

● POLCH / NLI 0527  
PART C



Part C.

**SECRET**  
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Begins: 21/9/89.  
Ends: 23/10/89.

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PT. C.

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

DD's: 25 Years

*[Signature]*

13/3/96.

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SECRET

*Stan El... will check to... this yr, but (see X) in... CST (IE DSS) Jan... settle... hand with Mr M.*

SCORECARD  
COPY NO: 2 OF: 16

FROM: J MACAUSLAN  
DATE: 21 SEPTEMBER 1989  
EXTN: 4780

- 1 MR ANSON *2 1/9*
  - 2 CHIEF SECRETARY
- copies attached for:

- cc:
- Mr Monck
  - Mr Phillips
  - Mrs Lomax
  - Mr Sedgwick
  - Mr Richardson (GEP)
  - Miss Walker (GEP)
  - Mrs Chaplin
  - Mr Tyrie

Chancellor  
Sir P Middleton  
Mr Anson

**1989 SURVEY: PROGRESS IN FIRST ROUND BILATERALS**

This note sketches progress to date, and looks at the next steps.

Bilaterals to date

2. Annex A shows the position. You have held bilaterals on all the major departments except MAFF, Energy, the transport industries, OAL, the Celts, and Customs. Bilaterals on each of these will be held in the next few days.

3. You have settled most of DTI. Northern Ireland looks virtually settled. Most of departmental Energy is tied up. Discussions on the legal departments rest with officials.

4. Bargaining has begun on FCO/ODA, HO and DH; it looks likely to begin soon on DE. But we have seen no movement from DTp or DOE and virtually none from DSS; it remains to be seen whether we get any out of DES and MOD.

Latest Scorecard

5. The latest scorecard is at Annex B, along with a summary of the reasons for the main changes. We have increased our central adjustment for year 2 by £¼ billion, given the advice of LG that the discussions on the community charge may lead to a package worth some £300/700/300 million - rather more in year 2 than we had previously allowed for.



6. Annex C shows the implications for GGE and the ratios.

7. As in past scorecards, we have assumed Reserves of £3/7/10 billion. This is only a working assumption. The size of the Reserves will be for you and the Chancellor to decide towards the end of the Survey. But there is not much room for manoeuvre if the Reserves are to be credible.

#### Prospects for GGE

8. We have reviewed the figures for debt interest, the national accounts adjustments, and local authority self-financed expenditure; but the only significant change from previous scorecards is a reduction in local authority self-financed expenditure in years 1 and 2 to give a smoother profile. The overall additions to GGE are only slightly different from last week for years 2-3, but lower in year 1.

9. The figures for money GDP reflect EA's latest view of the position for 1989-90. For the later years they use the July assumptions for the GDP deflators, and the FSBR real growth rates. These numbers, like those in the paragraph above, are very much subject to the outcome of the Autumn forecast.

*unpleasant!*  
10. The estimate of GGE excluding privatisation proceeds in 1989-90 has been reduced, in line with the latest monthly assessment. There is also a lower estimate of national accounts adjustments in that year.

11. The net effect of all these changes is that the pattern of GGE ratios looks less satisfactory this week (% of GDP):

<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>	<u>1992-93</u>
38½	39	39	38¾



But the ratio for 1989-90 is close to the point where it would round to 38½; similarly, the ratio for the last 2 years are close to 38½% and 38½%. The real growth rate between 1989-90 and 1990-91 has increased to 3½%, all due to the lower estimate for 1989-90. The average real growth rate for 1988-89 to 1992-93 is 2%, as last week. It would not take a very big improvement to get us back to the FSBR ratios for 1990-91 and 1991-92, and to the Autumn Statement average real growth rate of 1½%.

### Second round bilaterals

12. Second round bilaterals have been fixed up (see Annex A) for DSS, DH, DE, MOD, HO, FCO/ODA and DOE. Second round bilaterals will also be needed for DES, and DTp, as well as for any of the departments still awaiting first round bilaterals. I gather it is proving difficult to fix a time for DTp.

13. Thereafter there may in some cases be scope for an exchange of letters and conceivably some third round bilaterals.

14. Your aim in the second round bilaterals will be to reach a firm judgement whether a programme will go to Star Chamber; if so, to put yourself in the best possible position to get a good outcome; if not, to set the scene for some haggling and a settlement over the next few weeks.

15. In practice, departments fall into 3 categories:

- (a) temporarily in baulk - DOE (because of the Community charge discussions), and DSS (because of the need to consult on CB).
- (b) probably negotiable - DH (you have made an offer), and HO (Mr Hurd has written), as well as FCO/ODA, and some smaller departments.



- (c) unclear - MOD (Mr King refused to engage at the first bilateral, and is to write); DES (Mr MacGregor is to write); DE (Mr Fowler is to write); DTp (you are discussing rail on 22 September); MAFF, SO and WO (bilaterals still to come)

16. We doubt if there is any point in making moves on (a) until the logjams clear. So you may want to focus over the next week or so on making as much progress as possible towards settlements on (b), and establishing how much progress is possible on (c). Given the likelihood that (a) and some of (c) will go to Star Chamber, it would be helpful to have come closer to a settlement on (b) and some of (c).

17. Where a settlement is in prospect, you will want to get down to haggling. You have made an offer on DH, and on FCO/ODA. Mr Hurd has on HO. On any departments promoted out of category (c), you will want to consider in each case whether to make the first move, or to go on trying to drag it out of your opposite number. Any offer could be made in full bilateral, in a smaller meeting, in a private meeting, or on paper. The haggling is often better done with few officials, or possibly only one or two, on each side. Some detailed issues can be settled by officials ad referendum, provided that Ministers can agree on the overall envelope or principles defining the scope for manoeuvre.

18. It will be crucial to persuade each colleague that the outcome you seek can be presented by him positively.

19. If there is little prospect of a settlement, your aim between now and 6 October will be to try to pick out the issues that must go to Star Chamber on each programme, and to put yourself in the strongest possible position. This may mean, for instance, making an opening offer designed so that your position seems not unreasonable, but also so that Star Chamber can split the difference without exceeding the forecast outcome. To make Star Chamber's work manageable, smaller issues will need to be settled bilaterally, so that the group can focus on the key issues for each programme. It probably helps if the difference between you



and your colleagues is neither so small that Star Chamber feel they have nothing real to decide, nor so big that there is scope for a disaster if they are slightly more generous than we expect. This might mean that the envelope within which we ask them to settle all the programmes in front of them should be at or slightly below the sum of the forecast outcomes on the issues we put to them.

#### Meeting with PM

20. You and the Chancellor are meeting the Prime Minister on 3 October. You will want to discuss with her the likelihood that Star Chamber will be needed; we can, if necessary, give you a draft minute shortly thereafter asking her to set it up. You and the Chancellor will want to think whether you want to suggest that Sir Geoffrey Howe be involved in the 3 October meeting. You will also want to be ready to discuss with her who should be on Star Chamber. We will be providing a note on all these questions, for discussion with the Chancellor on 2 October, together with an updated scorecard and a draft position report for the PM.

#### Star Chamber

X 21. At present, DOE, DTp, DES, DSS, MOD all seem to be possible candidates for Star Chamber - or, in the case of DSS, an ad hoc group including the Prime Minister and the Chief Whip. (SO and WO may also go to Star Chamber). But it is early days yet. We may see some movement from DOE when the outcome of the discussions on the community charge is known; and from DSS when the Law Officers have given their advice on Child Benefit.

22. Star Chamber normally begins by reviewing the task before it, on the basis of a paper from you. This ideally needs to happen on 16 or 17 October - a quick start is necessary if the work is to be finished on time. Some programmes may in the event be settled outside Star Chamber; but we need to keep the pace up in case Star Chamber is required to settle a number of programmes.



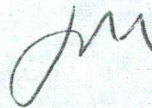
23. It is worth noting that in each of the last 2 years it was not clear until the very last minute that Star Chamber would not be needed. All the preparations were made, and Star Chamber was formed and met; we need to proceed on the same basis this year.

Preparations for Star Chamber

24. Unless a programme has been settled by 6 October, we should agree with the relevant Minister during the last bilateral or exchange of correspondence that officials should start preparations during the Party Conference. (These preparations can of course be aborted if a settlement is reached at Blackpool or back in London the week after).

25. We will give you a fuller submission in the week after next on how all these preparations will be handled. But in summary the steps are as follows. Treasury officials will draft short papers (about 2-3 pages) setting out the issues on each programme; we will agree these papers with officials in the relevant department during the week of the party conference, ready for circulation to Star Chamber at the beginning of the following week. For your own use only, we will also update the briefs on each individual programme. Separately, we will prepare much shorter briefs for Star Chamber members, and a handling brief for the Chairman. We also need to write the paper for you to present to Star Chamber.

26. You may want to discuss all of this with us.



J MACAUSLAN



## PROGRESS IN BILATERALS

## ANNEX A

<u>DEPARTMENT</u>	<u>FIRST ROUND</u>	<u>OUTCOME</u>	<u>SECOND ROUND</u>
DSS	7/9	DSS letter 20/9	[26/9 if appropriate]
DH	8/9	CST letter 20/9	25/9
DTP	11/9	DTP letter 19/9	[difficulties in arranging]
MOD	11/9	MOD letter <u>due</u> 19/9, likely 22/9	27/9
DOE	13/9	DOE letter 18/9	3/10
HO	14/9	HO letter 21/9	2/10
DES	13/9	DES letter <u>due</u> 22/9	[to be fixed for 4-5/10]
DTI/ECGD	18/9	Almost settled	[Correspondence prob enough]
DE	18/9	DE letter <u>due</u> 25/9	29/9
FCO/ODA	19/9	Both sides to reflect by 25/9	4/10
IR	20/9	IR to write by 25/9	FST may be able to settle
WO	22/9		May be needed
DTP (nat ind)	22/9		[See DTP above]
Customs	[?28/9]		
MAFF	27/9		May be needed
SO	[28/9]		May be needed
OAL	3/10		
N Ireland			[prob not needed: may be settled in correspondence]



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SUMMARY SCORECARD

Date of last update: 21/09/89

(£million)

	1990-91 BASELINE	1990-91 DEPT POSITION	1990-91 FORECAST OUTCOME	1990-91 HMT POSITION	1991-92 BASELINE	1991-92 DEPT POSITION	1991-92 FORECAST OUTCOME	1991-92 HMT POSITION	1992-93 BASELINE	1992-93 DEPT POSITION	1992-93 FORECAST OUTCOME	1992-93 HMT POSITION
Ministry of Defence	21,187.0	381.0	81.0	53.0	22,101.0	957.0	29.0	0.0	22,653.0	2,014.0	700.0	0.0
FCO - Diplomatic, Information, Culture	841.0	46.0	43.0	37.0	884.0	63.3	50.9	5.2	906.0	60.2	47.1	5.2
FCO - ODA	1,627.0	134.2	70.3	46.5	1,692.0	199.9	92.4	47.7	1,734.0	295.9	127.3	2.0
Intervention Board for Agricultural Produce	1,342.0	-106.7	-108.3	-111.7	1,518.0	-141.9	-143.8	-147.1	1,556.0	-103.2	-105.3	-109.6
Ministry of Agriculture, Fisheries and Food	578.0	90.5	50.5	-46.3	590.0	125.1	73.4	-76.8	605.0	149.6	89.9	-95.6
Forestry Commission	77.0	1.1	1.1	1.1	80.0	3.2	3.2	3.2	82.0	5.6	5.6	5.6
Trade and Industry	1,300.0	32.0	-60.4	-179.4	1,155.0	56.6	-49.6	-202.3	1,185.0	-29.2	-174.6	-318.3
Export Credits Guarantee Department	122.0	89.5	89.5	88.9	61.0	-1.1	-1.1	-4.8	63.0	-92.2	-92.2	-101.2
Energy	421.0	27.4	25.8	-18.9	353.0	43.9	42.6	-12.1	362.0	33.1	31.6	-27.7
Department of Employment	3,887.0	141.3	-117.7	-385.2	3,894.0	169.0	-224.3	-623.1	3,991.0	253.2	-232.5	-770.5
Department of Transport	2,645.0	629.8	332.0	3.0	2,724.0	1,012.1	538.9	0.0	2,792.0	1,360.0	609.0	0.0
DOE - Housing	5,737.0	984.7	706.7	-445.2	6,157.0	1,196.1	771.4	-485.8	6,311.0	1,273.4	739.4	-566.7
DOE - Other Environmental Services	1,194.0	408.5	182.4	-208.1	1,226.0	428.0	124.2	-207.5	1,256.0	338.1	146.4	-67.3
DOE - Property Services Agency	-138.0	144.7	83.0	38.2	-186.0	154.0	42.4	-2.9	-191.0	108.4	-15.4	-75.2
DOE - Local Government	19,365.0	697.1	714.5	732.0	19,849.0	744.7	786.2	1,055.9	20,345.0	702.7	769.9	1,096.8
Home Office (inc. Charity Commission)	4,504.0	521.5	378.1	59.2	4,581.0	722.6	516.9	-185.7	4,695.0	897.5	621.4	-208.4
Legal departments	1,188.0	138.3	81.0	-4.3	1,261.0	206.3	130.9	-4.3	1,292.0	310.6	217.9	-5.0
Department of Education and Science	5,824.0	1,410.7	775.9	243.9	5,932.0	1,731.2	837.3	277.0	6,080.0	1,934.0	834.5	280.3
Office of Arts and Libraries	456.0	46.5	21.0	-1.8	486.0	52.4	10.6	-1.9	498.0	88.9	16.4	-1.9
Department of Health and OPCS	20,987.0	1,879.6	1,166.9	750.6	21,941.0	2,744.7	1,534.5	1,056.8	22,489.0	3,730.2	2,167.7	1,572.1
Department of Social Security	55,126.0	1,260.9	714.6	456.0	58,300.0	2,028.9	1,340.4	754.8	59,757.0	4,421.8	3,406.2	2,558.5
Scotland: negotiable	9,179.0	68.4	-26.4	-486.4	9,491.0	104.0	-18.2	-540.2	9,728.0	138.9	-15.0	-600.0
Scotland: formula		623.1	361.7	11.4		844.1	446.3	41.2		1,045.8	545.0	108.4
Scotland: local government		143.3	143.3	143.3		156.3	156.3	156.3		151.3	151.3	151.3
Wales: negotiable	4,133.0	136.9	51.4	0.4	4,247.0	219.9	37.3	-8.7	4,353.0	169.8	8.0	-44.0
Wales: formula		287.7	169.6	25.0		388.4	205.9	42.7		473.4	243.0	70.8
Wales: local government		73.9	74.3	75.0		78.3	79.3	92.7		77.2	78.9	95.1
Northern Ireland: negotiable	5,655.0	114.7	109.3	109.3	5,866.0	149.6	149.6	149.6	6,013.0	173.2	173.2	173.2
Northern Ireland: formula		247.5	164.6	49.3		316.9	190.7	48.0		378.0	218.8	63.3
Chancellor's Departments	4,322.0	230.1	181.4	153.3	4,530.0	301.1	243.2	195.2	4,644.0	430.4	345.1	263.1
Cabinet Office, Privy Council Office, etc	337.0	14.7	12.1	5.1	352.0	15.3	13.4	8.4	361.0	9.8	9.1	7.1
European Communities	1,950.0	35.0	35.0	35.0	1,580.0	-35.0	-35.0	-35.0	1,620.0	230.0	230.0	230.0
Nationalised Industries	-396.0	1,957.7	1,225.2		979.0	1,417.3	1,032.8		1,002.0	1,876.0	1,284.0	
Optimism/bids to come			750.0				1,250.0				1,000.0	
TOTAL ADDITIONS TO PROGRAMMES	173,450.0	12,941.6	8,522.3	1,229.2	181,644.0	16,522.3	10,317.9	1,396.5	186,182.0	23,006.4	14,261.7	3,691.3

