and the Financial Secretary last year. That agreement was predicated on three important conditions: that

(a) there will be no reopening of our running costs provision unless circumstances change significantly for Budget, relocation or other reasons;

(b) this year's Management Plan would be consistent with the figures in the agreement and would develop targets and unit costs across the Department; and

(c) our main computer projects should be protected and independent taxation delivered on time.

I will take each of those conditions in turn.

- cc Chancellor
- Sir Peter Middleton
- Mr Anson
- Mr Culpin
- Mr Gilhooly
- Mr Tyrie

- Chairman
- Mr Isaac
- Mr Painter
- Mr Rogers
- Mr Beighton
- Mr Shutler
- Mr Crawley
- Mr Bush
- Mr Warden
- Mr Martin
- PS/IR

add contact - 803
best we can do
3 year deal!

Director
10/6/89
VAT rates feel to come down
building
BA&VAT

3. Running Costs We have taken steps to keep within our running cost limits for this year and, so far as possible, for the first two years of the 1989 Survey period. This includes addressing the substantial unidentified manpower and financial savings which we were asked to accept last year. You have already accepted that contingent provision for our major relocation move to Nottingham should be included in our baseline for 1990-91 to 1992-93. The only additional bids I need to put to Ministers this year, therefore, arise from new contingencies or significant changes in the outside environment. There are bids for Budget changes, for the major impact which the Abbey National incorporation plans have on our staffing needs, for the cost of extending charging in the Valuation Office, and for changes in the level of realistic assumptions for pay and accommodation. There are also some issues to be addressed for the new third year of the Survey.

4. Management Plan In support of those bids I am also sending you with this minute our draft Management Plan for the next three years. It builds on and develops the Plan we submitted for the first time last year. It is the product of an integrated planning process which involves senior managers in all our divisions. The draft Plan is more extensive than last year and takes a more structured approach to unit costs and targets across the Department. We shall need to discuss these plans with the Financial Secretary in the light of the issues mentioned below and the resources that can be made available. I should like to publish the Plan, revised in the light of the Survey, and make it available for managers within the Department around the end of the year.

5. Our principal computer projects remain on schedule. They are built into the draft Management Plan, and into our Departmental Development Plan which sets our strategic framework for the next five to ten years. So too is independent taxation which is on course for next April.

6. The 1989 Departmental Statement contains our immediate targets and objectives. It completes our planning documents. This year's draft has been approved by the Financial Secretary.

Summary of bids

7. Our additional running cost bids come to £m8-£m8.5 for 1990-91 and 1991-92 and just under £m15 in 1992-93, excluding pay and accommodation.

8. Beyond that, however, the provision for future pay settlements now looks decidedly low against current prices and earnings figures. We hope we can get by this year. But prudent forecasts suggest that we may need another £m20 next year, rising to £m70 in 1992-93. And on accommodation PSA has just told us that its rents in 1990-91 will be going up by twice the amount assumed last year. We have to bid for another £m3.5 in 1990-91 rising to £m12.7 by 1991-92 for this. On this basis, the overall increase in our 1990-91 running costs would be 7.6% over our 1989-90 provision, with increases of 7.8% in 1991-92 and 5.7% in 1992-93.

9. I must also ask you to consider some small additional bids for capital in 1990-91 and 1991-92, and a more substantial bid in 1992-93.

10. There are also changes required to the figures for appropriations in aid and other matters including the public expenditure element of MIRAS and life assurance premium relief.

11. The summary figures of our bids are as follows:

	£m		
	<u>1990-91</u>	<u>1991-92</u>	<u>1992-93</u>
<i>R. Loukin</i>			
Non-pay running costs	8.1	8.5	14.6
Pay	20.0	52.5	70.0
Accommodation	3.5	7.7	12.7
Total running costs	<u>31.6</u>	<u>68.7</u>	<u>97.3</u>
Capital	4.4	7.9	29.5
Appropriations in aid	- 1.4	- 2.1	- 1.2
Current (non- running costs)	1.2	1.2	1.2
MIRAS/LAPR	51.0	31.0	3.0

More detailed figures are shown in Annex A.

Running costs

12. I recognise that these bids are not insubstantial. I am disappointed we have to put them forward. They arise wholly out of unforeseen circumstances, and not from any failure to plan within last year's settlement.

13. I have considered, as Ministers would expect, whether we can plan to meet any of these bids by re-ordering existing baseline expenditure. But our first requirement here is to meet the quite large shortfalls in provision which Ministers asked me to accept for 1990-91 and 1991-92. When we settled last year's Survey these were put at £m3.5 and £m11.0 respectively, including finding the new VAT charge on rents. Since then we have been given much higher VAT figures to find and our estimated shortfalls now stand at £m8.5 and £m16.0 (well over 1% of total running costs by 1991-92). There is still some uncertainty on the final position, and some risk of further increases (see paragraph 30 below). Finding savings of this size will exhaust the limited room for manoeuvre within our baseline.

14. I can explain our bids under seven headings, five of which involve extra manpower needs. I will deal with each in turn. Detailed manpower figures are at Annex B.

Relocation

15. Our draft Management Plan envisages a programme of relocation of work from London and the South East (paragraphs 7.16 to 7.21). You have already authorised contingent funding (current and capital) to enable us to move around 2,200 headquarters posts out of London, probably to Nottingham. Staff consultation is almost complete, enabling decisions to be reached by the summer. The costs have been agreed with you and are included in our baseline.

16. The Financial Secretary knows that we are also considering moving out the remaining PAYE work from London and its periphery including some 1,500 posts to six or so new offices in the regions. The staffing problems of London offices make this highly desirable, and the moves will lead to lower unit costs. Independent taxation now makes some relocation imperative. We need to make a bid for this. The figures are quite small: £m0.6 in 1990-91 and £m0.9 in 1991-92 for running costs (with a small saving in 1992-93); and capital costs of £m1.1 in 1990-91, £m0.9 in 1991-92 and £m0.8 in 1992-93. We can keep these costs low by means of local recruitment and the use in some locations (Cardiff, Bootle and Manchester) of existing accommodation.

Budget

17. We normally reckon to cover the immediate costs of any Budget changes, including re-coding and so forth; and we have done that this year. But the Budget has added about 140 to our manpower needs for 1990-91, though the number falls away by the end of the Survey period. With the tight staffing situation in our local offices an increase of that order is significant.

You will also remember from this year's Budget discussions that we face extra costs in dealing with the Stock Exchange's new computerised system of share transfers - Taurus 3. The plan to tackle this change (paragraph 6.6.6 in the draft Management Plan) will add another perhaps £m0.2 to £m0.3 a year to our running costs (and some extra capital in 1990-91), mostly to ensure reasonable minimum compliance standards. Finally under this head, we have been discussing with the Financial Secretary some important issues about the taxation of mileage allowances. It may be some time before we know which of the options will be preferred. There is a possibility, nevertheless, that we will be faced with extra costs in 1990-91 and we have contingently included £m0.3 in the bid for that year. We have not made any adjustment for 1991-92 or 1992-93 as we can consider these figures later, in the 1990 Survey if necessary. Overall, the Budget running cost bid is £m1.9 in 1990-91; £m0.8 in 1991-92; and £m0.3 in 1992-93.

Building Societies

18. As Ministers already know the move to incorporation will involve the Revenue in a significant extra number of tax repayments. Many small building society investors will become shareholders for the first time and those who are not liable to income tax will be entitled to payments of tax credits when they receive their dividends. Because of independent taxation the scale of the problem is much larger than it would otherwise have been, because many married women have building society accounts. Figure 3.3 in the draft Management Plan shows we are facing a quadrupling of claims. We estimate that the Abbey National's decision to incorporate will alone involve us in handling up to an extra 850,000 payment claims a year, requiring an extra 400 or so staff in local offices. This accounts for a running cost bid of £m4.5 in 1990-91, £m5.8 in 1991-92 and £m5.5 in 1992-93.

19. A large part of the figure for next year assumes that the first dividend will be paid before 6 April 1990. If that turns out not to be the case, the claims will not arise until a year later and the bid for that year will come down by some £m4.0. On the other hand, we have made no allowance for other building societies following the Abbey National's lead. Handling repayment claims is an expensive business; independent taxation will increase the numbers anyway and we are looking very closely to see whether costs can be cut without endangering secure handling. But as things stand there is no way that local offices can handle extra work on this scale without extra staff.

as they wish

Valuation Office charging

20. This is quite different. As part of the response to our shortage of professional Valuers we have been asked by the Financial Secretary to draw up a scheme for charging local authorities for valuation work. The aim is to put these arrangements in place by April next year if possible. As discussed in paragraph 6.13.3 of the draft Management Plan, this should reduce the demand for this type of work and allow the Valuation Office to switch resources to other priorities. The Treasury-led Committee reviewing Government valuation services is also considering wider possibilities for charging, and may well recommend charging other Government Departments for Valuation Office services. If Ministers decide to extend charging on these lines, our provision will need to be adjusted to take account of extra receipts. It is too soon to say how this should be done or what adjustments might be required. At this stage we have simply included a small contingent marker bid of about £1m running costs (and £m0.3 capital in 1990-91) to cover the additional cost of the necessary charging system.