Annex B



(B)

SECRET

21/09/89

SUMMARY OF CHANGES IN FORECAST OUTCOME  
SINCE LAST SCORECARD

	1990-91	1991-92	1992-93
	CHANGE IN	CHANGE IN	CHANGE IN
	FORECAST	FORECAST	FORECAST
	OUTCOME	OUTCOME	OUTCOME
Ministry of Defence	0.0	0.0	0.0
FCO - Diplomatic, Information, Culture	3.0	0.0	0.0
FCO - Overseas Development Administration	0.0	0.0	0.0
Intervention Board for Agricultural Produce	37.1	6.2	4.9
Ministry of Agriculture, Fisheries and Food	10.0	9.6	11.5
Forestry Commission	0.0	0.0	0.0
Trade and Industry	0.0	0.0	0.0
Export Credits Guarantee Department	0.0	0.0	0.0
Energy	-3.2	-5.0	-5.1
Department of Employment	0.0	0.0	0.0
Department of Transport	0.0	0.0	0.0
DOE - Housing	40.0	29.0	18.0
DOE - Other Environmental Services	0.0	0.0	104.0
DOE - Property Services Agency	26.5	16.4	17.0
DOE - Local Government	0.2	0.3	-0.2
Home Office (inc. Charity Commission)	0.0	0.0	0.0
Legal departments	0.0	0.0	0.0
Department of Education and Science	0.0	0.0	0.0
Office of Arts and Libraries	-5.4	0.0	-1.0
Department of Health and OPCS	10.7	-75.7	-129.4
Department of Social Security	42.5	31.7	60.7
Scotland: negotiable	-45.0	-62.9	-75.9
Scotland: formula	6.6	-5.2	-1.9
Scotland: local government	0.0	11.0	13.0
Wales: negotiable	16.4	12.3	18.0
Wales: formula	-0.1	-5.6	-3.3
Wales: local government	13.0	13.0	14.0
Northern Ireland: negotiable	0.0	0.0	0.0
Northern Ireland: formula	2.6	-0.5	1.5
Chancellor's Departments	-0.3	-3.4	-3.2
Cabinet Office, Privy Council Office, etc	0.0	0.0	0.0
European Communities	0.0	0.0	0.0
Nationalised Industries	0.5	-0.5	0.0
	0.0	0.0	0.0
Bids to come/optimism	0.0	250.0	0.0
TOTAL	155.1	220.7	42.7



Changes in forecast outcome

- (i) **IBAP:** savings lower because anticipated devaluation of green £ in 1990-91 larger than forecast; also increased market support because of revised forecast of 1989 harvest;
- (ii) **MAFF:** revised estimate for take up of capital grants, and lower savings forecast on reductions proposed by Treasury;
- (iii) **ENERGY:** reduction in UK Atomic Energy Authority's EFL offered in Mr Wakeham's letter of 15 September;
- (iv) **DOE-HOUSING:** less optimism on credit approvals and New Towns receipts partly offset by likelihood of defeating DOE bid for LA capital grants for renovation;
- (v) **DOE-OES:** DOE unlikely to be able to offer receipts from sale of land around Docklands Light Railway in year 3;
- (vi) **PSA:** (a) increased forecast outcome for IT bid and also offsetting receipts from clients no longer expected;  
(b) hard to resist increased staffing and administration bids with no offsetting receipts;
- (vii) **OAL:** British Library, St. Pancras: lower bids for construction and telecommunications;
- (viii) **HEALTH:** reductions in years 2 and 3 reflect low priority that DH believed to put on capital loan fund bids (but forecast outcome on capital loan fund possibly too optimistic);
- (ix) **DSS:** increase in administration costs reflecting:  
(a) more realistic appraisal of strength of DSS bids;  
(b) settlement at official level of (£110/125/210m) on running costs plus additions to cover RC element of new policy bids;
- (x) **WALES (negotiable):** changed economic assumptions leading to increased bids on HRA subsidy and interest rate concordat;
- (xi) **WALES (local government):** previously incorrectly scored: no material change;
- (xii) **SCOTLAND:** arrangement for funding transitional grant for harmonising business rates in Scotland incorrectly scored: no material change;
- (xiii) **CHANCELLOR'S DEPARTMENTS:** increased bid for pay from Paymaster General's Office; revised estimate of likely Treasury bid;



**ADDITIONS TO GGE (EX PRIV PROC)**

(£ billion)

	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>	<u>1992-93</u>
Baseline GGE ex priv proc		210	220.75	228.5
Additions on scorecard		8½	10½	14½
Drawdown of Reserve <sup>1</sup>		-4	-4	-4½
Additions to local authority self-financed expenditure, central government debt interest, and other adjustments		1½	1½	1½
<b>TOTAL ADDITIONS TO GGE</b>		<b>5½</b>	<b>7½</b>	<b>11½</b>
NEW GGE (ex priv proc)	199.2	215½	228½	239½
Money GDP <sup>1</sup>	516	552½	587½	621
Ratios of GGE to GDP	38½	39	39	38¾

1 Giving Reserves of £3/7/10 billion.

2 Using July deflators, and real growth of 2% in each of 1989-90 and 1990-91 and 2¾% in each of the later years (as in FSBR).

21 September



SECRET

## EXPENDITURE TRENDS

GGE EX PRIV PROC  
(£ BILLION)

	Cash	Real	% Real growth on previous year	% GDP
1978-79 (outturn)	75.0	153.3	5.1	43½
1979-80	90.3	158.3	3.3	43½
1980-81	109.0	161.1	1.8	46
1982-82	121.0	163.0	1.2	46½
1982-83	133.1	167.5	2.7	46¾
1983-84	141.6	170.2	1.7	45¾
1984-85	152.7	175.0	2.8	46½
1985-86	160.9	174.7	-0.2	44½
1986-87	168.8	177.6	1.7	43¾
1987-88	176.9	176.9	-0.4	41½
1988-89	185.7	173.1	-2.2	39½ <u>PEWP</u> <u>FSBR</u>
1989-90	199.2	173.5	0.3	38½ (39½) (39½)
1990-91 (forecast of Survey outcome)	215.8	179.0	3.2	39 (39) (39)
1991-92	228.5	183.2	2.3	39 (38¾)
1992-93	239.9	186.6	1.9	38¾ [38]

## Annual average real growth (%)

1968-69 to 1978-79	3
1978-79 to 1988-89	1½
1987-88 to 1992-93	1
1988-89 to 1992-93	2
1989-90 to 1992-93	2½

21 September

SECRET



PCP

**PUBLIC EXPENDITURE SURVEY : PROGRESS REPORT**

21/9/89.

Introduction

As expected, very difficult Survey - probably the most difficult since 1980. Intense economic and political pressures for higher spending across whole range of programmes.

2. July Cabinet agreed that top priority was to defeat inflation. Remit was to :-

- maintain downward trend in GGE ratio (ex pp).
- stick "as close as possible to existing plans".

(Necessarily vague, given change in definition of planning total.)

3. Starting point is existing plans which imply only modest decline in ratio. Low expenditure and higher money GDP pushed ratio down in 1988-89. Could happen again this year, to some extent (though spending not likely to undershoot). Recognised therefore that might be a blip up in the ratio in 1990-91. But all the more important to have some decline thereafter.

4. Even this ambition now at risk. Since July, total bids risen. Anything for the Community Charge would be extra.

**BILATERALS**

5. First round bilaterals on all programmes; second round meetings on some.

(i) Virtually Settled : DTI, Northern Ireland, Department of Energy.

(ii) Entered serious negotiations on Health, Defence, Home Office, Wales, FCO, Employment.



(iii) Proving difficult : DOE, Transport (including Nationalised Industries), Education, MAFF, Scotland. Some difficult specific policy issues on Social Security.

**LIKELY SURVEY OUTCOME**

6. Excluding any addition for the Community Charge, forecast outcome of Survey implies:-

- Substantial cash additions to GGE.
- Rise in GGE ratio in 1990-91, very little decline thereafter, year 3 about same as 1989-90 outturn (assuming latest unpublished assumptions about money GDP - could go down as well as up).
- Real growth in GGE over Survey period broadly the same as that of real GDP ie well above 1½ per cent achieved between 1978-79 and 1989-90.

Forecast outcome already assumes tough decisions on Social Security, Defence, Transport, Employment, Home Office, Education. Chief Secretary pressing very hard on individual programmes but unlikely to do better in aggregate. Anything extra for Community Charge adds directly to planning total on new definition, and likely to push up general government spending.

**KEY OUTSTANDING ISSUES**

7. (i) Social Security: Child benefit - Treasury seeking further one year freeze, and to end present uprating assumption in PEWP in years 2 and 3. Law Officers advising on uprating assumption. Unemployment benefit - Treasury option to replace UB by income support after six (rather than twelve) months requires primary legislation. Disability - scale of package needed this year to respond to OPCS and contain long term upward trend in spending. Department bidding for amounts



INSERT IN PLACE OF PENULTIMATE BRACKET  
OF PARA 7 (ii) :

✓  
"These must be handled in Survey context. Strong case for going ahead with improvements in existing LRT lines and with the Jubilee Line Extension for Canary Wharf (subject to O & Y contribution), but postponing East-West crossrail and Chelsea-Hackney."



rising to £½ billion in 1992-93, including major new benefit, with no net savings until next century.

- (ii) Transport: (Total road and rail bids about £6½ billion over three Survey years.) Affordable scale of extra spending on roads, following E(A) and White Paper commitment, given risk of construction overheating. Cost overruns, particularly on Channel tunnel related rail investment. Large bids, additional to those for safety, for London Transport. Realism and affordability of commitment this year to three new London rail mega-projects [(EW Crossrail and Chelsea Hackney, to reduce congestion, plus Jubilee Line extension for Canary Wharf)]. (Department wants to introduce two private Bills this November.)

INSERT NICK  
MONCK'S CONTRIBUTION  
(see left)

- (iii) Environment : How much extra can be afforded this year to meet preferences for subsidised housing to complement possible homelessness package. Consistency with past policy and market orientated approach; no public policy commitments; steeply rising (Housing Corporation) baseline. How much can be afforded for UDCs etc given escalating cost of Docklands transport.
- (iv) Education : Affordability. A wide range of very large bids on higher education, science, schools capital. Big gap remains, especially on schools capital and science.
- (v) Defence : Extent to which effects of higher inflation can be absorbed by achieving 2½% efficiency savings promised at Prime Minister's VFM seminar.
- (vi) ODA : whether overseas aid should maintain its share of GNP, when public expenditure as a whole is falling as a proportion of national income.
- (vii) Employment : Scale of reduction in baseline to reflect lower unemployment, demography, need for employers to



S E C R E T

contribute more towards training, and scope for limiting access to ET by groups not covered by manifesto guarantees.

- (viii) Scotland : How vigorously to pursue reductions in Scottish over-provision eg by adjusting population base or disallowing bids on block or absorbing part of AEG settlement within block.
- (ix) OAL : Seeking to re-open generous 1987 3-year deal. Strong arts and museums lobbying.
- (x) Central government support for local government capital spending (relevant especially to Education, DOE) : Extent to which Central Government should signal need for restraint on LA capital spending, by holding down Central Government support (credit approvals, grant). Huge overspend this year. Risk that receipts could start to fall away after 1991-92, but ample accumulated receipts in 1990-91. Low priority of much LA spending.
- (xi) Running costs : Growth in 1990-91 likely to be nearly 10%. Real pay pressures, but need for maximum efforts to absorb through greater efficiency gains. Large executive departments should aim for over 1½% target.



STAR CHAMBER

Referrals

Quite likely : DOE (Housing and Other Environmental Services)  
Transport (including Nationalised Industries)  
Education  
Social Security

Possible : Employment  
Defence  
Scotland

Star Chamber can be set up by correspondence. Chief Secretary to minute Prime Minister, copied to colleagues, picking up reference to possible need for Star Chamber in July Cabinet minutes. No need to identify Departments likely to be referred.

Prime Minister will want to consider membership of Star Chamber. It could comprise:-

Sir G Howe  
Mr Lamont  
Mr Ridley

Plus (depending on progress on their programmes by the end of the week) two or three from:

Mr Wakeham  
Mr Clarke  
Mr MacGregor ) but may not have settled by then  
Mr Fowler )

Parliament will be sitting during Star Chamber, dealing with some very difficult Commons business. Timetable is tight, given water privatisation. May be a case for six members.



S E C R E T

ANNEX B

## PROGRESS IN INDIVIDUAL BILATERALS

## DEFENCE

MOD increased their bids substantially following the revised inflation assumptions issued in July. They made some reductions following the first bilateral, but still seek to reopen 3 year settlement. Reasonable possibility of settling outside Star Chamber, but large gap still remains in years 2 and 3 following second bilateral.