Pay

21. This is far and away the largest and most difficult of our bids this year. The Revenue is affected by negotiations for a number of staff groups, including those for Grades 5 to 7; these will be important in relation to retaining experienced staff. But the most critical issue for us this year will be the IRSF pay settlement from August. This stems directly from last year's new long-term pay agreement which negotiated periodic level surveys, and awards broadly in line with movements in outside settlements for intervening years, in return for the substantial management and efficiency improvements which we secured in our local offices. The timing for this Survey is particularly awkward. We do not yet have much of a feel for what evidence will emerge from the current levels exercise, and the related exercise on movements. Moreover, when negotiations start they may extend well into the autumn.

22. In last year's Survey we provided for basic pay increases (excluding the level survey) of about 5½% in 1989-90, including 1.6% for the additional full year effect of last year's assimilation to the new pay spine (to which we were committed under the new agreement). In addition, we made provision for a level survey settlement which would add about 2% in 1989-90 and involve a full year cost of about 3%. For later years we assumed pay settlements of 4½% in 1990-91 and 4% in 1991-92 representing 1% over the then forecast GDP deflator - plus the full year effect of the level survey.

23. These figures now look unrealistically low. Compared with a year ago the Treasury's own earnings forecast for the whole economy in 1990-91 has risen by 2 percentage points from 5.8% to 7.8%, and outside forecasts are higher. It seems likely that the Office of Manpower Economics will be reporting pay movements for the year to the end of June ranging between 6½% and 8½%. Negotiations are, of course, subject to

affordability. And the Treasury may just be able to negotiate their way through the level survey to enable us to meet this year's pay bill without a supplementary. On our present budgeting plans, which are themselves subject to our normal in-year autumn review, we think we might just about be able to afford a settlement from August for those staff covered by level surveys at that date which would add a little under 3% to our 1989-90 pay bill. This also looks to be about the minimum the Treasury can expect to settle for, especially since a dispute with the IRSF would be particularly worrying in the run up to independent taxation. But that would involve a full year cost of about 4.25% in 1990-91, 1.25% higher than we allowed for last year. The awards in the current year for the NUCPS and the CPSA, although they affect a smaller proportion of our staff than in many other departments, also have significant knock on effects for 1990-91 and later years which are higher than the provision we obtained in last year's Survey.

24. As a separate matter, the Treasury are apparently now expecting the rate of settlements next year to be rather higher than this year, consistent with other forecasts. On that basis, it seems prudent to assume settlements for 1990-91 of the order of 7½%, rather than the 4½% assumed last year, if the settlements for that year are to be within the inter-quartile range.

25. Similarly, for 1991-92 we think we should provide for a basic increase of at least 5½%. And if, as the Treasury have tentatively suggested as a possible option, the next IRSF level survey were to be brought forward from 1993-94 to 1991-92, it would be prudent to add at least another ½% on that account. That takes us to 6%. For 1992-93 we are currently assuming an increase of 5%.

26. Our additional pay bid follows directly from these figures. However, they are little more than educated guesses at this stage. If anything, my fear is that they may understate likely pay pressures. We are closely in touch with Treasury Pay Division who will be better able to advise on the realism of the assumptions we have made. To put the figures in perspective, 1% on the Revenue's pay bill represents about £m8.5 in 1990-91 and £m9.5 in 1992-93. These are very large sums if in the event the Treasury finds it necessary to concede pay increases costing more than we have provision to meet.

27. Because of the sensitivity of pay assumptions (even within the Department) we have not allocated the extra pay bid to unit costs in the present draft Management Plan. They have been drawn up on the basis of our existing (1988 Survey) pay provision. The tables in the appendix to the draft Management Plan show the full attribution.

Accommodation

28. We are already targetting volume reductions in accommodation which contribute to our efficiency savings. It is however getting more difficult to achieve these with manpower numbers increasing as a result of independent taxation, and with the major reorganisations of our local networks being largely complete. Our relocation initiatives will help, but the financial savings take time to come through. Moreover, as I have mentioned (paragraph 8 above), we face substantial increases in the estimated VAT charge on rents arising after our Survey figures last autumn were settled. These have added significantly to the shortfalls which we have to try to meet through additional savings.

29. Despite all this, I had hoped that it would not be necessary to make any bid for accommodation costs. But we have only just learnt from the PSA that the notional market rents they intend to charge in 1990-91 on our properties will be going up by over 11%. This is over double the increase of 5.5%

which we assumed in last year's Survey. (And if we had followed PSA's advice at the time, the assumption would have been only 3.5%.) This increase amounts to another £m4.4 in 1990-91. This can be partly offset by a reduction in the PSA's figures for rates. But it still leaves us facing additional costs of £m3.5 in 1990-91, and - assuming similar rent increases of around 10% - estimated costs of £m7.7 and £m12.7 for 1991-92 and 1992-93. I am afraid I have to ask for additional provision to meet this quite unexpectedly large additional commitment which is outside our own control.

30. We are still awaiting promised PSA advice on the VAT charge. This could increase yet further - by some £m4 for us - if PSA were to charge on Crown buildings. If this were to occur, I would have to increase the bid further.

31. Because the PSA's advice on rents has only just been received, and with the continuing uncertainty on VAT, we have not yet been able to include the effects of this bid in our draft Management Plan. We can of course provide revised figures in due course.

1992-93

32. We shall, of course, carry through to 1992-93 the various efficiency savings made in earlier years and aim to make new ones. But, in judging the needs for funds in this new year, we have had to rely on the usual forecasts of work growth and price and cost movements, and look at the impact of, for example, major planned information technology developments. On the basis of this work, I have concluded that we shall need an extra sum of just under £m8.0 for that year over and above the 2.5% increase in the baseline. We are happy to work through the detailed figures with the Treasury. But the main elements are:

(a) an increase of about 200 manyears for that year compared with the manpower figures we had provisionally allowed for 1991-92. This reflects continued growth in some areas (assuming thresholds rise in line with prices) and more self-employment (requiring on present policies - and subject to changes arising from the recent Schedule D scrutiny - an increase in accounts investigation work), partly offset by reductions in other areas;

(b) an expected 3% cost increase for non-pay non-accommodation running costs.

On this basis we are forecasting a 5.7% increase in our running costs in that year.

Efficiency savings

33. I believe we can demonstrate that our plans fully meet the 1.5% a year efficiency savings required by Ministers over the Survey period. Efficiency savings as shown in Annex C are larger in the first two years of the new Survey period than in the third year. But the precise attribution of savings as between the two later years cannot be firmly predicted at this stage. Over the Survey period as a whole the savings amount to 1.7% a year. And just beyond the Survey period we have firm plans to secure further significant savings from relocation and from the later stages of BROCS. The figures in Annex C include the build-up of efficiency savings from last year's Management Plan including those from scrutinies of the subcontractor scheme and the taxation of unemployment benefit; action we are taking to accelerate Valuation Office staff and grading savings as the rating system changes; future savings from efficiency scrutinies; and various local management initiatives increasing productivity. The Management Plan shows what we are doing right across the Department to improve efficiency and service to taxpayers.

34. We are also doing all we can to keep down the costs of independent taxation. Even at this stage there is a good deal of uncertainty about the amount of work it will throw up, especially in the early years. As things stand there is a small increase in the estimated cost for 1990-91, but we shall aim to meet that.

Capital

35. On capital, we face extra demands to accommodate and equip the net extra staff needed on account of the Budget and the Abbey National incorporation.

36. We are planning to relocate London PAYE work mostly by making better use of our existing accommodation in the provinces. But some extra capital expenditure will be needed for equipping new buildings; and this accounts for the £m2.8 bid over the Survey period.

37. There are two other new building projects which are now urgent. The first is a new building to replace the one for the tax and collection offices in Londonderry destroyed by terrorist action last November (after the figures in last year's Survey had been settled). It must go ahead. We have already discussed it with the Official Treasury.

38. The second, which was held over from last year pending our major relocation review, is redevelopment of some office accommodation at our Worthing site. This has been both overcrowded and seriously below standard for many years. We are also discussing that with the Official Treasury.

39. Next, information technology. As I have said, we are on track to implement our remaining major computer projects on time. Up to date financial cases are made available to the Treasury on a regular basis.

40. I am glad to say that our 1990-91 financial plans for computer expenditure can stand, apart from about £1m to cover the new demands for computer support for Taurus 3 and the extension of Valuation Office charging discussed above.