Main issue : impact of higher inflation and scope for efficiency savings, to offset it.

## FCO - DIPLOMATIC

Bids substantial - mainly running costs. Settlement probably possible, linked to acceptable deal on aid.

Main issue : scope for pruning lower priority diplomatic service activity to offset rising costs.

## FCO - OVERSEAS DEVELOPMENT ADMINISTRATION

Large bids to meet existing commitments and new demands which would increase overseas aid as proportion of GNP. Still significant gaps to be bridged at second bilateral.

Main issue : how far overall programme needs to grow in real terms, allowing flexibility for new initiatives (eg on environment) in addition to commitments (eg Nigeria), and whether in addition it needs to maintain/increase its share of GNP.

## AGRICULTURE

Reductions offered on CAP due to prospects for harvest; but

1  
S E C R E T



substantial new bids for domestic agriculture. No significant savings offered at first bilateral.

**TRADE AND INDUSTRY**

Virtually settled. Mr Ridley has offered substantial savings below baseline, though with some increases (not finally settled) on running costs. Details to be tied up in correspondence.

**ENERGY**

Settled close to baseline on departmental programme. Electricity privatisation precludes firm decisions on Nationalised Industries pending contract negotiations. Major long term threats on Coal, but, as working assumption, stick to baseline for Autumn Statement. Electricity EFL still to be decided.

**EMPLOYMENT**

Following first bilateral, Mr Fowler reduced bids and offered savings to stay roughly on baseline (somewhat over in year 3). Treasury looking for substantial reductions below baseline in all years. Could go to Star Chamber.

**TRANSPORT (including Nationalised Industries)**

Road and rail bids total some £6½ billion. Treasury accept case for significant increase, but want substantial reductions in bids, on grounds of realism, as well as affordability. Unlikely to settle without collective discussion.

**Issues** : Department not moving from £3 billion road bid justified by higher construction costs, early start to expanded road programme following White Paper. Little progress on rail. Department bidding to cover escalating costs, particularly of Channel tunnel related rail investment (including property blight in Kent). Also large new bids for London Transport (on top of safety). No substantive discussion yet possible on 3 rail mega-projects (EW Crossrail and Chelsea Hackney to relieve congestion



plus Jubilee line extension for Canary Wharf). Department wants private Bills on 2 mega-projects this November (including Jubilee line). (Uncertainties about financing and timing of construction of Channel fixed link could be relevant).

#### ENVIRONMENT

Very difficult. Little movement on substantial bids for housing, local environmental services, urban spending (including LDDC). May go to Star Chamber.

Issues : Department wants significant increase in subsidised housing as well as homelessness package. Treasury resisting former on grounds of realism, affordability and politics. Huge bids for local environmental services (in practice largely LA administrative buildings and leisure centres as well as more important waste disposal items) to cushion possible, but uncertain, impact of lower receipts. Scope for offsetting escalating cost of Docklands transport (where latest reports suggest Rosehaugh Stanhope may be wavering on Royals).

#### HOME OFFICE

Progress on key issues, but still some way to go. Settlement likely.

Issues : Implication of lower prison population projections (allowing surplus of places in 1992-93) for spending on new and existing prisons. Scale of additional police manpower needed to meet public commitments.

#### EDUCATION

Could be long slow negotiation, possibly to Star Chamber. Mr Baker submitted wide range of very large bids for higher education, science, schools capital, and other minor items. Mr MacGregor offered only small reductions so far, leaving big gap on science and schools capital.



OFFICE OF ARTS AND LIBRARIES

Mr Luce seeking to reopen 3 year deal agreed in 1987 (rolled forward last year). First bilateral 3 October.

Issue : effect of inflation on 3 year deal.

HEALTH

Constructive progress, early settlement likely. Substantial additions (over £1 billion in 1990-91) unavoidable to implement NHS review and maintain reasonable level of service growth.

Issue is scale, in face of inevitable uncertainties about likely costs of review.

SOCIAL SECURITY

Additions since April 1988, including agreed benefit bids, worth £1 billion in 1990-91. Discussion narrowed down to a few key issues which will need to be referred to colleagues.

Issues : Child benefit. Treasury want further 1 year freeze, with protection for poorer families, and to reverse present uprating assumptions in PEWP for years 2 and 3. Annual upratings would still need policy decisions. Law Officers advising on this. Unemployment benefit. Department question politics of Treasury option to replace UB by income support after 6 months (now 12). Needs primary legislation. Disability. Need to respond to OPCS report and contain sharp long-term upward trend in spending. In July John Major proposed a £100 million package to meet key pressure points, in return for longer term action to reduce real growth in spending on disability. Department now bidding for amounts rising to £½ billion in 1992-93, including major new benefit, with no net savings until next century.

SCOTLAND

Mr Rifkind's unwillingness to discuss ways of reducing over



provision led to postponement of first bilateral. Could go to Star Chamber.

Issue: Mr Rifkind seeking extra provision, beyond formula consequential of comparable English increases; Treasury seeking to reduce Scottish over provision, either by an adjustment for diverging trends in population, or by other means. Bids outside block unlikely to cause trouble.

#### WALES

At first bilateral Mr Walker showed signs of willingness to moderate bids. Settlement likely.

Issues : Mr Walker has bid for programmes normally covered by the block arrangements (as well as for expanded industry programmes, including RSA).

#### NORTHERN IRELAND

Settled. Additions for Shorts and social security. (Mr Brooke withdrew some bids and agreed to absorb others).

#### RUNNING COSTS

Total of departments' bids would represent over 11 per cent increase in running costs in 1990-91 compared with 1989-90. Real pay pressures will make it difficult to reduce this much below 10 per cent. Main issue is scope for efficiency gains to offset pay and price increases, and extent to which these can be taken as expenditure savings.



**CONFIDENTIAL**

FROM: M G RICHARDSON - GEP2

DATE: 22 September 1989

EXT : 4779

(1) MR ANSON

List A

List B\*

Copies attached for:

Chancellor of the Exchequer  
 Financial Secretary  
 Paymaster General  
 Economic Secretary  
 Sir P Middleton\*

cc

Sir T Burns  
 Mr Hardcastle  
 Mr Scholar  
 Mr Luce  
 Mr Peretz  
 Mr Sedgwick  
 Mr Robson  
 Mr Culpin  
 Mr Ritchie  
 Mr O'Donnell  
 Mr Hansford  
 Mr MacAuslan

Mr Phillips  
 Mr Monck  
 Mr Spackman  
 Mr I Wilson  
 Mr A Edwards  
 Mrs Case  
 Mr R I G Allen  
 Mr Mountfield  
 Mr Moore  
 Mrs Lomax  
 Miss Peirson  
 Mr L Watts  
 Mr Mowl  
 Mr I Taylor  
 Mr Deaton  
 Miss Summerfield  
 Mr C Woolf  
 Mr Pegler  
 Mr Coggle  
 Miss Hawkins  
 Mr Turner

(2) CHIEF SECRETARY

Mr Ward - CSO

\*Supplementary  
 analyses attached

**PLANNING TOTAL AND STATE OF THE RESERVE 1989-90**

This submission provides details of GEP's September assessment of the Reserve and planning total for 1989-90.

2. This month's assessment estimates total claims on the 1989-90 Reserve to be £4.2 billion against a Reserve of £3.5 billion. This implies an overspend of £0.7 billion on the 1989 PEWP plan of £167.1 billion and a planning total outturn of £167.8 billion. This month's assessment is £0.4 billion above August's.

**CONFIDENTIAL**



3. The main increases since last month's assessment are:-

i. £850 million fewer privatisation proceeds mainly reflecting the decision to make the cash injection into the water companies in one instalment, rather than in three as previously assumed;

ii. £100 million for British Coal mainly reflecting an overspill of costs from 1988-89, lower sales to CEGB and further restructuring costs;

iii. £80 million for Social Security to correct a technical error in last month's DSS forecast; DSS had inadvertently used an unemployment assumption of 1.71 million instead of 1.75 million as in the Summer forecast.

4. The main decreases since last month's assessment are:-

i. £250 million for Electricity (England and Wales) mainly reflecting lower payments of corporation tax by CEGB;

ii. £200 million in the estimated outturn for Defence;

iii. £150 million for IBAP mainly reflecting savings on disposal schemes of milk products, increased receipts of export levies and reduced intervention purchases for cereals and lower payments on the variable sheep premium scheme;

iv. £50 million for British Rail reflecting a reduction to £200 million in the expected EFL overshoot.



5. The estimated outturn reflects the following assumptions:-

i. Defence expenditure slightly above the original cash limit - but some £700 million lower than MOD's full possible entitlement (ie. including EYF and BNFL);

ii. the forecast for Social Security assumes a year on year growth in take up similar to that which occurred in the mid 1980s, in contrast to the very low rate of growth between 1987-88 and 1988-89. This sharp reduction was in ST's view a "one-off" effect caused by changes in the benefit regime;

iii. a shortfall on cash limited votes slightly lower than last year - £1.2 billion compared to £1.4 billion (on a comparable basis) in 1988-89. The lower shortfall results mainly from the lower forecast underspending against final cash limits by Employment;

iv. local authority expenditure some £2.9 billion above plans. Additional gross spending of £3.2 billion is partly offset by £240 million extra local authority capital receipts.

v. a net demand for external finance by nationalised industries of £290 million. This is some £0.3 billion higher than the White Paper plans of -£30 million;

vi. privatisation proceeds of £4.4 billion, some £600 million below plans;



6. Table 1 shows the main claims on and benefits to the Reserve:-

Table 1: Main claims and benefits to the Reserve, 1989-90

		£ million
	Estimated total	
	net claims	
Central government	310	
of which:		
Northern Ireland (inc. Shorts)		310
Health (inc. NHS/FPS pay review)		290
ECGD (interest costs)		120
End-year flexibility from 1988-89		890
Cash limit shortfall		-1,240
Local authorities	2,910	
of which:		
Relevant current		1,520
Other current		-320
Capital		1,720
Public corporations	370	
of which:		
Nat Ind EFLs		320
List I & II PCs		90
List III PCs		-40
Privatisation proceeds	600	
Total estimated claims	4,190	
Reserve	3,500	
Estimated overspend	690	

7. The attached annex shows the latest estimate of outturn analysed by department, compared with the 1989 PEWP plans and last month's



assessment. The attached chart shows how our assessment of the planning total outturn has changed each month.

8. Claims on the Reserve totalling £1.0 billion have been formally agreed. Table 2 shows the total claims charged and expected, discretionary and non-discretionary.

Table 2

			£ billion
	Formally agreed	Expected	Total
Discretionary	0.7	1.4	2.2
Non-discretionary	0.3	1.7	2.0
TOTAL	1.0	3.2	4.2

9. The running costs outturn is expected to be £14,208 million, nearly £60 million above initial limits. This assumes underspending of £50 million on final running costs limits.

Conclusion

10. Our latest assessment is that the 1989-90 planning total will be overspent by some £700 million. Paragraph 5 notes some of the uncertainties that surround this estimate. Meanwhile the assessment underlines the need for a rigorous approach to any bids on the 1989-90 Reserve.

*D. Hawkins*

pp. M G RICHARDSON



## CONFIDENTIAL

## 1989-90 TOTAL PUBLIC EXPENDITURE BY DEPARTMENT

£billion

	1989 PEWP Plans (1)	August Estimate (2)	September Estimate (3)	Change on plans (4)	Change on previous report (5)
Ministry of Defence	20.14	20.40	20.20	0.05	-0.20
Foreign & Commonwealth Office - ODA	1.54	1.59	1.59	0.05	-
Foreign & Commonwealth Office - other	0.77	0.80	0.78	0.01	-0.02
European Community	1.97	1.90	1.90	-0.06	-
Intervention Board for Agricultural Produce	1.16	1.10	0.95	-0.21	-0.15
Agriculture	0.71	0.69	0.69	-0.02	*
Forestry Commission	0.07	0.07	0.07	*	*
Trade & Industry	1.37	1.40	1.40	0.02	-0.01
Export Credits Guarantee Department	0.18	0.30	0.30	0.12	-
Energy	-0.27	0.08	-0.07	0.20	-0.15
Department of Employment	4.04	3.91	3.91	-0.13	*
Department of Transport	5.35	5.98	5.96	0.61	-0.01
DOE - Housing	1.71	2.74	2.75	1.04	*
DOE - Property Services Agency	-0.13	-0.11	-0.11	0.02	-
DOE - Other Environmental Services(6)	4.49	4.69	4.69	0.20	*
Home Office(incl Charity Commission)	6.91	7.11	7.12	0.21	0.01
Lord Chancellors and Law Officers Dept	1.09	1.07	1.06	-0.03	-0.01
Department of Education and Science	19.57	20.22	20.20	0.63	-0.02
Office of Arts and Libraries	0.98	1.04	1.05	0.07	0.01
Department of Health and OPCS	23.18	23.75	23.75	0.57	0.01
Department of Social Security	50.99	50.40	50.48	-0.51	0.08
Civil Superannuation	1.40	1.37	1.37	-0.03	-
Scotland	8.97	9.28	9.27	0.30	*
Wales	3.78	3.91	3.92	0.14	0.01
Northern Ireland	5.52	5.83	5.83	0.31	*
Chancellor's Departments	2.72	2.74	2.76	0.04	0.03
Cabinet Office, Privy Council, Parl etc	0.31	0.32	0.32	*	*
<b>Total expenditure on programs</b>	<b>168.56</b>	<b>172.57</b>	<b>172.15</b>	<b>3.59</b>	<b>-0.42</b>
<b>Privatisation proceeds</b>	<b>-5.00</b>	<b>-5.25</b>	<b>-4.40</b>	<b>0.60</b>	<b>0.85</b>
<b>Plans/Estimated outturn</b>	<b>163.56</b>	<b>167.32</b>	<b>167.75</b>	<b>4.19</b>	<b>0.43</b>
<b>Reserve not allocated above</b>	<b>3.50</b>	<b>-</b>	<b>-</b>		
<b>Planning Total</b>	<b>167.06</b>	<b>167.32</b>	<b>167.75</b>		
<b>Implied overspend on plans</b>		<b>4.19</b>	<b>4.19</b>		
<b>Reserve available</b>		<b>3.50</b>	<b>3.50</b>		
<b>Implied overspend on planning total</b>		<b>0.69</b>	<b>0.69</b>		

(1) Cm 621 adjusted onto Departmental groupings to be used in the Autumn Statement.