41. For 1991-92, however, we have identified a potential new investment in computer-based training which offers attractive future running cost savings. It would make more cost-effective the training of staff for local tax and collection offices which is an important part of our plans for improving performance as discussed in paragraph 6.2.17 of the draft Management Plan.. But it could involve just under £2½ capital expenditure in 1991-92 on computer support to get it off the ground.

42. Finally, 1992-93. On all past evidence, our capital provision for information technology will need to be substantially higher than the new baseline given by updating our 1991-92 provision by 2.5%. I have included a bid of just under £15m on this account. The total amount covers a number of computer developments that we shall want to discuss with the Treasury and the Financial Secretary. They include beginning to replace, with a more advanced version, the basic computer terminals in local offices used for COP and CODA. New terminals will provide scope for additional facilities and economies in the local office network that are not possible with the facilities in the present terminals. They include the flexibility of more distributed processing of data in the COP and CODA systems following the renewal of the software (as will be necessary) in the mid-1990s. The plans also cover continuing planned expenditure on BROCS and other projects, and expenditure at our Development Centres.

43. I must also ask you for an extra £7.5m for other capital items in 1992-93. This represents three elements each of about £2.5m. The first is to enable us to tackle a number of small accommodation problems that are clearly becoming more urgent.

Because of Worthing and Londonderry we cannot reasonably bid for funds earlier. The second arises from the three year replacement cycle for official cars for the successful - and highly cost-effective - private use scheme. This is helping us to save on official travelling expenses. The third is to replace furniture, carpets and office machinery in local offices where, by 1992-93, expenditure will have been depressed for a number of years to meet other high priority needs (for example, the reorganisation required to implement independent taxation and the first phase of BROCS). This is the kind of expenditure which can be neglected only for so long.

44. Details of all our capital plans for each year of the Survey are shown in Annex B in the draft Management Plan.

Appropriations in aid and the consequences of the Bridge programme

45. The main adjustment here on last year's Survey depends on the extension of Valuation Office charging. In view of the uncertainties (including the basis of charging) we have not at this stage tried to include firm estimates.

46. There is also an adjustment to cover the reimbursement of salaries of staff seconded to the private sector under the new Bridge programme. We understand the Treasury are prepared to treat the salary cost as additional current expenditure outside running cost controls and offset by the relevant receipts.

47. In the context of our other bids we have looked closely again at our other forecast receipts. I think we can reasonably increase these slightly in 1990-91 and 1991-92.

MIRAS/LAPR

48. On current forecasts, the public expenditure element of these schemes needs to go up by around £m50 in 1991, £m30 in 1991-92 and £m3 in 1992-93. This is directly consequential on the level of tax thresholds and the higher forecast level of interest rates than a year ago. The figures also include a public expenditure cost of £m1 in giving tax relief for private medical insurance to non-taxpayers. These costs are wholly outside our control.

Conclusions

49. We have approached this year's Survey on the basic working assumption that we have a three year running cost agreement and will stick to it.

50. Divisional plans have been laid on that basis. They are reflected in the draft Management Plan accompanying this minute. They incorporate continuing efficiency savings right across our main activities. We are planning to offset, by re-ordering priorities, or by efficiency improvements, most of the cost increases and other pressures that have emerged during the year, in addition to the shortfall we were left with at the end of last year's Survey.

51. But our baseline is simply not large enough to meet extra work arising from the Budget, the Abbey National decision and other new developments set out in this note, including the kind of pay increases that now look likely to be necessary this year and next under the new style Civil Service pay agreements and the new accommodation figures. And some extra capital spending on accommodation and information technology, partly to secure future savings, seems unavoidable. I believe these are all bids which Ministers should be asked to consider.

52. No doubt you would like us to work through the figures in detail with Treasury officials, alongside the unit costs in our draft Management Plan. When that has been done, I am at your or the Financial Secretary's disposal for a discussion.

J. C. Green

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(A M W BATTISHILL)

1989 PUBLIC EXPENDITURE SURVEY

- Annex A : Baseline and bids
- Annex B : Manpower
- Annex C : Efficiency savings

Baseline =====	1990/91 (£m) =====	1991/92 (£m) =====	1992/93 (£m) =====
Gross running costs	1,233.8	1,294.6	1,327.0
VAT refunds	3.8	3.9	4.0
Running cost provision	1,230.0	1,290.7	1,322.9
Relocation of London headquarters	2.0	2.3	18.4
	1,232.0	1,293.0	1,341.4
Capital	107.5	87.0	89.2
Relocation of London headquarters	11.7	12.8	16.4
	119.2	99.8	105.6
Appropriations in aid (excluding VAT refunds)	(56.5)	(57.9)	(59.4)
Current expenditure (non-running costs)	0.0	0.0	0.0
LAPR/MIRAS/PMI	315.0	320.0	328.0

Additional bids =====	1990/91 (£m) =====	1991/92 (£m) =====	1992/93 (£m) =====
Running costs:			
Relocation of London PAYE	0.6	0.9	(0.1)
1989 Budget (including Taurus 3 and, in 1990/91, mileage allowances)	1.9	0.8	0.3
Abbey National	4.5	5.8	5.5
Valuation Office charging	1.0	1.0	1.1
Workloads etc in 1992/93	0.0	0.0	7.9
	----	----	----
* Sub-total:	8.1	8.5	14.6
Pay	20.0	52.5	70.0
Accommodation	3.5	7.7	12.7
	=====	=====	=====
*** Total running costs:	31.6	68.7	97.3
	=====	=====	=====
Running costs =====	1990/91 =====	1991/92 =====	1992/93 =====
Year on year increases (%)			
Baseline	4.9	5.0	3.7
Total bid	7.6	7.8	5.7

Additional bids (cont'd) =====	1990/91 (£m) =====	1991/92 (£m) =====	1992/93 (£m) =====
Capital:			
1989 Budget (including Taurus 3)	0.9	0.1	0.0
Abbey National	0.2	0.1	0.1
Valuation Office charging	0.3	0.0	0.0
Relocation of London PAYE	1.1	0.9	0.8
Londonderry building	1.6	0.0	0.0
Worthing redevelopment	0.4	4.4	6.4
Computer based training	0.0	2.3	0.0
Information technology projects	0.0	0.0	14.7
1992/93: accommodation blackspots, private use car scheme replacements, and necessary local office expenditure	0.0	0.0	7.5
	=====	=====	=====
*** Total capital:	4.4	7.9	29.5
	=====	=====	=====
Appropriations in aid:			
Bridge programme	(1.2)	(1.2)	(1.2)
Other	(0.2)	(0.9)	0.0
	=====	=====	=====
*** Total appropriations in aid:	(1.4)	(2.1)	(1.2)
	=====	=====	=====
Current expenditure (non-running costs):			
Bridge programme	1.2	1.2	1.2
LAPR/MIRAS/PMI	51.0	31.0	3.0

Total bid =====	1990/91 (£m) =====	1991/92 (£m) =====	1992/93 (£m) =====
Running costs	1,263.6	1,361.7	1,438.7
Capital	123.6	107.7	135.1
Appropriations in aid (excluding VAT refunds)	(57.9)	(60.0)	(60.6)
Current expenditure (non-running costs)	1.2	1.2	1.2
LAPR/MIRAS/PMI	366.0	351.0	331.0

MANPOWER

1. The Revenue's overall permanent manpower plans, as agreed in the 1988 Survey, are for manyear usage to remain broadly constant at around 68,000 over the Survey period; this is despite the substantial increases required for Independent Taxation and forecast increases in taxpayer numbers.

2. Manyear usage is therefore being held down by productivity and other improvements despite continued heavy increases in workloads and the fact that some of our major financial efficiency measures (delegation of work in tax, collection and Valuation Offices) require increases in manpower to produce net money savings overall.

3. We shall continue to contain our basic manpower requirements in this way by making the efficiency savings detailed in Annex C. The bids below are wholly in respect of changes in circumstances since the 1988 Survey. They are for about 550 manyears in 1990/91 and 1991/92, and a further around 200 manyears in 1992/93. They would be consistent with permanent manpower plans for around 68,500 in the first two years, and 68,750 in the third.

4. Details are as follows:

	1990/91	1991/92	1992/93
RELOCATION OF LONDON PAYE WORK	8	8	40
BUDGET 1989 (details on page below)	171	56	-9
ABBEY NATIONAL	333	436	405
VALUATION OFFICE CHARGING	45	45	45
GROWTH IN SELF-EMPLOYED ACCOUNTS	--	--	280
TOTAL	557	545	761

1989 BUDGET: MANPOWER EFFECTS

	1990/91	1991/92	1992/93
Income tax allowances and thresholds	40	40	40
Car scales	10	20	20
Schedule E: Receipts basis	37	(100)	(175)
Over 60's private medical insurance	20	42	42
Inheritance tax threshold	10	15	20
CGT: exemption limit freeze	10	15	20
No change in Stamp Duty threshold	5	10	10
Computerised share dealing (Taurus 3)	14	14	14
Mileage allowances: FPCS*	25	-	-
	<hr/>	<hr/>	<hr/>
	171	56	(9)
	<hr/>	<hr/>	<hr/>

*This item will give rise to further costs, perhaps substantial ones, in 1991/92 and 1992/93, but the level of these depends on decisions yet to be taken by Ministers.