(2) Consistent with PEPR(89) 6.

(3) Consistent with PEPR(89) 7.

(4) Column 4 = Column 3 - Column 1, calculated on unrounded figures and independently rounded.

(5) Column 5 = Column 3 - Column 2, calculated on unrounded figures and independently rounded.

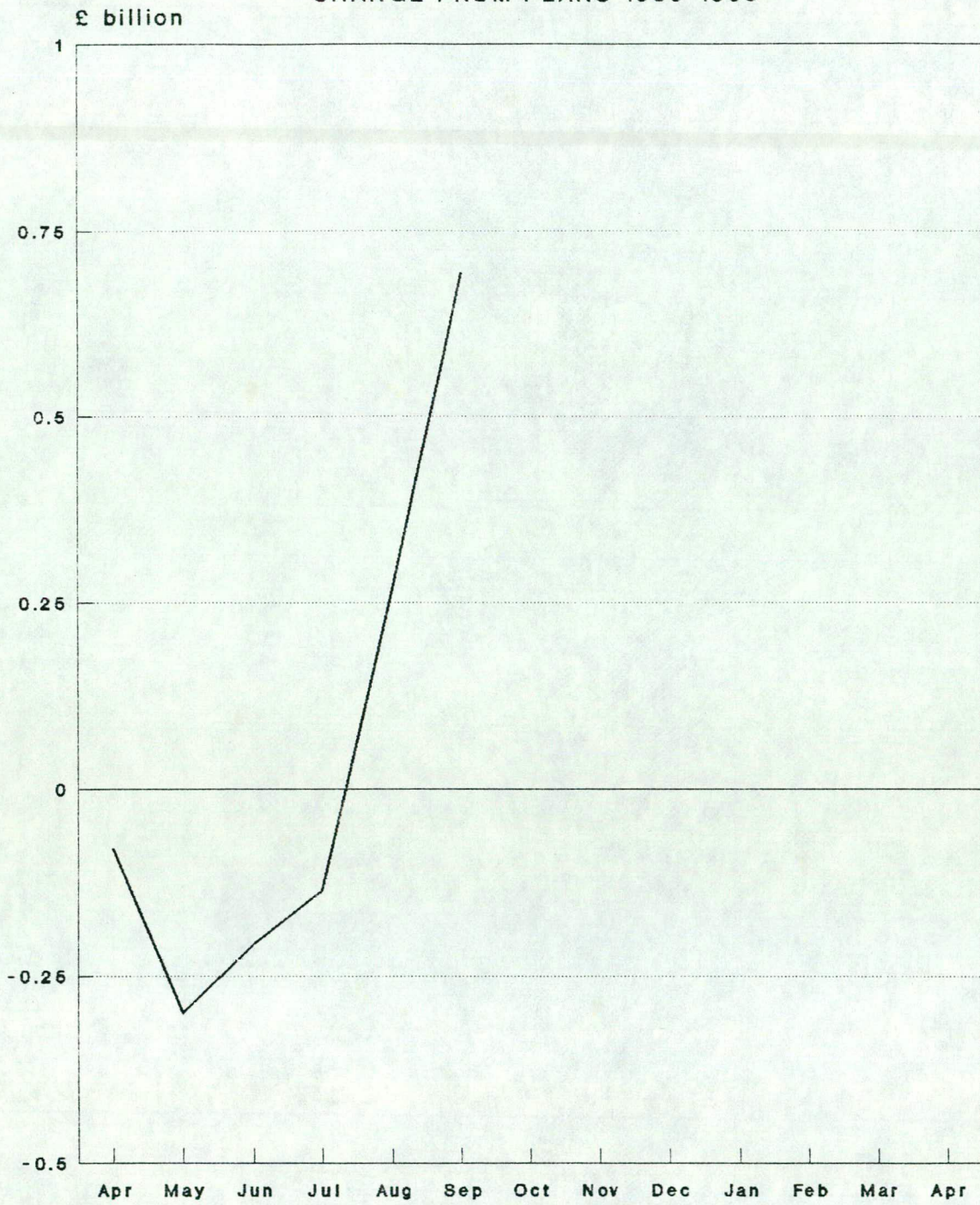
(6) Including Office of Water Services and Ordnance Survey.

\* indicates less than +/- £5 million.



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PUBLIC EXPENDITURE PLANNING TOTAL  
CHANGE FROM PLANS 1989-1990



Forecast made in:

1989 ← | → 1990



min.fv/Plan

SECRET AND PERSONAL: SCORECARD LIST ONLY

Copy No. 2 of 14 copies

FROM: J. ANSON  
22nd September, 1989.  
Ext. 4370

CHIEF SECRETARY

c.c. **Chancellor**  
Sir Peter Middleton  
Mr. Monck  
Mr. Phillips  
Mrs. Lomax  
Mr. Sedgwick  
Mr. Mowl  
Mr. MacAuslan  
Mr. Richardson  
Mrs. Chaplin  
Mr. Tyrie

→ CST bilateral folder,  
Monday,

**PLANNING TOTAL: STATE OF THE RESERVE 1989-90**

Mr. Richardson's submission of 22nd <sup>Sept</sup> October below reports a further deterioration in the prospects for the 1989-90 Reserve. The latest estimate of claims on the Reserve is £4.2 billion against a Reserve of £3.5 billion.

2. The change since last month's report is more than accounted for by the increase of £850 million, due to the decision to make the cash injection into the water companies in one instalment. This leaves privatisation proceeds £600 million below target. Mr. Moore has advised separately on that in his minute of 11th September to the Chancellor. However, even leaving aside privatisation proceeds, the Reserve is at present forecast to be rather more than fully spent with the other estimated claims upon it, especially the very large overspend (£2.9 billion) on local authority current and capital.

3. There will of course be further changes in the assessment as we get towards the end of the year and the various estimates can be firmed up. If the outturn were as shown in the present report, it would be possible to play down the overspend partly by reference to the new controls on local authority capital which should avoid such a large overspend on that in the future (at least within the planning total).

SECRET AND PERSONAL: SCORECARD LIST ONLY

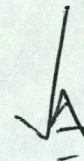
ANSON → CST  
PLANNING TOTAL  
- STATE OF THE  
RESERVE 22/9



4. It is seductive to suggest that a modest overspend this year would also tend to raise the starting point for the GGE/GDP ratios in the Survey years, and hence smooth the path of that ratio and help with the overall presentation of the outcome of the Survey in the Autumn Statement. But it is a seduction which is better resisted, for two reasons.

5. First, GGE contains elements which are not in the planning total, and the forecasts of GGE and GDP may well change again in the Autumn forecast. The ratio cannot therefore be fine-tuned so precisely. (And if an overspend arises from a shortfall of privatisation proceeds, this would not help with smoothing the ratio, which is defined to exclude them.) Secondly, and more important, the presentation of the expenditure plans in the Autumn Statement will anyway only be convincing if the markets are persuaded that we will stick to them: in other words, if we show that we can and will live within the planned Reserve.

6. I agree therefore with the conclusion in Mr. Richardson's submission that we shall still need to adopt a very rigorous approach to any new bids on the Reserve during the rest of the year.



J. ANSON





FROM: D I SPARKES  
DATE: 22 SEPTEMBER 1989

PS/CHIEF SECRETARY

BF 29/9

**1989 SURVEY: PROGRESS IN FIRST ROUND BILATERALS**

The Chancellor has seen Mr MacAuslan's useful summary of progress in the first round of bilaterals. He commented that Star Chamber will clearly be needed this year but noted with regret that DES may be a possible candidate. He thought it would be monstrous if a former CST failed to settle bilaterally and thinks that he may need to have a word with Mr MacGregor.

*D.I.*

DUNCAN SPARKES



UNCLASSIFIED



FROM: S I M KOSKY  
DATE: 22 September 1989  
EXTN: 5088

2  
MR J TAYLOR

**SCOTTISH OFFICE AND MAFF BILATERALS**

Because of logistical difficulties it is unfortunate that the only time for both the Scottish Office and MAFF Bilaterals will mean working through lunch. We are proposing, therefore to buy sandwiches for those present in each case, these will not be from CISCO as it is cheaper to buy from the private sector.

I would be grateful to your authorising our use of £45 to cover both meetings.

I am sorry to have to trouble you with this but needs must when we no longer have a sub-account of our own.

A large, stylized handwritten signature in dark ink, appearing to read 'S I M Kosky', with a long horizontal flourish underneath.

S I M KOSKY





FROM: J M G TAYLOR  
DATE: 22 SEPTEMBER 1989

A large, stylized handwritten signature in blue ink, likely belonging to J M G Taylor.

MR S I M KOSKY

**SCOTTISH OFFICE AND MAFF BILATERALS**

Thank you for your minute of 22 September.

2. I am content with what you propose.

A small, handwritten signature or set of initials in blue ink, possibly "JG".

J M G TAYLOR



SCORECARD SECRET

FROM: MRS R LOMAX (GEP)  
 DATE: 26 SEPTEMBER 1989  
 EX: 4499

Copy No. 11 of 12

1. CHIEF SECRETARY
2. CHANCELLOR

cc Sir P Middleton  
 Mr Anson  
 Mr Phillips  
 Mr Monck  
 Mr McAuslan  
 Miss Walker  
 Mrs Chaplin  
 Mr Tyrrie

*Handwritten red scribble*

**1989 SURVEY: MEETING WITH PRIME MINISTER, 28 SEPTEMBER**

I understand the Chancellor is having a brief word with the Prime Minister on Thursday, before her meeting on the Community Charge, to remind her of the general position on the Survey. I attach a summary of points to make, an annex on progress in the bilaterals so far, and some tables showing the implications of the forecast outcome for GGE, past expenditure trends, and the latest economic assumptions. The forecast outcome is consistent with last week's scorecard, but excludes any allowance for further additions to the July AEF settlement/transitional relief for individual Community chargepayers.

2. There will be an opportunity for a fuller discussion of the overall Survey position next Tuesday, on the basis of an updated scorecard. I imagine, therefore, that the Chancellor will not wish to get drawn into detailed discussion of individual programmes at this stage.

\* behind

*Handwritten signature*

RACHEL LOMAX

SCORECARD SECRET



MEETING WITH PRIME MINISTER: 28 SEPTEMBER

**Points to Make**

- (i) Recognised all along that would be hard to meet Cabinet remit (ie maintain downward trend in GGE ratio, stick as close as possible to existing plans). Total bids risen since July [now £13/16½/23 bn] excluding any addition to July AEF settlement/more Community Charge transitional relief. On same basis, forecast outcome of Survey implies:-
- Substantial cash additions to GGE [6/7½/11½].
  - Rise in GGE ratio in 1990-91, very little decline thereafter, year 3 about same as 1989-90 outturn (assuming latest unpublished assumptions about money GDP - could go down as well as up). Only just consistent with PEWP ratios (if that).
  - Real growth in GGE 3¼ per cent in 1990-91, 2½ per cent 1989-90 to 1992-93, compared with 1¼ per cent 1978-79 to 1989-90.
- (ii) Extra grant/transitional relief for Community Charge adds to planning total on new definition. Also likely to add to GGE. Local authorities tend to spend extra CG grant: particular risk next year. Relief to individuals will increase spending, by raising politically tolerable level of Community Charge.
- (iii) See virtually no scope for offsetting extra grant/transitional relief within planning total. Forecast outcome already assumes tough decisions on Social Security, Defence, Transport, Employment, Home Office, Education (see Annex). CST looked at scope for even tougher outcome earlier this month: unlikely to do better in aggregate, though pressing very hard on individual programmes.

**Conclusion: Very serious risk that extra spending for Community Charge will jeopardise public expenditure objectives.**



S E C R E T

ANNEX

PROGRESS IN BILATERALS: MAIN PROGRAMMESOutstanding

DSS: Bids [ $1\frac{1}{2}/2/4\frac{1}{2}$ ]: forecast outcome [ $\frac{1}{2}/1\frac{1}{2}/3\frac{1}{2}$ ]. Waiting for Law Officers advice on child benefit. Other main issues: Unemployment benefit; disability.

Health: Bids [ $2/2\frac{1}{2}/3\frac{1}{2}$ ]: forecast outcome [ $1\frac{1}{2}/1\frac{1}{2}/2\frac{1}{2}$ ]. Moving to early settlement.

Transport: Total bids: $1\frac{1}{2}/2\frac{1}{2}/3\frac{1}{2}$ : Bids: [roads only [ $\frac{1}{2}/1/\frac{1}{2}$ ]: forecast outcome (roads only) [ $\frac{1}{2}/\frac{1}{2}/\frac{1}{2}$ ]. Difficult. No movement on roads: little progress on rail. Other issues: rail megaprojects (no progress so far).

Defence: Bids [ $\frac{1}{2}/1/2$ ]: forecast outcome [-/-/ $\frac{1}{2}$ ]. Some movement. Issues: scope for efficiency improvements.

Education: Bids [ $1\frac{1}{2}/1\frac{1}{2}/2$ ]: forecast outcome [ $\frac{1}{2}/\frac{1}{2}/\frac{1}{2}$ ]. Very little movement. Issues: schools capital, science, effect of inflation on higher education.

Employment: Bids [140/170/250]: forecast outcome [-120/-225/-230]. CST sought further reductions below base line. Very slow movement. Issues: ET, YTS.

Home Office: Bids [ $\frac{1}{2}/\frac{1}{2}/1$ ]: forecast outcome [375/520/620]. CST sought further reductions. Moving, but slowly. Main issues: prison building/prison population, police grants.

Environment (excluding PSA and AEF): Bids [ $1\frac{1}{2}/1\frac{1}{2}/1\frac{1}{2}$ ]: forecast outcome [1/1/1]. Very difficult. No movement. Issues: housing and homelessness, local environmental services, Docklands transport.

Scotland: (excluding nationalised industries and AEG): Bids [70/105/140]: forecast outcome [-30/-20/-15]. Troublesome. Issue: relative overprovision.