	1990/91 (£m)	1991/92 (£m)	1992/93 (£m)
** Running cost bid	1,263.6	1,361.7	1,438.7
less:			
- compliance costs	172.2	185.3	194.1
- major project costs	63.5	69.6	69.3
** Adjusted running costs	1,027.9	1,106.8	1,175.3
** Efficiency savings (details on page 2)	32.0	52.4	59.7
** Total as percentage of adjusted bid:	3.1	4.7	5.1
Average over Survey period:			1.7

	1990/91 (£m)	1991/92 (£m)	1992/93 (£m)
(a) Delegation of clerical work to more junior grades in tax and collection offices (IRSF pay agreement)	0.5	0.9	1.3
(b) Delegation of work from fully trained to other Inspectors (Page report)	0.5	1.1	1.7
(c) COP/CODA savings in workload growth.	0.4	1.2	1.9
(d) Delegation of professional work in the Valuation Office, delegation within clerical grades (IRSF pay agreement) and accelerated rundown of clerical work on domestic rating	2.2	1.8	1.7
(e) 1988 and 1989 Budget savings.	1.5	2.2	3.8
(f) Other manpower measures, including computerisation savings and savings expected from eg staffing inspection and scrutinies.	14.1	21.2	23.6
(g) Moving PAYE work from the south east	0.3	0.6	1.1
(h) Relocation of London head office	0.0	0.2	0.7
(i) Accommodation savings (1% volume reduction)	1.5	3.2	3.5
(j) Other running costs (kept to gdp deflator despite workload growth).	2.5	4.0	4.0
(k) Measures to meet shortfall from 1988 Survey	8.5	16.0	16.4
** Total:	32.0	52.4	59.7



HOME SECRETARY

22 MAY 1989

QUEEN ANNE'S GATE LONDON SW1H 9AT

CENTRAL GOV

HOME

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Mr Mortimer
Ct, Sir P Middleton
Mr Street, Mr Mack
Mrs Case, Mrs Lomas, Mr Luce
Mr Chamberlain, Mr Brook,
Mr Call.

of meeting
22 May 1989

BRADING LETTER
HOME OFFICE

Dear John,

PUBLIC EXPENDITURE SURVEY 1989

This letter sets out my proposals for central government expenditure during the years covered by PES 1989. I am writing separately about local authority expenditure.

I have reassessed the planned provision for Home Office programmes against the Government's policy objectives for the Survey period. This has been done as part of an integrated resource and policy planning process based on devolved budgets within the Department. I have identified savings and efficiency improvements. Nevertheless, I must seek the following net increases in financial provision during the Survey period, if the Department is to meet its objectives.

	<u>Existing Provision</u> (£ millions)			<u>Additional Requirement</u> (£ millions)		
	90-91	91-92	92-93	90-91	91-92	92-93
Prisons	1291.2	1291.7	1324.0	165.1	240.3	227.0
Non-prisons	556.6	567.2	581.4	81.5	98.5	92.6
Total	1847.8	1858.9	1905.4	246.6	338.8	319.6

These bids are net of large offsetting reductions as follows:

	£ millions		
Total offsetting savings	32.0	24.6	77.8

Prisons savings include a large reduction in expenditure on the existing PSA building programme in the third year. There are also large offsetting savings for the Directorate of Telecommunications (set against the costs of restructuring proposed below) and significant savings spread around the remainder of the Department.

Security	25	32	35
Police	12	25	33
Marine	2	3	50
...	2	7	7

	/The Annex to		
FSS	1	2	2
...	2	2	1
...	2	2	1
...	1	1	1
...	1	3	3
...	1	2	2
...	1	1	1
...	4	4	4
...	1	2	2
...	97	106	177

The Rt Hon John Major, MP
Chief Secretary to the Treasury

The Annex to this letter explains the detailed expenditure proposals and the reasons for making them.

DIVERSION FROM CUSTODY

We must continue and strengthen our efforts to deal with prison overcrowding and to improve conditions. Recent events at Risley have highlighted the need for action. One vital element is reducing demand for prison accommodation, by decreasing the use of custodial sentences and cutting the remand population. We must act now to obtain significant benefits in the future. It is encouraging that the sentencing statistics for 1988 show a fall in the use of immediate custodial sentences for indictable offences to 17%, as compared to 18.2% in the previous year, but we need to keep up the impetus. We agreed in PES-1988 to a diversion package for additional bail accommodation and supervision in the community. I propose an expansion of that programme. On the remand side, I propose provision for 352 hostel places. For supervision, I propose the addition of twenty-five further voluntary sector projects to encourage non-custodial sentencing. My separate letter on local authority expenditure includes proposals for additional day centres, together with probation manpower to service these developments. I estimated that the diversion package agreed last year could lead to a saving of 1,000 prison places by the end of 1991-92 and this is reflected in the projections set out in the Annex to this letter. The expansion of the diversion package now proposed could save around a further 950 prison places by the end of 1992-93. I have considered this potential saving in framing the bids for prisons expenditure set out below. But given the margin of error in the projections for both the proposed savings and the prison population I have not, at this stage, thought it prudent to adjust our planning assumptions.

PRISONS

In the course of last year's PES discussions I made clear my serious concern about the existing and likely future pressure of overcrowding and poor conditions in the prisons. I was very grateful for your recognition of these difficulties and your agreement to allow us to plan for the provision of a substantial number of extra prison places in order to provide some much needed relief for the prison system in the short term, and to move some way towards our goal of eliminating overcrowding. Since then a lot of work has gone into planning for the delivery of this substantially enhanced building programme. Though, as you will know, we are encountering some difficulties - for example the proposals to use the private sector to design, develop and construct three remand centres have not gone smoothly - I am, nonetheless, generally satisfied that we are making good progress.

/The Annex

The Annex to this letter sets out the latest population projections and the projections for CNA which together form the backdrop for our discussions. The population projections reflect the movement of the population over the last year when, as you know, the population has been lower than expected. Nevertheless we still face a very tight position in this year and in 1990-91, though with the prospect of some relief thereafter until 1994-95 when the projected shortfall starts to rise again. This would still be the case if the diversion package I have proposed is accepted, and it produces the forecast benefits. Indeed there may well be peaks in the population which worsen the shortfall very substantially.

With the amount of building work planned it would clearly not be practicable to try to add yet more accommodation to the prison estate within the current Survey period. But once we are outside the immediate PES period we face, as I have said, a rising shortfall of accommodation. I am certain that we must maintain the momentum, so helpfully established in PES last year and in 1987, towards the elimination of overcrowding. My proposals therefore include a bid for four new prisons, to come on stream between 1994 and 1996. These prisons, each providing 600 places, should enable us to reach our goal of eliminating the shortfall by about 1996 if the trend in the prison population does not deteriorate. It is, of course, difficult to gauge these matters with precision so far in advance. Any surplus of accommodation in 1996 or thereafter, however, would of course enable us to consider rationalising the prison estate, perhaps leading to eventual disposal of one or two sites, the advantages of which we both recognise.

Important though they are, the purpose of the new prisons will be to enable us to cope and to improve our position in the medium term. As regards the immediate future, as I have said I do not think that there is anything which we can sensibly do by way of further place provision over and above the existing plans. We must, however, maintain our progress on delivery of planned prison places, both at new prisons or by additional places at existing establishments, and we must also ensure that the fabric of our establishments is maintained so as to avoid any reduction in capacity. The major part of my building bid is aimed at achieving these objectives. There is, in the second of the PES years, a bid of £52.5 million to help us to keep on course PSA expenditure for the existing prison building programme. (This is, however, offset by savings in the first and third PES years). A small bid for land purchase is also necessary partly to reflect a more accurate assessment of costs, particularly in the South East, and partly to enable sites to be purchased a little earlier so as to avoid delays to the programme caused by planning difficulties.

/But the major

But the major part of the bid is for the Directorate of Works (DOW) programme. Your officials were aware last year that work was in hand to rationalise the DOW programme, for which I made no bid last year, and that a bid for the funding consequences of this was likely this year.