Settled [or nearly]

DTI: likely outcome -60/-50/-175 on departmental programme, Post Office £90 million over baseline in 1990-91.

Energy: likely outcome - close to baseline on departmental programme and Coal [for AS: but major long term threats on Coal]. Electricity EFL to come.

N. Ireland: likely outcome - additions for Shorts and Soc.Sec. [110/150/170]

26 September 1989

S E C R E T



SECRET

TABLE 1: 1989 SURVEY

1989-90 1990-91 1991-92 1992-93

**BIDS**

Total* (£bn)		+13	+16½	+23
[compare July total]		[+12½	+15	+21]
of which				
MOD		+0.4	+1.0	+2.0
DTP (road and rail)		+1.3	+2.2	+3.1
DOE (excl Aggregate Exchequer Finance)		+1.4	+1.6	+1.6
DES		+1.4	+1.7	+1.9
DH		+1.9	+2.7	+3.7
DSS		+1.3	+2.0	+4.4

**GENERAL GOVERNMENT EXPENDITURE (GGE) (excluding privatisation proceeds)****Implications of bids\***

Additions to GGE (£bn)		+10½	+14	+20
GGE as % of GDP	38½	40	40	40
Real growth on previous year (%)		5½	2½	2½

**Possible outcome\***

Additions to GGE (£bn)		+6	+7½	+11½
GGE as % of GDP	38½	39/39½	38½/39	38½/38½
Real growth on previous year (%)		3½	2	2½

**[compare: FSBR]**

[GGE as % of GDP	39½	39	38½	38]
[Real growth of GGE on previous year (%)		1½	2	1]

\* excluding any possible addition resulting from revisions to the July settlement of Aggregate Exchequer Finance or additional transitional relief to individuals.

26 September 1989



**TABLE 2: TRENDS IN GENERAL GOVERNMENT EXPENDITURE**  
(excluding privatisation proceeds)

	Real growth (% change year on year earlier)	GGE/GDP (ex pp)		
1978-79	4.9	43½		
1979-80	3.3	43½		
1980-81	1.8	46		
1981-82	1.2	46½		
1982-83	2.7	46½		
1984-85	2.8	46½		
1985-86	-0.2	44½		
1986-87	1.5	43½		
1987-88	-0.2	41½		
1988-89	-2.0	39½		
<b>Forecast/estimate</b>				
			(PEWP)	(FSBR)
1989-90	0.3	38½	(39½)	(39½)
<b>1989 Survey : forecast outcome(excl additions to July AEF/extra cc relief)</b>				
1990-91	3.3	39/39½	(39)	(39)
1991-92	2.0	38½/39	(38½)	(38½)
1992-93	2.1	38½/38½	-	(38)
1987-88 to 1992-93	1			
1988-89 to 1992-93	2			
1989-90 to 1992-93	2½			
<b>Past Trends</b>				
1968-69 to 1978-79	3			
1978-79 to 1988-89	1½			
1978-79 to 1982-83	2½			
1982-83 to 1988-89	¾			

**Note :** Outcome 1988 Survey : annual % change 1988-89 to 1991-92  
 Planning total ex pp ("programme spending") : 3½  
 gge ex pp : 1½



TABLE 3: ECONOMIC ASSUMPTIONS

July 1989 (unpublished)

	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>	<u>1992-93</u>
<u>GB Unemployment (000s)</u>					
AS 1988	1900	1900	1900	-	-
March	1900	1900	1900	1900	1900
July	1750	1750	1750	1750	1750
<u>GDP deflator (%)</u>					
FSBR 1988	4½	4	3½	3	-
July 1988	5½	4½	3½	3	-
AS 1988	6½	5	3½	3	-
FSBR 1989	7½	5½	4	3	2½
July 1989	7.3	7	5	3½	3
[Cumulative Change since AS 1988 exc. 88-89]		+2	+3½	+4	+4½
<u>RPI</u>					
(%; September on previous September)					
AS 1988		5½	4	-	-
March		6½	4	2½	
July		7½	5	3	
<u>ROSSI</u>					
(%; September on previous September)					
AS 1988		5	4	-	-
March		5	4	2½	
July		5	4	3	
<u>3 month interest rates (%)</u>					
AS 1988		11	9½	9	-
March		12	10	8½	7
July		13¼	11½	9	8
<u>Money GDP</u>					
1989 FSBR	509	539	571	603	
fbn					
% change		(6)	(6)	(5½)	
September <sup>1</sup>	516	552½	587½	621	
% change		(7)	(6½)	(5½)	

<sup>1</sup> Assumes July deflators, FSBR real growth (2/2¾/2¾)



ANSON -> CHEX  
PES + RPI  
27/9

min.fv/docs/pes26.9

CONFIDENTIAL

FROM: J ANSON  
DATE: 27 SEPTEMBER 1989  
EXT: 4370

CHANCELLOR

cc: Chief Secretary  
Sir Peter Middleton  
Sir T Burns  
Mr Monck  
Mr Phillips  
Mr Odling-Smee  
Mr Edwards  
Mrs Lomax  
Mr Moore  
Mr Sedgwick ← Mr Mow  
Mr MacAuslan ← Mr Hibberd  
Mr Wood  
Mrs Chaplin  
Mr Tyrie

PUBLIC EXPENDITURE SURVEY AND THE RPI

Before you left for Washington you mentioned to Sir Peter Middleton that you were concerned about the possible impact of public sector prices on the RPI. I have made a quick check on the main areas where Survey decisions might have an impact on the index. These are the Community Charge, nationalised industries, and rents.

Community Charge

2. On the Community Charge, you have already seen and commented on the paper which was submitted to the Cabinet Office by Treasury officials (Annex A) as part of the documentation for the Prime Minister's meeting on 28 September. Not all the measures now under consideration would have a direct impact on the RPI. But in the case of the central government grants, it is estimated that even on the optimistic assumption that half of any extra grant goes to reduce Community Charges rather than add to spending, a reduction of 0.5 per cent in the RPI inflation rate would cost a further £2½ billion in grant. This is clearly cost-ineffective.

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Nationalised Industries

3. On the nationalised industries, a note provided by Mr Moore is at Annex B. The most conspicuous prospective price increases are those for water, but these do not have a big weight in the index and are no longer affected by the Survey. The prospects now are governed by the decisions on K-values taken in the context of privatisation, and which are heavily influenced by the investment needs of the industry.

4. Of the other main industries, the one with the biggest weight in the RPI is electricity. Even here, however, 1 per cent on electricity prices has a direct effect on the RPI of only 0.026 per cent. Apart from any helpful impact on sale proceeds, a 1 per cent increase benefits the 1990-91 EFL by about £75 million (the precise figure depending on when in the Autumn the distribution companies are sold). In the bilateral discussion this week, Mr Wakeham readily agreed with the Chief Secretary that a price increase of 6.5 per cent nominal from April 1990 was about right.

5. On postal services and rail, the position is set out in Mr Moore's note. We need some substantial price increases to improve viability and finance investment; and the RPI consequences are small.

6. Even though the specific RPI consequences may be small, there could still be a general reaction that yet again there is a succession of large increases in public sector industries. The main answer to that would be that increases for, eg, water, rail, underground and posts are all needed to help finance investment which will improve service to the customer.



Rents

7. On rents, I attach a background note by Mr Dodds at Annex C. The policy on private rents is to put private tenants in a position to charge higher rents for new tenancies, thus removing the distortion of the old "fair rent" system in the longer term, but without penalising existing tenants. This policy is not at issue in the current Survey. On council rents, which are still well below free market rents, DOE have offered to set housing subsidy at a level which should produce an average rent increase of 5 per cent in real terms in 1990-91. This was also the intention in 1989-90, although only 3 per cent was achieved because the present housing subsidy system did not enable DOE to enforce it.

8. Compared with a nil real increase, a 5 per cent real rise would increase the RPI by 0.1 per cent, and would reduce public expenditure by £60 million (net of the offsetting rise in rent rebates). The expenditure saving is significant, but an important motive is to raise council rents in order to establish more of a level playing field with the new market-dominated private sector and housing association rents, as well as reducing the burden of public subsidy.

Conclusion

9. The extent to which particular public sector prices will rise more quickly than the total RPI will depend critically on the mortgage rate. If the mortgage rate were to rise during the next few months, then, by comparison with total RPI, increases such as the electricity price rise would not look quite so bad; indeed for electricity there would not be a real price increase for consumers. We do however expect many public sector prices to be rising faster than the RPI net of MIPS - the measure which is used in public presentation. The conventional presentation in the Autumn Statement (Table 2.7) will almost certainly show nationalised industry prices and housing (which includes the community charge) rising more rapidly than "other" prices over the



year ahead. The community charge is clearly going to be a source of heavy pressure on the RPI next year.

10. Nevertheless, for the reasons explained above, I do not see much practical scope in this Survey for tailoring decisions to favour the RPI. The Treasury position in these areas is not dictated solely by the Exchequer outcome but also by wider considerations (privatisation; progress towards viability; meeting investment needs; market rents). And as you know, the room for manoeuvre on the Survey is also very tight, and we have to press for adequate price increases if we are to avoid unwelcome increases in the expenditure plans, all of which would make it more difficult to achieve the Cabinet remit.

A handwritten signature in dark ink, consisting of a stylized 'J' and 'A' with a vertical line through the 'A'.

J ANSON



THE COMMUNITY CHARGE AND THE RPI

This note describes how the introduction of the community charge (CC) will affect the RPI. It also points to a number of issues which will be raised by any measure to reduce the impact of CC in the RPI.

2. The treatment of the CC in the RPI was considered during late 1988-early 1989 by the Retail Price Advisory Committee (RPIAC), an independent committee with representatives from government departments; industry, retailers, unions, consumer groups and other interest groups. For the past forty years all important issues covering the construction of the RPI have been referred to the RPIAC. Ministers have accepted its recommendations.

3. RPIAC reported in March 1989 and its Report was accepted by the Secretary of State for Employment, after considerable consultation with and between other Ministers including the Prime Minister, Chancellor of the Exchequer and the Secretary of State for Environment. The Committee recommended that it was proper to replace domestic rates in the RPI by the CC when it was introduced in Scotland (April 1989) and England and Wales (April 1990).

**RPI impact of community charge**

4. The main RPI impact of community charge (as with domestic rates) will be the actual increase in local authority revenues per head derived from this source. In April 1989 average local authority domestic rate poundages (the price indicator for rates in the RPI) rose by about 9 per cent. This contributed 0.4 per cent to the rise in the total RPI. If the community charge rose by the same amount in April 1990 it would have a similar effect on the RPI (excluding the index household effect - see below). If local authorities raised their budgets excessively, eg by 11%, community charges would rise further; such an increase in community charges would add (0.9%) to the annual rate of inflation as measured by the RPI. In April 1991, RPI inflation would fall back, however, if local authorities set budgets for 1991-92 which rose only in line with general inflation.

**The index household effect**

5. But there will also be a separate once and for all effect on the



level of the RPI in the year CC is introduced. The households whose typical basket of goods and services are covered by the RPI (the "index households") exclude one- and two-pensioners households and the households of one/two adults who are in the top 4 per cent of the income distribution. These broad groups are excluded mainly because their consumption patterns differ widely from the rest of the population. It is the exclusion of the top 4 per cent of income earners which gives rise to the "index household effect". Typically this group will have paid higher domestic rates than the rest of the population. With the introduction of CC, however, they will pay the same as everyone else. For a given level of local authority revenue from rates/community charge, therefore, index households will pay a higher proportion of the bill than under the domestic rates system to compensate for the lower contribution from the top 4 per cent. In its 1989 Report the RPIAC estimated that the bill (or the "price" of community charge) for index households would be 3.5 per cent higher just on this account. This is worth 0.1-0.2 per cent on the total RPI between April 1990 and March 1991. There would be a fall in RPI inflation in April 1991 as the index household effect dropped out of the calculation.

#### **Government grants and the RPI**

6. The level of central government grants to local authorities affects the RPI since it can reduce the impact of CC to all consumers of LA services. Whether it does so in practice depends crucially on local authorities using grant to reduce community charge bills. There would be no favourable impact on the RPI if local authorities used any additional grant to increase their expenditure.

7. If local authorities budget for an increase as high as 11% above this year's budgets, that would add 0.9% to RPI inflation. To attempt to reduce this impact on RPI inflation by 0.5%, ie to only 0.4%, would require a massive injection of grant. With the introduction of the community charge, many local authorities will set charges at very high levels - irrespective of the amount of grant that is available. Additions to grant may therefore end up being spent either next year or added to reserves for future spending. Even on the optimistic assumption that half of any extra grant goes to reduce community charges rather than adds to spending next year or thereafter, in order to reduce the RPI inflation rate by 0.5%, it would be necessary to



inject a further £3 billion\* in grant. That would represent raising Revenue Support Grant by approximately 30%.

**The treatment of rebates in the RPI**

8. The treatment of rebates (eg rent and rate rebates) in the RPI was considered by RPIAC in its 1986 report and again in its 1989 report (copies of relevant extracts attached). In general the Committee's guidance - again accepted by the Government - was that any system of rebates or other subsidies which were available to everybody should be scored as a reduction in the price of the relevant good or service. Where such rebates or subsidies were available only to a restricted group they should be regarded as income subventions and not be scored as a reduction in price.

9. In accordance with this view, RPIAC noted that the proposed 20 per cent CC liability for low income groups and students should not be treated as a lower average price of CC but as an income support measure. Nor, by implication, would any other system of rebate or subsidy, which was not available to everybody, be treated as a reduction in the price of CC. This follows the established principles by which the RPI is calculated.

\* Figure now revised to £ 2½ billion



**NATIONALISED INDUSTRY PRICES****Post Office** (RPI weight 2)

The assumption was 1/1p on first and second class letter post annually in October. The Chief Secretary and Mr Ridley have provisionally agreed to assume 2/2p in October 1990, 2/1p in October 1991 and 1/1p in February 1993 (NB: this pattern may need amendment from 1991 onwards in the light of further work on the financial target).

1/1p adds 0.01% to the RPI. Assuming the increase is in October the yield over 3 years is £63, 104, 82 million (the second and third year figures are net of corporation tax).

**Rail and London Underground** (RPI weight 7)

As part of a package of savings offered so far in the bilaterals, Mr Parkinson is proposing real fare increases in January 1990, 1991 and 1992 of:

**BR Network SouthEast**: 5/2½/2½% which would imply average real fare increases for all BR passengers of 3/1.3/1.3 (forecast assumes 3% real annually for all rail passengers). This is based on BR's RPI assumption of 5/4/3 and relates only to the undiscounted tariff. Receipts per passenger mile - the average fare per unit of travel - will be rising by lower amounts because of discounts.

**London Underground**: 7/3/3% (forecast assumes 4/3/3) on top of their current RPI assumption of 7/5/4.

In both cases the high real increases would be justified by increased investment to improve services.

The effect on the RPI, by comparison with the forecast, would be negligible: 1% on all BR and LU passenger fares adds 0.007%. (BR accounts for almost 5 times as much passenger revenue as LUL.)



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In a full year each real 1% on NSE fares yields about £7 million and each real 1% on LU fares about £3 million.

Electricity (RPI weight 26)

The forecasts assume a real increase of 1% in April 1990. The Chief Secretary has proposed 6.5% nominal to Mr Wakeham.

Assuming sale of the distcos in November 1990 each 1% on the April 1990 price could benefit the 1990-91 EFL by about £75 million. It could also help with sale proceeds.

1% on electricity prices adds 0.026% directly to the RPI after 4 months. Taking account of the indirect effect through higher prices in industry and commerce the total RPI impact of 1% might be 0.035% after a year.

Water (RPI weight 7)

Water will have been sold before the present Survey period starts. Price increases are largely determined through the K announcements, although those in 1991 and onwards may be higher if the Regulator allows "cost pass through" applications in respect of extra costs.

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BACKGROUND NOTE ON RENT POLICY

1. PRIVATE SECTOR.

The private rented sector has been in decline for many years:

Dec	Stock of privately rented dwellings GB (millions)	percentage of total stock (%)
1950	7.3	53
1970	3.7	20
1980	2.7	13
1988	1.6	7

This decline has been the result of several factors: the demand for privately rented housing has fallen as a result of people wanting (and being able) to buy their own homes and the large growth in council dwellings in the 1950s and 1960s had an impact. But the supply has also fallen because rent restrictions made it impossible for landlords to gain a reasonable return on their property and security of tenure laws made it difficult for them to regain possession of their property when necessary.

The government recognises that in the long term most people will wish to buy their own homes but recognises that a supply of privately rented housing is essential for certain groups: eg young people sharing with friends who do not want the legal complications of buying jointly; and mobile workers away from their families.

It is suggested that a shortage of privately rented accomodation in some parts of the country is a major factor in preventing labour mobility.

The rent laws were until recently based mainly on 1977 Rent Act which provided for the determination of fair rents which were specifically made without reference to market forces. As



a result fair rents and capital values of property got out of line so many landlords in areas of increasing housing demand sold at first opportunity.

Government tackled this in a 1987 White Paper ("Housing: The Government's Proposals") which was implemented via the Housing Act 1988. From 15 January 1989, new tenancies are on the basis of market rents: **assured tenancies** would have security of tenure guaranteed but rents would be freely negotiated between landlord and tenant whilst **shorthold tenancies** would have no security beyond the period of the tenancy but either party could seek adjudication of the appropriate rent by the Rent Officer. But existing tenancies would continue under the old fair-rent system.

As the new scheme has not been in force for many months, DOE are not yet in a position to say what the impact will be on rents in the short-term. In the longer term however, we believe that rents on individual properties may rise by around 50%, but the over\_all impact will depend upon how quickly existing tenancies are replaced by new ones.

There is of course no direct link between this policy and the Survey, although to the extent that deregulation attracts more private landlords back into the market it should lessen pressure for investment in subsidised housing.

#### Effect on the RPI

The impact of a 1% rise in private rents is estimated to have a 0.01% effect on the retail price index, so a 50% rise would have a 0.5% effect on the RPI. In practice, because of the phasing in of the new rents the impact is certain to be much less than this in any single year.



## 2. PUBLIC SECTOR

Rents in the public sector lag well behind market rents and do not in many cases differentiate adequately between different types of property or parts of the country. As a result, there is an inefficient allocation of the public sector housing stock, eg with many large homes occupied by small families, and excessive demand in some parts of the country but with little incentive for the tenants to move to property reflecting their real economic preferences.

Because private sector rents have been controlled for so long there is a lack of actual free-market information against which to compare council rents. However, DOE have made estimates of likely free-market rent levels based on information about the capital value of property. This suggests that in April 1988 average council rents were **£18.86** a week, just over half the estimated free market rent of **£35.07** a week. In Greater London council rents were **only 45 per cent** of the estimated free-market figure.

E(LF) agreed that council rents should begin to take more account of the desirability, state of repair and value of homes to reflect more consistently the regional pattern of owner occupiers' costs and new housing association rents.

By means of the new Housing Revenue Account system, DOE will be able to exert indirect but effective pressure on council rents by determining the amount of subsidy going into local authorities' Housing Revenue Accounts. DOE are proposing an average **5 per cent** real rent rise for council rents in 1990 but this will vary from authority to authority depending on each's individual circumstances.



### Effect on the RPI

A 1% rise in public sector rents is estimated to have about a 0.02% effect on the RPI. A 5% real rent rise would therefore increase the RPI by 0.1 percentage points.



*pm*

*Thanks.  
Near CST bilateral.*

FROM: SIR P MIDDLETON  
Ext: 4360  
DATE: 27 September 1989

**CHANCELLOR  
CHIEF SECRETARY**

cc Mr Anson

**TREASURY PES**

*Long → Put on CST bilateral folder  
Monday.*

You and the Chief Secretary will wish to know how we are getting on with the Treasury PES. I attach a draft submission which I will put forward if you are both content. As has been my practice in the past, I have tried to pitch our requirements so that they will not cause difficulty to you when compared with other Departments. And, of course, I want to avoid anything approaching an argument about the Treasury between its two senior Ministers.

2. As will be apparent from your own knowledge, the central Treasury is operating under great stress. On a conservative estimate we are over fifty staff short of what we need to do the tasks which we have been set. Pay rates for the key management and professional grades are increasingly below those available not only in the private sector but in other parts of the public sector - such as the NAO and the Audit Commission. This affects quality and puts a strain on the Department at all levels. We continue to perform as we do thanks to substantial amounts of largely unpaid overtime and an increased effort by senior officers to compensate for inexperience lower down.

3. In addition, there are some large new areas of work. Three are likely to be with us for some time: Europe, Next Steps and the NAO. The amount of briefing we have to provide seems to be on the increase again. There is no area of work which I have been able to identify which we could run down in order to save on running costs. I have looked in particular at the possibility of contracting out the Treasury model; but the savings would be minuscule, and I cannot quite see the Treasury exposing itself to the obvious risks of buying-in. I attach a report by the Chief Economic adviser which you will no doubt wish to consider separately.

*not attached, see with Anson on a separate note.*



PERSONAL AND CONFIDENTIAL

4. The various businesses are all under the microscope. The CCTA is being reviewed by the new director and I expect to put a report to you by the end of the year. There is little here that will help the Treasury's overall running costs in the short run. CCC is under pressure; it is very efficient and is taking on more payroll work (on a repayment basis). It is presently being considered for privatisation or agency status. A full submission will be made soon. CISCO operates on a trading basis and so cannot help with the Treasury's overall running cost problems. It, too, should be either privatised or turned into an agency. Again, a submission will be coming forward when the alternatives have been analysed.

5. I hope, therefore, that you can accept these figures. If not, I should of course wish to put forward a different submission with a higher bid in an attempt to secure the resources to bring the staffing of the Department more into balance with the demands which we have to meet.



PETER MIDDLETON



CONFIDENTIAL  
MANAGEMENT IN CONFIDENCE

FROM: SIR P MIDDLETON  
Ext: 4360  
DATE: September 1989

CHANCELLOR  
CHIEF SECRETARY

cc Financial Secretary  
Paymaster General  
Economic Secretary  
Planning Board  
Mr Fox  
Mr Healey  
Mr Simpson  
Mr AM White  
Mr JH Edwards

**TREASURY PES 1989**

I have reviewed Treasury's own Public Expenditure Survey needs. This submission sets out the level of resources required for the Department's work and for the other elements in Treasury's PES programme over the Survey period. Against baseline the picture is:

	1989-90			
fm	Estimate	1990-91	1991-92	1992-93
Baseline	233.856	199.293	223.630	229.220
Requirement	-	205.316	228.462	235.853
Net Bids	-	6.023	4.832	6.633

(The fall in requirement between 1989-90 and 1990-91 is due mainly to reduced need for Coinage Vote and Election Expenses expenditure.)

The table at Annex One gives figures by Vote and for non-Voted items. A note describing our bid in more detail is at Annex Two.

**Non-Running Costs items**

2. The bulk of our non-running costs expenditure is for non-voted items of which the Bank of England takes the lion's share (90.6 per cent in 1990-91). The latter has been held to a 2.5 per cent year on year increase throughout the Survey period.



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MANAGEMENT IN CONFIDENCE

3. Otherwise, the major items are:

(a) grants in aid to Royal Trustees and Parliamentary bodies which are very difficult to resist;

(b) provision for the continued refurbishment of toilet facilities in GOGGS; and

(c) enhancement of the Chessington Computer Centre's IT capacity (to enable it to cope with increased demand).

There are reductions against baseline for some non-Voted items and in CCTA's Vote. And while demand-led Coinage Vote expenditure (which is in any event ring-fenced) is notoriously difficult to predict, some surrender appears possible in Years 2 and 3.

4. The non-running costs requirement against baseline is:

	1989-90			
fm	Estimate	1990-91	1991-92	1992-93
Baseline	158.912	121.284	141.724	145.267
Requirement	-	122.588	140.655	143.829
Net bids	-	+ 1.304	- 1.069	- 1.438
(Net bids less coinage)		(+ 1.304)	(+ 0.931)	(+ 1.562)

#### Running Costs

5. Running costs expenditure is the area of real difficulty for us. Actual pay and price movements have been substantially higher than the assumptions used when we agreed a three-year running costs settlement in 1987. We managed to plan for 1988-89 and 1989-90 without seeking to reopen the settlement. Indeed, you will recall that Treasury was the only department to do so in 1988 PES. But from 1990-91 we simply could not both adhere to baseline and achieve our work objectives; something would have to give even if our workload remained constant.



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6. The general picture however is of increasing work pressures, particularly on central Treasury. For example, additional work on "Next Steps" has had to be absorbed. This is equivalent to the work of ten Grade 5/7 posts, plus secretarial support and accommodation, and the workload is certain to increase further. Still on the public expenditure side, the time available for value for money work is being squeezed by other control pressures. And activity responding to NAO is burgeoning, not necessarily in areas to which Treasury would give priority, but we cannot choose not to be involved. You are also aware of the extent to which Europe-related work is growing across a number of fronts.

7. Turning to the businesses, both Chessington Computer Centre and the Civil Service Catering Organisation (CISCO) expect greater demands for their services. The enhancement to Chessington's IT capacity, a non-running costs item, is to allow for an increase in activity; the increase in CISCO business will be paid for by increased receipts from departments. Some scope for reallocation of running costs resources might become available in future years following the review of CCTA, but such an easement is unlikely for a year or two (the short-term picture is one of additional costs, for example for early retirements).

8. The running costs requirement against baseline is:

	1989-90			
fm	Estimate	1990-91	1991-92	1992-93
Baseline	74.944	78.009	81.906	83.953
Requirement	-	82.728	87.807	92.024
Net bids	-	4.719	5.901	8.071



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**MANAGEMENT IN CONFIDENCE**

9. These net bids include an additional £0.7 million a year for CISCO. This will, however, be covered by receipts, all of which flow from expenditure from other departments and thus entail no increase in overall public expenditure. The net bids, less the extra CISCO receipts, represent year on year increases of:

	1990-91	1991-92	1992-93
Per cent	+ 9.5	+ 6.1	+ 4.8

10. The 1990-91 figure is in line with the average figure across departments which we expect for running costs, but has to be seen against the fact that we alone did not reopen the 1987 settlement last year.

11. We have looked hard for efficiency savings and gains to offset against running costs pressures and will continue to do so. Our present plans are to achieve cumulative efficiency savings of 5.5 per cent by 1992-93 (some 87 per cent of the cumulative savings are cash-releasing), against a cumulative Civil Service-wide target of 7.5 per cent. The 5.5 per cent figures assumes that Next Steps work will remain stable (a conservative assumption) and it takes no account of the efficiencies we expect to gain as CCC and CCTA move towards agency status: we shall secure further savings but they are not quantifiable until we have done more work.

**PETER MIDDLETON**



Summary of Treasury's PES Bid

	1990-91	1991-92		1992-93			
	<u>Bid</u>	<u>Change on Baseline</u>	<u>Bid</u>	<u>Change on Baseline</u>	<u>Bid</u>		<u>Change on Baseline</u>
<b>Treasury Vote:</b>							
Non-administrative items	9372	+1106	9878	+1306	10486	+ 1700	Mainly increased Grant to Royal Trustees, reflecting pay/prices increases.
Non-running costs	834	+1379	681	+1533	180	+ 1053	Mainly provision at CCC for a third processor mode (1989-90), and further refurbishment work in GOGGS (1991-92 and 1992-93).
Running Costs	53779	+4019	57569	+5166	61012	+ 7299	Mainly to reflect increased assumptions for pay/price increases.
<b>Total Treasury Vote</b>	<b>63985</b>	<b>+6504</b>	<b>68128</b>	<b>+8005</b>	<b>71678</b>	<b>+10052</b>	
CCTA Vote	13017	- 148	13063	- 888	14300	-	Mainly increased receipts.
CISCO Vote	-142	-	-138	-	- 142	-	
Coinage Vote	25684	-	42923	-2000	43046	- 3000	Reflects current estimated need.
Non-Voted Items	102772	- 333	104486	- 285	106971	- 419	Mainly ending of Tithe Redemption Scheme
<b>TOTAL</b>	<b>205136</b>	<b>+6023</b>	<b>228462</b>	<b>+4832</b>	<b>235853</b>	<b>+ 6633</b>	
Total excluding Coinage	179632	+6023	185539	+6832	192807	+ 9633	



**PUBLIC EXPENDITURE SURVEY (PES): HM TREASURY**

This note sets out the Treasury's own PES requirements. It reflects the recommendations of the Treasury's Planning Board, and has been agreed with ST2 the Treasury's expenditure division. The note does not cover the Civil Superannuation, Rates on Government Property or any privatisation requirements 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'. Bids by areas are shown in the table below:

	1990-91	1991-92	£million 1992-93
UK Coinage Vote	-	-2.000	-3.000
Non-Voted Items	-0.333	-0.285	-0.419
CCTA Vote	-0.148	- .888	-
CISCO Vote	-	-	-
Treasury Vote	+6.504	+8.005	+10.052
Total Bid	+6.023	+4.832	+6.633

**Coinage Vote**

2.1 Both the demand for coins and the price of metals remains extremely volatile and thus forecasts of them for the Survey period can only be very tentative. 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. There are uncertainties for each of the three years. About £3million more provision than baseline might be required if 1988-89 levels of demand for bronze coin continued into 1990-91 but such a sum is not large compared with the historic margin of estimating error. The likely picture on current information for 1991-92 and 1992-93 is that about £4million might be saved on baseline in 1991-92 and £5million in 1992-93.