The DOW programme has traditionally been the area which we have looked to when savings have been needed to fund other urgent priorities. This has been possible largely because the programme was more a statement of desirable projects than what it should be, a properly costed, timed and prioritised plan of work. Clearly this was not a satisfactory state of affairs. Apart from the obvious management problems, it meant that there was no way either of measuring performance against planned activity or of judging whether sufficient resources were being made available, in terms of manpower and money, to keep the prison estate in a reasonable condition. A considerable amount of time and effort has therefore been devoted to scrutinising and ordering the DOW programme during the last twelve months. Each project has been examined individually and about 80 have been weeded out. Even allowing for this pruning of the programme, however, the work which has been done reveals that DOW is substantially underfunded to carry out the work which I am satisfied is essential. This includes place producing projects (e.g. houseblocks) the importance of which, particularly during the next couple of years, is self evident; integral sanitation projects; urgent security work; work involved in commissioning new prisons; work which is needed on health and safety grounds; essential maintenance; and major refurbishment and redevelopment projects, such as that at Risley, which are of crucial importance for the long term future if we are to provide acceptable conditions, both for inmates and staff, and to minimise the risk of losing places, whether as a result of riot or simply because of the deterioration in the fabric of the estate.

I have considered this element of the bid very carefully. I recognise that we are asking for a substantial increase in resources for a part of the organisation which has not, in the past, had a good record of delivery. But I am satisfied that its past record was very much a consequence of a different management approach: its very much improved performance over the last two years (expenditure of some £71 million in 1988-89 compared to some £43 million in 1987-88 and £28 million in 1986-87) certainly supports this view and I am confident that the organisational and managerial changes which have been and are being made will enable it to deliver the programme which I consider essential and which is implicit in the bid.

Turning now to prison manpower, the new prison places for which I am bidding will not have manpower consequences during the

/PES period.

PES period. My bid for manpower is therefore relatively modest in size. The only significant bid is for 1992-93 and is needed largely to provide manpower for the additional places due to come into use in that year. As I pointed out in my letter to you last year, increases in the number of inmates, prison officers and prison places increase the burden of work on staff at Headquarters, regional offices and for non-prison officer grades working in prison establishments. If they are to cope with this, together with the implementation of new policy initiatives and the rising workload, (for example for staff in the Directorate of Works), then, notwithstanding efficiency improvements there is a need to increase staff levels. My bid therefore seeks money for this purpose also.

The remaining bids are described in more detail in the Annex. As usual they cover a miscellany of important activities, many of them non-staff operating costs in prison establishments and Headquarters and a number, for example bids for increased permanent transfer costs and for training requirements, related to the increased number of prison officers due to be recruited during the period.

You will notice that I am not bidding for any money to cover the costs of housing prisoners in police cells or other emergency accommodation. We have made much progress so far this year in reducing the use of police cells and a good deal of effort is being devoted at all levels of management to ensuring that this performance is maintained and improved upon. The Prisons Board has set as a key priority for the Service for 1989-90 the achievement of a rate of 98% of occupational capacity and I hope that this continued emphasis on making full use of the existing estate, coupled with progress on the building front will mean that by 1990-91 we can reduce to an absolute minimum the use of police cells, thus removing the need for any additional provision for this purpose. Risley has of course, reminded us that we may have to have recourse to them in emergencies, but I do not think we can or should plan for that in financial terms on a contingency basis.

IMMIGRATION AND NATIONALITY DEPARTMENT

The significant increases in resources for Immigration and Nationality Department which you agreed in PES 88 have contributed to real improvements in the service provided by the Department, for example through the creation of the Liverpool Nationality Office (LNO). The LNO has already cleared more than 30,000 citizenship applications and is on course for clearing all applications made before the end of 1987 by 31 March 1990. Nevertheless, further increases are necessary in 1990-91 if the level of service achieved in IND is to be at least maintained, and at best improved. We need to increase the resources available to

/deal with the

deal with the growing number of appeals. The bids mirror those being made by the Lord Chancellor's Department. We are looking for long term relief by procedural and other measures, but backlogs are already unacceptable, leading to considerable public criticism. The intake of cases by the appellate authorities has increased by 50% and the backlog had almost doubled to 13,000 by the end of 1988. The number of cases awaiting the despatch of statements in IND has increased to 3,500, and the production of statements in non urgent cases now takes 23 weeks against the target of 13 achieved last year. The proposals for additional manpower to manage IT developments are also very important. I am offering savings for Immigration and Nationality Department in the last Survey year. There are plans for increased staff in the Immigration Service, mainly to staff the new international terminals at Stansted, Birmingham, Manchester and Sheffield, which will open during the Survey period. There is a smaller bid for traffic growth at other sites. The bids have been reduced by £0.9 million to take account of efficiency savings through the streamlining of procedures. The proposed increases are lower than the forecast rate of traffic growth over the Survey as a whole. They are necessary to give effect to our policy of maintaining effective immigration controls. Given the rising traffic forecasts, failure to make such provision would lead to intolerable delays for travellers, damage to the economy, and justifiable criticism of our forward planning. I am not bidding in this Survey for the resources necessary to staff the Channel Tunnel, planned to open in 1993, because the requirements are not sufficiently clear. I will return to this in PES 1990.

PASSPORT DEPARTMENT

I attach considerable importance to providing a decent standard of service in issuing passports. Performance has improved, but there are still many constituency complaints and the Home Affairs Committee take a considerable interest. At present (near the peak of the passport season) a straightforward postal application is taking 20 days in London and 59 days in Liverpool. Demand for passports has increased with economic prosperity, with a rise of 14% in 1988-89 and a forecast of 14% this year, and 9% next. Computerisation is underway, but it has not, as yet, brought the hoped for benefits in full. I am convinced that the baselines do not include adequate provision to meet the current and future levels of demand. I must seek a substantial increase in manpower. The bid will allow us to cut the target processing time for passport applications to 5 days by the end of the Survey period. The size of the bid has been reduced by assuming cumulative efficiency savings (of 5% in 1990-91 and 2% in 1991-92 and 1992-93). I appreciate that passport fees are not counted as negative public expenditure. Nevertheless, the effect of increasing the output of the Passport Department will be to boost

/recipients to

receipts to the Consolidated Fund, offsetting the increase in expenditure. If adequate resources are not provided delays in obtaining passports will mount out of control, and Passport Department will have to spend more and more time on complaints and urgent cases, and be unable to provide a proper service to the general public.

FORENSIC SCIENCE SERVICE

I am increasingly concerned at the deteriorating level of service which the Forensic Science Service (FSS) is able to provide to the police and fire service. Forensic science plays a vital role in police effectiveness in tackling crime, particularly serious crime. As a result of resource restrictions, the number of cases dealt with has been decreasing and delays have been increasing. In 1983, the Service dealt with 35,954 cases, with an average turnround of 24 days. In spite of a 15% efficiency improvement between 1983 and 1987, in the latter year the FSS dealt with only 27,797 cases, with a 30 day turnround. Together with the new management team we have established a strategy for the FSS, and set a standard for the level of service needed to support the police and fire service. The target is to increase the total number of cases dealt with, both in absolute terms, and in relation to the number of serious crimes committed. The manpower bid represents the additional resources required to provide this service, taking account of significant efficiency savings.

DIRECTORATE OF TELECOMMUNICATIONS

Effective communications are vital to the operational efficiency of the Police and Fire Services in England and Wales. The future of the Directorate of Telecommunications was discussed in the course of PES 1988. From 1 April this year the Directorate has been charging police and fire authorities for the installation and maintenance of telecommunication equipment. Authorities are free to go to the private sector for these services if they wish. The settlement reached in PES 1988 assumed that the Directorate as a whole would produce a large cash surplus in each year in public expenditure terms, and that the trading account for the field services operation would show a balance between charges and costs. As a result of the introduction of direct charging and competition from the private sector, significant overcapacity within the Directorate has been identified by management, and it is clear that charges set at a level to recover costs would make the Directorate uncompetitive. We have a radical plan to reduce costs. But the scale of overcapacity is such that the restructuring necessary to achieve a competitive cost basis would, if imposed on too short a timescale, threaten the viability of the organisation. I cannot risk the

/consequences which

consequences which the collapse of the Directorate would have for police and fire service operational capability. The private sector has yet to demonstrate capacity or even desire to handle the whole span of the Directorate's work. Time will be needed to establish adequate alternatives to the Directorate services.

The Directorate has a detailed strategy to reach competitive cost levels by April 1992. It has already announced a cut in its complement of 247 by 1 April 1990. The strategy will involve significant redundancy and reorganisation costs. Taking account of these extraordinary costs, the Directorate as a whole will produce a reduced cash surplus in public expenditure terms during restructuring, and this gives rise to PES bids. If the extraordinary costs are excluded the trading account will show a deficit in the first two years, but break even in the third year. My officials have already begun to discuss these issues with yours.

CRIMINAL INJURIES COMPENSATION

*of 2000
now 1990*

I will be writing to you soon to report the outcome of the reconsideration of the scheme I agreed to in the course of last year's bilateral discussions. I have reviewed the current performance of the Board, and the realistic targets for output during the Survey period. I am prepared to plan on the basis that the Board will not make compensation awards in excess of the provision already available in the baseline for 1990-91. This has greatly reduced the size of the total non-prisons bids for the Home Office. As your officials know, we are pursuing various efficiency initiatives with the Chairman of the Board, which should have the effect of improving the Board's output in later years. This adds a further uncertainty to the forecasting process for 1991-92 and 1992-93, and I propose that we should not change the baselines for these years in this Survey. We would then return in PES 1990 to the level of expenditure in 1991-92 onwards.