2.2 At this stage the most reasonable course would be not to seek additional provision for 1990-91 but seek a Supplementary Estimate and a non-discretionary bid on the 1990-91 Reserve in the event that existing PES proves insufficient. For 1991-92 and 1992-93 £2million and £3million could be surrendered respectively.



## **Non-Voted Items**

2.3 There is a net reduction against baseline for each of the Survey years for the total of these items, the principal contributor being the end of the Tithe Redemption Scheme.

## **CCTA Vote**

2.4 CCTA have entered a bid showing a net reduction against their cash baseline for 1990-91 and 1991-92, and holding to baseline in Year 3. This is mainly as a result of expected increases in receipts. CCTA running costs are dealt with at Section 3 below.

## **CISCO Vote**

2.5 CISCO have entered a marginal extra receipts case for 1990-91. CISCO's future is under review. If it is not abolished or privatised it is likely to move to operating as a trading fund and Agency by 1 April 1991.

## **Treasury Vote**

2.6 There are three parts to the bid in this Vote - non-Administration items; Administrative non-running costs; and running costs. The latter is the major cause of the bid and is dealt with at Section 3 below.

## **Non-Administration Items**

2.7 These items include Grant in Aid to Royal Trustees, Parliamentary Bodies and NEDO and payments in respect of Pay Review Bodies and Honours and Dignities. There is a net bid in each year for these items. The majority of this is due to bids in respect of the Royal Trustees Grant in Aid which has been hard hit by price increases, particularly the NUCPS/CPISA pay awards. The bid reflects this. In return however they are to accept a three year settlement from 1 4 90.

2.8 In addition there is a substantial additional bid in each year in respect of the Parliamentary bodies. This reflects increasing costs, particularly air fares, and more certainty about the timing and location of planned visits.



2.9 The bid for Honours and Dignities in 1990-91 is in respect of computer equipment for the Central Chancery. This is likely to release staff resources in the future years.

2.10 The requirements for these items are difficult to resist and largely beyond Treasury control, and amount to an additional bid of £1.1, £1.3 and £1.7 million respectively in the three survey years.

#### **Administration Items: Non-Running Costs**

2.11 For central Treasury these include capital items (including IT), Economic Research, Subscriptions/Grants, Surveys, Bank of England charges in respect of the Consolidated/National Loans Funds, Government Actuaries payments, and Receipts. The major bid (£1.7 million in 1991-92) is for further toilet refurbishment work in GOGGS together with other smaller accommodation projects (eg security mesh around the outside of the building). The accommodation bids have to be provided by Treasury, as PSA is unable to finance such projects. There is very modest expenditure at RGPD. CCC is bidding for provision for a third processor node (1990-91). Increased workloads were anticipated when considering the mainframe needs of CCC in the Report on the Computer Replacement. Reassessment of work loads now suggests the need for greater capacity. The greater work load should also give rise to greater CCC receipts. These needs require an additional bid of £1.4, £1.5 and £1.1 million respectively in the three survey years.

#### **Running Costs**

##### **CISCO Vote**

3.1 CISCO's operations are likely to produce receipts of some £700,000 in 1990-91, above the level allowed for in the gross running costs baseline established in the 1987 Survey. These receipts fulfil the requirements of marginal extra receipts treatment and such a sum is therefore included in this submission. All the receipts come from the Votes of other Government departments. The figure of £700,000 is 0.9 per cent of total Treasury running costs. A similar figure is included for the last two Survey years for purposes of comparison.



## CCTA Vote

3.2 CCTA have held their bid to baseline. The new Director is reviewing CCTA and its functions. Any resultant change of priorities, and loss of functions, is likely to lead to a reduced staff requirement. In the short term any reduced expenditure requirement will be needed to offset associated increased costs eg early retirement expenditure.

## Treasury Vote

3.3 A large part of the running cost bid occurs on this Vote. The majority of it falls in central Treasury. The major cause is changed assumptions for pay and prices.

3.4 For last years survey we considered that a 6.5 per cent assumption would be more realistic for 1989-90 pay but nonetheless held to the 1987 cash settlement based on 5 per cent. In the event a figure of 6.5 per cent has been rendered wholly unrealistic by the pay settlements subsequently awarded. It would not be tenable to hold to the 1987 settlement for 1990-91 without fairly major surgery as regards levels of activity to be undertaken and the staff in post to do it.

3.5 The NUCPS/CPSA pay awards will add some 9 to 12 per cent to the cost of the grades involved, which account for some two-thirds of our staff (the cost is high because most of our staff in the grades are in London and the majority are at or near the maxima of their scale). The grades 5-7 levels survey can be expected to add to the cost of those grades later this year beyond what was assumed in 1987.

3.6 There is likely to be a secondary effect because our assumptions included the premise that recruitment and retention difficulties would persist during the settlement period. The pay awards might well have the intended effect of reducing wastage and of increasing recruitment.

3.7 There have also been general price increases on GAE items in excess of the 1987 4 per cent assumption (eg the latest RPI shows travel costs up by 7.3 per cent, fees up by 9 per cent and fuel and light costs up by 6.6 per cent). There has also been the EC ruling on VAT on rents, which will have its first full year effect in 1990-91, and which will add about £0.3million to costs; departments have had to absorb this increase within baseline.



3.8 Bids for staff in this year's Work Programming round appear to be more realistically based than in earlier years (they are for some 30 less than in last years round). Responsibility Centre returns show impressive achievements as regards progress with 1988-89 objectives during a year in which Treasury managed with an average of 1421 staff in post. The impressive achievement was possible only by absorption of extra workload in already fully stretched areas. Work on Next Steps' agencies is a case in point. The main Groups involved thus far have been IAE, HE, ST, LG and FM with increasing pressures expected in GE, RC, Pay, TOA and specialist divisions. In these circumstances it would not be appropriate to continue to remain within baseline by means of imposing further pressure on staff resources.

3.9 RGPD is moving to the end of a major revaluation exercise. Its future remains to be decided. As part of the Review of Location initiative the savings which might be expected to flow from relocating RGPD in less costly accommodation is being studied. At this stage though it would be surprising if the level of savings which should be achievable did not match RGPD's additional bid for 1991-92 and 1992-93.

3.10 The requirement for running costs (showing marginal extra receipts separately) is as follows:

	<b>£million</b>		
	1990-91	1991-92	1992-93
Bid:	82.028	87.072	91.252
Marginal Extra Receipts	<u>0.700</u>	<u>0.735</u>	<u>0.772</u>
Total Bid	82.728	87.807	92.024
Baseline	<u>78.009</u>	<u>81.906</u>	<u>83.953</u>
Diff	<u>+ 4.719</u>	<u>+ 5.901</u>	<u>+ 8.071</u>

3.11 Treasury's running costs bid represents the following year on year increases (%):

+ 9.5      + 6.1      + 4.8

This excludes the marginal extra receipts required for CISCO. All those receipts will flow from expenditure by other Government departments and therefore do not entail an overall net increase in PES.



3.12 The figure of 9.5 per cent increase of 1990-91 on 1989-90 running costs represents an increase over a figure settled in the 1987 Survey, not the Survey which took place last year. Treasury was the only department not to reopen the 1987 running cost settlement last year.



## ANALYSIS OF PES BIDS

	1990-91 £000	1991-92 £000	1992-93 £000	
Coinage Vote	-	-2000	-3000	Assessment of likely demand/ metal prices
<b>Non-Voted Items:</b>				
Civil List	-	-	- 126	Revaluation of fixed baseline
Royal Household/Pensions/ Euro MP's Pensions/Election Expenses	- 48	-	- 1	
Tithe Redemption	- 285	- 285	- 292	Ending of Scheme
<b>Total Non-Voted Items</b>	<b>- 333</b>	<b>- 285</b>	<b>- 419</b>	
CCTA Vote	- 148	- 888	-	Running costs held to baseline, man- power some 20 below plan, increased expected receipts
[CISCO Vote - running costs	+ 700	+ 735	+ 772]	This bid is made under the rules for Marginal Extra Receipts, and will be offset by additional receipts
<b>Treasury Vote:</b>				
Royal Trustees/ Parliamentary Bodies: Grants in Aid	+1044	+1292	+1686	Increased costs, mainly pay in the former, travel costs in the latter plus more certainty about where planned visits will be
Pay Review Bodies/ Honours and Dignities	+ 62	+ 14	+ 14	Mainly purchase of computer in Central Chancery. This will release staff resources in future years.
Capital/Non- Running costs: Central Treasury	+ 277	+1684	+1198	Mainly to provide for further toilet refurbishment work in GOGGS



	1990-91 £000	1991-92 £000	1992-93 £000	
RGPD/CCC	+1273	+ 129	+ 203	Mainly to provide for a third processor node to cope with increased work loads
Receipts	- 171	- 280	- 348	Increased receipts particularly at CCC
Running Costs:				
Central Treasury	+3496	+4590	+6353	) Mainly changed ) pay/price ) increase ) assumptions
CCC	+ 356	+ 412	+ 733	
RGPD	+ 167	+ 164	+ 213	
<b>Total Treasury Vote</b>	<b>+6504</b>	<b>+8005</b>	<b>+10052</b>	
<b>TOTAL</b>	<b>+6023</b>	<b>+4832</b>	<b>+6633</b>	



**SECRET**

LOMAX -> CH/EX  
28/9  
1989 SURVEY -  
PM MEETING

FROM: MRS R LOMAX (GEP)  
DATE: 28 September 1989  
EXTN: 4499

*Handwritten notes:*  
Museum (top left)  
(at least two pages to be reviewed)

- 1. MR ANSON
- 2. CHANCELLOR

- cc
- Chief Secretary
  - Sir P Middleton
  - Mr Monck
  - Mr Phillips
  - Mr Riley
  - Mr Luce
  - Mr Sedgwick
  - Mr MacAuslan
  - Mr O'Donnell
  - Miss Walker
  - Mrs Chaplin
  - Mrs Tyrrie

The note will need to be finalised after your briefing meeting on Monday morning, and in the light of this afternoon's discussion on community charge. I would treat the Annex as for your own information, and have the main note, on its own, as a possible aide-memoire for the Prime Minister.

✓  
28/9

**1989 SURVEY : MEETING WITH THE PRIME MINISTER (3 OCTOBER)**

You and the Chief Secretary are meeting the Prime Minister on 3 October to discuss progress on the Survey. It has not yet been decided whether Sir G Howe will be present, but there is a presumption that he will be (Mr Parkinson was, last year).

2. The purpose of the meeting will be:
- (i) to consider the position reached in the bilaterals, and to discuss the way ahead on some of the key outstanding policy issues.
  - (ii) to discuss the membership of Star Chamber, and the programmes likely to be referred to it.
  - (iii) to review the likely outcome of the Survey.

3. On previous occasions, you have taken an aide memoire with you, which you have left behind with the Prime Minister. I attach a draft note, along similar lines to last year's. The list of key issues is on the long side, and you may want to consider whether it should be pruned, at your meeting on Monday. If Sir G Howe is invited to the meeting, you may also want to consider editing the section on the likely outcome (eg deleting the numbers in square brackets).

*Handwritten notes:*  
You may want to let No 10 know what you feel about this.

1  
**SECRET**

✓  
28/9

457



4. I also attach an optional Annex, summarising the position on individual programmes. It is mainly for your information at this stage, and there is some overlap with the main paper. If you wanted to leave this with the Prime Minister too, it should probably be edited, in the light of any changes to the main paper.

5. At the time of writing, the outcome of discussions about the Community Charge is unknown. Both the paper and the Annex are virtually silent on the subject, and the underlying figuring makes no allowance for additional funds for this purpose. At your meeting on Monday, you will want to consider how to take account of the position reached at the Prime Minister's meeting this evening.

6. In the meantime, we will let you have a revised Scorecard, which, as previously, will incorporate our best guess at the likely outcome on this issue, (and others).

RL

RACHEL LOMAX



S E C R E T**PUBLIC EXPENDITURE SURVEY : PROGRESS REPORT****Introduction**

As expected, very difficult Survey - probably the most difficult since 1980. Intense economic and political pressures for higher spending across whole range of programmes.

2. July Cabinet agreed that top priority was to defeat inflation. Remit was to :-

- maintain downward trend in GGE ratio (ex pp).
- stick "as close as possible to existing plans".

(Necessarily vague, given change in definition of planning total.)

3. Starting point is existing plans which imply only modest decline in ratio. Low expenditure and higher money GDP pushed ratio down in 1988-89. Could happen again this year, to some extent (though spending not likely to undershoot). Recognised therefore that might be a blip up in the ratio in 1990-91. But all the more important to have some decline thereafter.

4. Even this ambition now at risk. Since July, total bids risen. Anything for the Community Charge would be extra.

**BILATERALS**

5. Annex summarises position. First round bilaterals on all programmes (except Scotland); second round meetings on some.

(i) Virtually Settled : DTI, Northern Ireland, Department of Energy.

(ii) Entered serious negotiations on Health, Defence, Home Office, Wales, FCO, Employment.