PUBLICITY

Crime prevention publicity and encouraging community involvement in support of the police are vital to our strategy to tackle crime. This has led me to propose two significant initiatives for publicity campaigns in this Survey period. Our current crime prevention campaign focuses on property crime and aims to influence opinion formers and potential activists. The change in attitudes built and sustained by our campaign has contributed to improved home security and the growth in Neighbourhood Watch. This trend is consistent with the recent reverse in the long term increase in property crime. Continued effort will be needed if the trend is to be maintained. At the

/same time

same time the strong public and media concern over the continuing rise in violent crime is deepening, and it is crucial that we develop our prevention campaign to embrace the main focus of public attention. If we are to have an impact on violent crime, and continue to maintain the momentum on property crime, we must address the campaign to individual members of the public as well as opinion formers, and this will require wider media exposure and higher expenditure. Secondly, I see a need to harness in a positive way the enthusiasm of the public to assist the police in tackling crime. The best approach is to strengthen the Special Constabulary. I am proposing a national publicity campaign to increase public awareness of the value of the Special Constabulary, and to encourage recruitment. This would be additional to, and not a replacement for, local recruitment campaigns. The target would be to increase the numbers of specials to 25,000 (20% of the regular force), as compared to 15,800 (or 13%) at the end of 1988.

MANPOWER

I have already mentioned the main components of the manpower charges I am proposing in this Survey. The complete picture is set out in the Annex to this letter. In PES 88 we reached a three year running cost agreement underpinned by a management plan for efficiency savings, and I know that you, in general, do not expect Departments to reopen such settlements. Nevertheless, I am convinced that the nature of the developments and new demands to be placed on the Home Office during the Survey period are such that they cannot be met from within the provision agreed in PES 88. There are large offsetting savings in manpower for the Directorate of Telecommunications, and other savings elsewhere. I have also looked at the full cost to the Home Office of the pay awards agreed by the Treasury for Civil Service grades as compared to the provision for pay increases included in the three year running cost settlement. The settlement provided for a 7% increase in 1989-90 followed by increases of 6.5% and 6%. The full year cost of the recent pay awards for non-prison manpower in the Home Office will be 12.1%. In 1989-90 I will have to constrain expenditure, if at all possible, within provision set out in Budget Estimates. It is already clear that this is putting a great strain on the Department, even though the full year cost of the awards will not have to be found in 1989-90. But I must bid for additional provision in the Survey years to reflect the additional 5.1% increase in salary costs over and above that provided for in the baselines. For prisons manpower bids are needed for the same reasons, though there are two complications. For non-industrial staff in regional offices and prisons the cost of the pay award varies according to location, and for prison service grades the pay award was different. The total shortfall between provision and the actual costs of the pay

/awards for all

awards for all Home Office manpower in a full year is over £14 million. Failure to secure this sum would involve significant cuts in Home Office programmes. I have also bid for a 6% increase in pay costs in 1992-93 (3.5% above the general uprating) (with some differences for prison manpower) and to bring the increase for prison service grades into line with those for civil service grades.

RUNNING COSTS AND MANAGEMENT PLAN

My officials will be providing yours with details of the running cost implications of my bid together with the updated version of the Home Office Management Plan. The Management Plan will be the subject of discussions between our officials. This year I would hope to see the Management Plan extended to cover more of the non-prisons programmes within the Department.

OTHER MATTERS

There may be a need for me to make further bids later in the Survey, for example to adjust the planned expenditure on the Fire Service College to take account of detailed work on our decision to transfer the costs to local authorities. I have bid for a small sum for the establishment of the Independent Television Commission on a shadow basis after the Second Reading of the Broadcasting Bill, probably early in 1990. I see considerable difficulty with the proposal from your officials that the ITC should be classified as a central government non-trading body. I will write to you on this. If the ITC were so treated there would be a need for large bids.

PRIORITIES

I have considered whether it would be possible to set my proposals in any order of priority. Those relating to crime and criminal justice are part of the overall strategy to which I attach the highest priority, but in the other non crime areas I have also been careful to put forward only those bids which I consider to be of high priority.

I am sending a copy of this letter to the Prime Minister, the Lord Chancellor and the Attorney General.

Yours,
Douglas.

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DEPARTMENT OF TRANSPORT
CONFIDENTIAL MARSHAM STREET LONDON SW1P 3EB
01 276 3000

My ref
Your ref

Rt Hon John Major MP
Chief Secretary to the Treasury
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

Dear John

Mr Mortimer + Attachments

CX, Sir PM (DCL) etc

*Mr Ainslie, Mr Moxon, Mr Phillips
Mrs Case, Mrs Lomax, Mr MacAuliffe
Mr Wilson, Mrs Fennell, Mr Binn
Miss Walker
Mr Thiele, Mr Au.*

24 MAY 1989

PES 1989

1. When I wrote to you last year with my bids for the PES round I said that the demand for the services and facilities provided by my Department had been rising and were likely to continue to rise at a rapid rate. This has not changed in the intervening twelve months. Indeed it is now abundantly clear that the growth in demand for all forms of transport is far outstripping the capacity of the supporting infrastructure and that we face major and growing problems of congestion.

2. The increased provision agreed last year was helpful. But it scarcely begins to make inroads into the problems. Although we expect to continue to make efficiency gains and savings they too cannot make any material impact on the gulf between my present PES baseline and what we need to spend on transport infrastructure and allied services if we are to respond to the needs of business in a growing economy and meet the legitimate expectations of the public. As a result, I must table unavoidable and substantial bids for additional provision in a number of areas. I start with the national roads programme, the largest of the bids.

National roads

3. I do not need to rehearse at length the very serious problems with the motorway and trunk road network. Our officials jointly undertook sometime ago now an extensive review of the position and it has been considered at length with colleagues in E(A). It has been agreed that we must substantially increase the scale of the road construction programme and quickly. The White Paper "Roads for Prosperity" issued earlier this month commits us to a greatly expanded programme. We must now translate words into deeds and to do so means substantial additions to the present PES baselines.

4. I have considered most carefully how we can meet the undertaking in the White Paper. The joint review concentrated

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on the need to expand the total programme. But to complement this, and to be consistent with our overall aim, we must also accelerate the schemes in the programme which we set out in the White Paper two years ago. Many of these schemes will reach the construction stage in the next three years. It is essential we press on and build them. Construction of the new schemes announced in the recent White Paper "Roads for Prosperity" will not start until the end of the period. If they are to be seen as an adequate response to the problems of congestion then it cannot be at the expense of not building schemes on which an earlier start can be made. In the past slippage in starting new construction has been a worry. Whilst we can never avoid it entirely, I have set my Department challenging targets which effectively halve the time taken to get schemes to public consultation and from there to announcement of the preferred route. The results so far are encouraging.

5. But I cannot solve the problem that my present baseline is inadequate to begin construction of cost effective schemes which are, or soon will be, ready for construction. Nothing would be achieved by merely reallocating resources within an inadequate baseline.

6. The largest element of my bid for an accelerated programme is therefore concerned with schemes on which most preparatory work has already been done. The amounts required are £325m in 1990-91, £560m in 1991-92 and £665m in 1992-93. The biggest step change is in 1990-91 and is a reflection of the number of schemes which are about ready to go but which are held back for lack of provision. The bid assumes a declining rate of price increases after the recent peak.

7. In order to accelerate the road building programme, we need also to expand its size in line with the latest White Paper commitment. You have already agreed to release £25m from the Reserve so that we can make a start in 1989-90. To build on this, the amounts required for expansion are £100m in 1990-91, £150m in 1991-92 and £400m in 1992-93.

8. As we recognised last year, not only do we need to build more roads we must also maintain them adequately. It is in the end a false economy to postpone maintenance work since delay results in higher costs and poor value for money.

9. On road maintenance I need to bid for £50m in 1990-91, £50m in 1991-92 and £25m in 1992-93. This is to keep us on course towards our commitment to eliminate the maintenance backlog by the end of 1992-93 and to bring skidding resistance on the network up to standard.

10. The requirement for bridge maintenance is for an additional £40m in 1990-91, £60m in 1991-92 and £80m in 1992-93. Some work has been delayed, there is an increasing requirement for steady state maintenance, and we must begin the remedial work on

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concrete bridges which the Maunsell report has identified as necessary. We cannot skimp any of this work if we are to meet the ending of the EC derogation.

11. Finally on current maintenance the addition required over baseline is £25m in 1990-91, £30m in 1991-92 and £35m in 1992-93. This is principally because of the reclassification of survey work in line with your officials advice. Without it the capital maintenance bid would be some £18-20m higher. There is also an extra requirement for additional inspections and routine maintenance of concrete bridges and for extra litter clearance.

12. Taking together the acceleration of the road building programme and maintenance requirements, the total amounts required for the road programme are £540m in 1990-91, £850m in 1991-92 and £1,205m in 1992-93.

13. I recognise that a bid on this scale is very substantial. In the longer term, if our expectations are realised, the private sector might be able to take up some of the burden of providing the roads which the economy needs. But it can have no significant impact in the PES period. Unless the public sector is prepared to invest now on the scale I propose we shall have no hope of keeping up with the growth of traffic on our motorway and trunk road network or enabling business to respond to the challenge of 1992. Colleagues in E(A) recognised that other spending programmes might have to make room for a greatly expanded roads programme. I fear the size of the bid I am making will not make your task any easier in that respect; but that in no way diminishes the need for the bid.

Local Transport

14. I am faced with two problems on local transport. First I must put right the damage done to local transport programmes by the maldistribution of spending power under the present capital control system: the three year legacy of underspend has to be made good. Second the success of the economy means growing problems of congestion across the whole of local transport. Although not as pronounced as on national roads it is nevertheless increasing significantly.

15. We have to consider the needs of local roads, public transport and airports separately although roads and public transport are obviously closely related. In their case the elimination of the squeeze on capital allocations means that I need to alter the balance between grants on the one hand and credit approvals derived from the Annual Capital Guidelines on the other. As a result I need your agreement to a transfer from credit approvals to TSG as well as seeking increases in the baselines.

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Local Roads

16. Local authority roads have suffered badly under the present system of controls on local capital spending. The joint review which our officials conducted confirmed the conclusions of an earlier study that we needed to maintain the real rate of investment in local roads of more than local importance at the level achieved in 1985/86. In practice there have been increasing underspends in recent years on what we planned. Minor roads have fared even worse. We now have an opportunity under the new capital finance regime to get back on target. The public and business will expect no less at a time when we are proposing to spend substantially greater sums on national roads. Local roads are vitally important as feeders to the national network, particularly for the movement of goods. We must ensure an adequate local road network too if we are to get best value for money from spending extra money to ease congestion on inter urban routes.

17. I acknowledge that the new capital finance regime goes a considerable way towards eliminating the mismatch of needs and capital spending power that exists under the present system. But it still falls short of the review target and local authorities face the same prospects of higher prices as on national roads. I recognise that local authorities will not be sufficiently geared up in 1990-91 on their preparation work to do more than achieve investment equivalent to the sum of the Annual Capital Guidelines implied by the baseline credit approvals for transport and the TSG and IDA baselines. What I need to ensure, however, is that this is targeted towards important schemes on roads of more than local importance to ensure consistency with the national roads programme and to get maximum value for money. To achieve this I must seek a transfer of £51m from credit approvals to TSG for 1990-91 carried through into the later years.

18. In addition the baselines for credit approvals and grant are insufficient to allow for anticipated price increases and they certainly do not leave sufficient room to get investment levels up to those recommended by the joint review. Furthermore, I need an additional £15m in both 1991-92 and 1992-93 if I am to implement an efficiency review recommendation that we should accept preparatory work on major schemes for TSG support two years before construction is due to start. Even without allowing for further growth in investment to meet the joint review target, I need additions to the credit approval baseline of £21m in 1991-92 and £34m in 1992-93 plus increases in TSG of £25m in 1991-92 and £35m in 1992-93.

Local public transport

19. Public transport has an equally important role to play both in relieving road congestion in a number of urban centres and in regenerating the inner cities. I am looking to involve the private sector in this on the basis of proper risk transfer and

*CGC office
effects
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on the principle that users should pay through the fare box for the benefits they receive. But a public sector contribution too is unavoidable, not least because road congestion and regeneration benefits cannot be captured in fares. This means that there will normally still have to be a public sector contribution at local level, which requires credit approvals, and from my Department by way of s.56 grant.

20. The existing baseline for credit approvals only makes limited provision for the Manchester Metrolink project and there are a number of light rapid transit schemes in preparation including a privately promoted venture in Bristol. If they all prove viable the local public transport programme would have to be more than doubled to accommodate them. I am not proposing this. But I do need adequate provision for the two projects which are at a sufficiently advanced stage to be reasonably sure of their merits. These are the first stages of both the Manchester Metrolink and the Sheffield Supertram scheme. To accommodate both of them I need increases in the credit approvals baseline of £14m in 1990-91, £23m in 1991-92 and £11m in 1992-93 and increases for s.56 grant of £7m in 1990-91, £20m in 1991-92 and £21m in 1992-93. The bids for the second and third Survey years include a small element to begin investment in other light rapid transit schemes which are likely to come forward by then.

Local airports

21. Last year we made some provision for the Manchester second terminal, but not enough. It is vital that it opens in 1993 if there are not to be severe problems of congestion at what is now one of Europe's largest international airports. The advice I shall soon be receiving from the Civil Aviation Authority on airport capacity will underscore the need to press on with developing terminal facilities at the other major regional centres, not least at Birmingham and Luton. Traffic growth in the regions generally means that there is no scope for savings at other airports. We are already experiencing severe problems at many airports in the summer peak, and in view of the forecasts for future traffic growth, we must ensure adequate provision for further development of these regional airports. I therefore need additions to the baseline credit approvals of £24m, £54m and £36m.

Total bids for local transport

22. In total my bids for local transport are therefore:

	£ million		
	1990-91	1991-92	1992-93
Credit approvals	38	98	81
TSG	-	25	35
Section 56 grant	7	20	21
Total bid	45	143	137

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In addition to which I need a transfer of £51m from credit approvals to TSG in all three years.

Ports

23. You have already agreed to accept a claim on the Reserve for extra severance pay in 1989-90 under the National Dock Labour Board scheme. We clearly need to make similarly adequate provision in the PES period for extra severances as the scheme is wound up. To cover this I need additions to the baseline of £7m in 1990-91 and £3m in 1991-92.

London Transportation Survey

24. We shall need in 1991 to undertake this decennial study. It provides the only comprehensive source of data on travel in London and we draw upon it extensively to model future trends. The new survey will be a major underpinning to our thinking in the 1990's about London's transport needs. In order to meet the costs I need additions to the baseline of £1m in 1990-91 and £6m in 1991-92.

Running Costs

25. As you will see from the enclosed running costs management plans, I plan to make continuing efficiency gains which across the PES period will significantly exceed the minimum 1½% annual target. It is only thanks to these savings that I expect to be able to manage within the baseline carried forward from last year's settlement for pay and prices and the generality of running costs. This is on the assumption that pay and price increases are not too far adrift from the assumptions agreed in previous PES rounds for 1990-91 and 1991-92.

26. My Department underspent its running costs provision last year but I do not expect this state of affairs to continue. To overcome recruitment difficulties in key areas, for example with civil engineers needed for the roads programme, we have been making increasing use of the new pay flexibilities, with some success. I expect we shall continue to have to do this as the labour market tightens in the 1990s. My Department is also having to find cover out of the baseline provision for centrally negotiated awards that have been significantly higher than the assumptions we made about pay increases in recent settlements. As a result of these factors I expect the past underspend to be eaten up in the Survey years.

27. Indeed I have to say that if my Department's pay bill continues to increase at the rate of the last year or two then I can foresee real problems in keeping within my baseline. To take just one example, centrally negotiated and local pay awards in the last pay round have increased DTp(C)'s pay bill by nearly 10% in 1989-90. This compares with an assumed increase of only 5½% underlying the settlement for that year. If there continues to be such a wide gap between the real increase in the paybill

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and the assumed pay increases underlying running cost settlements then there must come a point when I shall have to reopen a three year settlement for pay. But thanks to the savings we plan, and those we have already made in recent years, we have not quite reached that point yet.

28. What I am unable to do is also absorb within the baseline the demands imposed by new work, volume growth and certain specific cost pressures which were not addressed in last year's settlement. It will help to understand the position if I explain my needs in terms of Highways, the rest of the DTp(C) and DVLD.

29. There are two elements to my bid for extra resources in Highways. First, although I am already making progress in cutting the time it takes to get roads built, I need to accelerate further the delivery of schemes set out in the White Paper two years ago. To do so, I need more resources in the regions to handle them and for engineering and information technology support. In addition, I not only need front line resources in the regions to expand the size of the programme in line with the latest White Paper but extra staff are required to cope with the major demands it will create in other areas. These are needed to maintain the expanding network, to take forward the private finance initiative and to improve the M25.

30. I shall need 92 extra man-years rising to 127 by the end of the period to accelerate schemes near to the construction stage. This is a fairly modest requirement bearing in mind the volume of the extra construction and preparation activity which my programme bid will support. As a result the extra staff will generate a considerable efficiency gain.

31. I also need additional staff to expand the total programme itself. Most staff effort on road schemes is needed before construction begins and, because of the front end loading, I shall need 243 extra man-years rising to 373 by the end of the period to handle the expanded programme. We agreed last year that the running cost consequences of the expanded programme follow automatically from whatever expansion is decided. Our officials are currently considering what extra running costs are needed in 1989-90, within the ceiling of £2m which you have agreed, to support the £25m you have released from the Reserve to make a start on the expanded programme.

32. This means that in total Highways needs an extra 335 man-years in 1990-91, 443 in 1991-92 and 500 in 1992-93. To support the increase I need additions to my baseline of £10m in 1990-91, £13m in 1991-92 and £15m in 1992-93. Part of this is to carry forward into the Survey years the increase in running costs needed this year to make a start on the expanded programme.

33. For DTp(C) I must bid for two specific items not covered in last year's settlement. These are the VAT surcharge to be imposed by PSA on PRS rents and the potential costs of relocating

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staff out of London and the South East. These bids cover Highways, whose accommodation costs are brigaded within the DTp(C) totals. I realise that, when the arrangements were announced last year for the VAT surcharge, the Treasury ruled that Departments should absorb it just like any other cost increase. Frankly, at a time when I am striving to absorb real cost increases, not least much higher pay rates than we had bargained for, I cannot accept that we should also be expected to absorb a self inflicted increase like the VAT surcharge which is after all merely an accounting change and will not affect the PSBR. The bid for relocation is provisional as plans are at an early stage. But I must make some provision in order to enable my Department to realise the potential cost savings wherever possible. I would be content for this element of the bid to be ring fenced, to be adjusted to meet actual costs as they occur.

34. The management plan shows that the expected efficiency savings in DTp(C) are needed to meet cost pressures in the PES period. They are insufficient to fund the manpower I shall also need to deal with safety issues and to carry forward crucial policy work in areas like privatisation, competition and the development of new transport infrastructure. Staff are required, for example, for the newly created Aviation Security Inspectorate, in the Railways Inspectorate and for Channel Tunnel traffic enforcement. Besides safety, I need staff for the privatisation of British Rail and deregulation of London Buses and for the Channel Tunnel rail link, amongst other issues. Total staff numbers in DTp(C) should decline in the Survey period producing a net saving of 162 man years. Nevertheless, I still require additional resources to cover the costs of this new work which accounts for 133 posts, many of them requiring more highly qualified and more expensive staff than we are releasing. Taking the specific items and the staff costs together, the addition to the baseline to met the requirements in the rest of DTp(C) is £8m in 1990-91, £10m in 1991-92 and £11m in 1992-93.

35. The picture for DVLD is similar. DVLD is faced with the prospect of continuing substantial growth in its existing workload and also with new tasks. Workload in 1988/89 was 9.3% above the level of the previous year. This carries forward into 1989-90, when a further increase of 4.9% is forecast, to be followed by additional growth of 18.6% over the Survey period. As a result, DVLD will need an extra 197 man years in 1990-91, rising to 279 by the end of the period. This is on the assumption that DVLD will be able to offset some of the impact of workload growth through substantial further efficiency gains, amounting to 6.5%, 4.1% and 2.9% in the three Survey years. The increasing volume of activity also calls for additional provision for postage and stationery.

36. Extra staff are also needed to cope with new tasks. Some 157 additional man years, rising to 201 by the end of the period, are needed principally to enable DVLD to take over work currently done by the Crown Prosecution Service in order to improve the

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effectiveness of VED enforcement. This will generate over £3m a year in receipts to the Exchequer. My Department has proposed to the Efficiency Unit that an Efficiency Scrutiny of the work on VED enforcement should be carried out to see what further improvement in the arrangements might be possible. I hope that the results of this will be available by the autumn. An extra 57 man years, rising to 108 by the end of the period, will be needed for the new "Sale of Marks" initiative. I indicated last year that additional resources would be needed for this and I would like to make use of the marginal receipts concession to cover staff and other running costs to be incurred in the Sale of Marks. For an outlay of some £3-4m a year in running costs, we expect eventually to generate annual receipts of some £21m. I must also bid to cover the costs of the VAT surcharge in DVLD's case and of the Post Office agency contract. The agency costs were set aside in last year's settlement and we agreed they could be bid this year without re-opening the settlement.

37. In total DVLD needs 411 extra man years in 1990-91, 426 in 1991-92 and 588 in 1992-93. As a result, and to cover the other costs which I have mentioned, the addition to baseline is £13m in 1990-91, £17m in 1991-92 and £27m in 1992-93.

38. Although I am seeking to absorb within baseline general pay and price increases in all three areas in 1990-91 and 1991-92 I must allow for realistic increases in 1992-93 particularly bearing in mind the cumulative effects of higher than budgeted pay settlements in the earlier years of the Survey. The by now traditional 2½% uprating of the running costs baseline is clearly inadequate and I must bid on the more realistic basis that pay in 1992-93 will increase by 6% and other costs by 5%. By recent standards these are modest assumptions. Allowing for the carry through into the third year of bids I have made to cover extra manpower and other costs the requirement for pay and prices in 1992-93 is £3m for Highways, £7m for the rest of DTp(C) and £3m for DVLD.

39. My total bid for running costs is therefore:

		<u>£ million</u>	
	1990-91	1991-92	1992-93
<u>Highways</u>			
<u>Additional requirements</u>			
for accelerated programme	5	5	6
Expanded programme	5	8	9
Pay and prices	-	-	3
<u>Rest of DTp(C)</u>			
VAT surcharge	2	3	3
Relocation	2	3	3
New work	4	4	5
Pay and prices	-	-	7

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<u>DVLD</u>			
Stationery/postage	1	2	2
VAT surcharge	-	1	1
PO Agency	5	8	12
Sale of marks	3	3	3
New work	2	2	2
Workload growth	2	2	3
Pay and prices	-	-	3
Total	<u>31</u>	<u>40</u>	<u>62</u>

40. I ought to say a word about accommodation costs. These are subject to great uncertainty, not least on the maintenance side, because of the changing relationship with PSA. I need not bid until July for maintenance, and my officials are in the process of assessing the forward requirements. Because of the uncertainties I have decided not to bid this year for rent and rates or for other costs arising out of the PSA changes. But I must reserve the right to bid these items next year when the extra costs are known. We shall in any case need to agree the conditions which will allow this year's settlement to be reopened.

41. Finally, I am not expecting major changes in manpower numbers in areas outside gross running costs. The Vehicle Inspectorate expects broadly to maintain manpower numbers across the Survey period and the Driver Testing and Training Organisation expects to reduce manpower by 85 man years by the end of the period.

Minor items

42. I have not dealt in this letter with a number of minor items and savings. As in past years, I shall try to meet any small additional requirements by transfers within my existing provision, subject to obtaining a satisfactory overall settlement. But there are two points I should mention.

43. I must enter a contingent bid for Civil Aviation Services. Eurocontrol plans to invest heavily to improve air traffic management systems in Western Europe. This would be highly desirable. The UK is pressing for Eurocontrol to finance the investment by borrowings. If it is nevertheless decided to finance it on the more traditional basis of capital payments by member states then I would need additional net provision above baseline of £2m in 1990-91, £6m in 1991-92 and £6m in 1992-93.

44. The other point concerns EUROPESE. Formally I need to bid for the £0.2m difference between the Treasury's PES 1988 and PES 1989 calculated offsets so that the difference can be reinstated in my baseline for 1990-91 and 1991-92.

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Summary

45. My total bids are therefore:

	£million		
	1990-91	1991-92	1992-93
National roads			
new construction-accelerated programme	325	560	665
-expanded programme	100	150	400
capital road maintenance	50	50	25
capital bridge maintenance	40	60	80
current maintenance	25 ⁵⁴⁰	30 ⁸⁵⁰	35 ²⁰⁵
Local transport*	45	143	137
NDLB severance pay	7	3	-
London transportation survey	1	6	-
Running costs	31	40	62
Total bids	<u>624</u>	<u>1,042</u>	<u>1,404</u>

*plus a transfer of £51m from credit approvals to grant in all three years

Contingent liabilities

46. I have, as requested, examined all my Department's outstanding contingent liabilities and those of the bodies which I sponsor. The only new or increased liabilities since we reported the position last year are new potential liabilities of up to £50m which we might incur as a result of arbitration on the dispute with the United States government over user charges at Heathrow and of up to perhaps £250,000 in the event of an unusually large compensation payment for industrial injury suffered by a trainee on the Merchant Navy Training scheme. I should say that we are vigorously defending our position in the Heathrow user charges dispute. A liability on the scale I have suggested would arise only if the US government's claim were accepted in full by the arbitration tribunal, other countries also successfully pursued claims and the UK government, rather than BAA, had to meet them.

47. I am sending copies of this letter to the Prime Minister, the Lord President, the Secretaries of State for the Environment, Scotland and Wales and to Sir Robin Butler.

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PAUL CHANNON