S E C R E T



(iii) Proving difficult : DOE, Transport (including Nationalised Industries), Education, Scotland. Some difficult specific policy issues on Social Security.

**STAR CHAMBER**

6. Referrals

Quite likely : DOE (Housing and Other Environmental Services)  
Transport (including Nationalised Industries)  
Education  
Social Security

Possible : Employment  
Defence  
Scotland

Star Chamber can be set up by correspondence. Chief Secretary to minute Prime Minister, copied to colleagues, picking up reference to possible need for Star Chamber in July Cabinet minutes. No need to identify Departments likely to be referred.

7. Prime Minister will want to consider membership of Star Chamber. It could comprise:-

Sir G Howe  
Mr Lamont  
Mr Ridley

Plus (depending on progress on their programmes by the end of the week) two or three from:

Mr Wakeham  
Mr Clarke

Mr Hurd

Mr MacGregor ) but may not have settled by then  
Mr Fowler )



Parliament will be sitting during Star Chamber, dealing with some very difficult Commons business. Timetable is tight, given water privatisation. May be a case for six members.

**LIKELY SURVEY OUTCOME**

8. Excluding any addition for the Community Charge, forecast outcome of Survey implies:-

- Substantial cash additions to GGE [ $\pounds 6/7\frac{1}{4}/11\frac{1}{4}$  billion]
- Rise in GGE ratio in 1990-91, very little decline thereafter, year 3 about same as 1989-90 outturn (assuming latest unpublished assumptions about money GDP - could go down as well as up). [Ratios in 1990-91 and 1991-92 the same as in 1989 PEWP - but only just].
- Real growth in GGE  $3\frac{1}{4}$  per cent in 1990-91,  $2\frac{1}{2}$  per cent 1989-90 to 1992-93, compared with  $1\frac{1}{4}$  per cent 1978-79 to 1989-90.

Forecast outcome already assumes tough decisions on Social Security, Defence, Transport, Employment, Home Office, Education. Chief Secretary looked at scope for even tougher outcome earlier this month: unlikely to do better in aggregate, though pressing very hard on individual programmes. Anything extra for Community Charge adds directly to planning total on new definition, and likely to push up general government spending.

**KEY OUTSTANDING ISSUES**

9. (i) Social Security: Child benefit - Treasury seeking further one year freeze, and to reverse present uprating assumption in PEWP in years 2 and 3. Law Officers advice on uprating assumption due on 2 October. Unemployment benefit - Treasury option to replace UB by income support after six (rather than twelve) months requires primary legislation. Disability - scale of package needed this year to



respond to OPCS and contain long term upward trend in spending.

- (ii) Transport: (Total road and rail bids about £6½ billion over three Survey years.) Affordable scale of extra spending on roads, following E(A) and White Paper commitment, given risk of construction overheating. Cost overruns on Channel tunnel related rail investment. Realism and affordability of commitment this year to three new rail mega-projects (2 Central London, plus Jubilee Line extension for Canary Wharf). (Department wants to introduce two private Bills this November. Postponement would avoid up-front spending on compensation.)
- (iii) Environment : How much extra can be afforded this year to meet preferences for subsidised housing to complement possible homelessness package. Consistency with past policy and market orientated approach; no public policy commitments; steeply rising baseline. How much can be afforded for UDCs etc given escalating cost of Docklands transport (where latest reports suggest Rosehaugh Stanhope may be wavering on Royals).
- (iv) Education : Affordability. A wide range of very large bids on higher education, science, schools capital. Big gap remains, especially on schools capital and science.
- (v) Defence : Extent to which effects of higher inflation can be absorbed by achieving 2½% efficiency savings promised at Prime Minister's VFM seminar.
- (vi) Employment : Scale of reduction in baseline justified by lower unemployment, need for employers to contribute more towards training.
- (vii) Scotland : How vigorously to pursue reductions in Scottish over-provision eg by adjusting population



base or disallowing bids on block or absorbing part of AEG settlement within block.

- (viii) OAL : Seeking to re-open generous 1987 3-year deal. Strong arts and museums lobbying. Highly discretionary area : not this year?
  
- (ix) Central government support for local government capital spending (relevant especially to Education, DOE) : Extent to which Central Government should signal need for restraint on LA capital spending, by holding down Central Government support (credit approvals, grant). Huge overspend this year. Risk that receipts could start to fall away after 1991-92, but ample accumulated receipts in 1990-91. Low priority of much LA spending.
  
- (x) Running costs : Growth in 1990-91 likely to be nearly 10%. Real pay pressures, but need for maximum efforts to absorb through greater efficiency gains. Large executive departments should aim for over 1½% target.



S E C R E TANNEXPROGRESS IN INDIVIDUAL BILATERALS

## DEFENCE

MOD increased their bids substantially following the revised inflation assumptions issued in July. They made some reductions following the first bilateral, but still seek to reopen 3 year settlement. Reasonable possibility of settling outside Star Chamber, but large gap still remains in years 2 and 3 following second bilateral.

Main issue : impact of higher inflation and scope for efficiency savings, to offset it.

## FCO - DIPLOMATIC

Bids substantial - mainly running costs. Settlement probably possible, linked to acceptable deal on aid.

Main issue : scope for pruning lower priority diplomatic service activity to offset rising costs.

## FCO - OVERSEAS DEVELOPMENT ADMINISTRATION

*ASW*  
Large bids, to increase overseas aid as proportion of GNP. Still significant gaps to be bridged at second bilateral.

Main issue : how far overall programme needs to grow in real terms, and whether in addition it needs to maintain/increase its share of GNP.

## AGRICULTURE

Reductions offered on CAP due to prospects for harvest; but

S E C R E T



S E C R E T

substantial new bids for domestic agriculture. No significant savings offered at first bilateral.

**TRADE AND INDUSTRY**

Virtually settled. Mr Ridley has offered substantial savings below baseline, though with some increases (not finally settled) on running costs. Details to be tied up in correspondence.

**ENERGY**

Settled close to baseline on departmental programme. Electricity privatisation precludes firm decisions on Nationalised Industries pending contract negotiations. Major long term threats on Coal, but, as working assumption, stick to baseline for Autumn Statement. Electricity EFL still to be decided.

**EMPLOYMENT**

Following first bilateral, Mr Fowler reduced bids and offered savings to stay roughly on baseline (somewhat over in year 3). Treasury looking for substantial reductions below baseline in all years. Could go to Star Chamber.

**TRANSPORT (including Nationalised Industries)**

Road and rail bids total some £6½ billion. Treasury accept case for significant increase, but want substantial reductions in bids, on grounds of realism, as well as affordability. Unlikely to settle without collective discussion.

Issues : Department not moving from £3 billion road bid justified by higher construction costs, early start to expanded road programme following White Paper. Little progress on rail. Department bidding to cover escalating cost of Channel tunnel related rail investment (including property blight in Kent). No substantive discussion yet possible on 3 rail mega-projects (2 Central London lines to relieve congestion plus Jubilee line extension for Canary Wharf). Department wants private Bills on 2

2  
S E C R E T



mega-projects this November (including Jubilee line). (Uncertainties about private finance for Channel fixed link could be relevant).

#### ENVIRONMENT

Very difficult. Little movement on substantial bids for housing, local environmental services, urban spending (including LDDC). May go to Star Chamber.

Issues : Department wants significant increase in subsidised housing as well as homelessness package. Treasury resisting former on grounds of realism, affordability and politics. Huge bids for local environmental services (in practice largely LA administrative buildings and leisure centres as well as more important waste disposal items) to cushion possible, but uncertain, impact of lower receipts. Scope for offsetting escalating cost of Docklands transport elsewhere in programme.

#### HOME OFFICE

Progress on key issues, but still some way to go. Settlement likely.

Issues : Implication of lower prison population projections (allowing surplus of places in 1992-93) for spending on new and existing prisons. Scale of additional police manpower needed to meet public commitments.

#### EDUCATION

Could be long slow negotiation, possibly to Star Chamber. Mr Baker submitted wide range of very large bids for higher education, science, schools capital, and other minor items. Mr MacGregor offered only small reductions so far, leaving big gap on science and schools capital.

#### OFFICE OF ARTS AND LIBRARIES

Mr Luce seeking to reopen 3 year deal agreed in 1987 (rolled



forward last year). First bilateral 3 October.

Issue : effect of inflation on 3 year deal.

#### HEALTH

Constructive progress, early settlement likely. Substantial additions (over £1 billion in 1990-91) unavoidable to implement NHS review and maintain reasonable level of service growth.

Issue is scale, in face of inevitable uncertainties about likely costs of review.

#### SOCIAL SECURITY

Additions since April 1988, including agreed benefit bids, worth £1 billion in 1990-91. Discussion narrowed down to a few key issues which will need to be referred to colleagues.

Issues : Child benefit. Treasury want further 1 year freeze, with protection for poorer families, and to reverse present uprating assumptions in PEWP for years 2 and 3. Annual upratings would still need policy decisions. Law Officers advising on this. Unemployment benefit. Department question politics of Treasury option to replace UB by income support after 6 months (now 12). Needs primary legislation. Disability. Need to respond to OPCS report and contain sharp long-term upward trend in spending. In July John Major proposed a £100 million package to meet key pressure points, in return for longer term action to reduce real growth in spending on disability. Department now bidding for amounts rising to £½ billion in 1992-93, including major new benefit, with no net savings until next century.

#### SCOTLAND

Mr Rifkind's unwillingness to discuss ways of reducing over provision led to postponement of first bilateral. Could go to Star Chamber.



Issue: Mr Rifkind seeking extra provision, beyond formula consequential of comparable English increases; Treasury seeking to reduce Scottish over provision, either by an adjustment for diverging trends in population, or by other means. Bids outside block unlikely to cause trouble.

**WALES**

At first bilateral Mr Walker showed signs of willingness to moderate bids. Settlement likely.

Issues : Mr Walker has bid for programmes normally covered by the block arrangements (as well as for expanded industry programmes, including RSA).

**NORTHERN IRELAND**

Settled. Additions for Shorts and social security. (Mr Brooke withdrew some bids and agreed to absorb others).

**RUNNING COSTS**

Total of departments' bids would represent over 11 per cent increase in running costs in 1990-91 compared with 1989-90. Real pay pressures will make it difficult to reduce this much below 10 per cent. Main issue is scope for efficiency gains to offset pay and price increases, and extent to which these can be taken as expenditure savings.



WALKER → CST  
SURVEY SCORECARD  
29/9

SECRET AND PENDING SCORECARD LIST ONLY

COPY NO: 2 OF: 15

You asked about growth in  
the NPT (see para 5) real growth

FROM: S P B WALKER  
DATE: 29 September 1989  
EXT: 5522

1. MRS LOMAX over the survey period is  $3\frac{1}{2}\%$   
(compared with  $2\frac{1}{2}\%$  for

- cc Chancellor
- Mr Anson
- Mr Monck
- Mr Phillips
- Mr Riley
- Mr Sedgwick
- Mr Luce
- Mr MacAuslan
- Mr Richardson
- Mr Hansford
- Mr Mowl
- Mr Tyrrie
- Mr Wray

2. CHIEF SECRETARY used GGE), but the lagging  
a from 89/90 starting point makes  
this a rather artificial comparison  
(4% real growth in the NPT in yr 2  
is a bit disturbing)

*Why of  
last year  
just writing to GGP?  
(at risk)*

*v odd pattern: consider  
3/7/12  
SM - Annexes, pp 15*

**SURVEY SCORECARD**

RL  
29/9

I attach, at Annex A, this week's scorecard, and at Annex B a table showing the changes in divisions' forecasts of outcome since last week's version, and a short description of the reasons for the main changes, prepared by Mr Wray. Annexes C and D show the implications of the new figures for GGE and the GGE/GDP ratios and growth rates.

2. There have been significant increases in divisions' forecasts of outcome for Employment, Other environmental services and Education on grounds of realism. We still think that several of the forecasts are optimistic, and will ask divisions to think again after your meeting with the Prime Minister next Tuesday, when some of the key programmes, such as Transport and Social Security, are likely to be discussed.

3. For this reason, the scorecard still includes an allowance for optimism and bids yet to come, although this has been reduced since last week. This includes an amount for further measures to alleviate the effects of the community charge: it would allow for a scheme of individual protection within the range discussed at the Prime Minister's meeting yesterday, and (in 1991-92) the safety net variation originally proposed by the Chancellor.

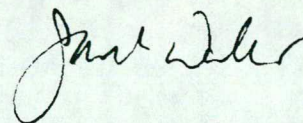
**GGE/GDP ratios and growth rates**

4. The changes affect the GGE/GDP ratio in 1992-93, bringing it down from  $38\frac{3}{4}$  per cent (on last week's forecast of outcome) to



38½ per cent, the same as the likely outturn for 1989-90. However, the ratios in both 1990-91 and 1992-93 are very close to the point where they would round up (to 39¼ and 38¾ per cent respectively), so any concessions beyond the forecast could make a significant difference to the presentation of the outcome.

5. The GGE growth rates shown in Annex D are not affected by this week's changes. You also asked about year on year growth in the planning total. Because spending in the current year is not being monitored on a new planning total basis, we do not have a proper forecast of the new planning total outturn for 1989-90 (one will be prepared for the Autumn Statement). But on the basis of a rough estimate, real growth in 1990-91 looks like being about 4½ per cent, with 4 and 2¾ per cent in the later years respectively. Excluding privatisation proceeds, the figures are 4½, 3¾ and 2½ per cent.



S P B WALKER



SECRET  
SUMMARY SCORECARD

Date of last update: 28/09/89

(£million)

	1990-91	1990-91	1990-91	1990-91	1991-92	1991-92	1991-92	1991-92	1992-93	1992-93	1992-93	1992-93
	BASELINE	DEPT POSITION	FORECAST OUTCOME	HMT POSITION	BASELINE	DEPT POSITION	FORECAST OUTCOME	HMT POSITION	BASELINE	DEPT POSITION	FORECAST OUTCOME	HMT POSITION
Ministry of Defence	21,187.0	381.0	81.0	53.0	22,101.0	757.0	29.0	0.0	22,653.0	1,264.0	700.0	0.0
FCO - Diplomatic, Information, Culture	841.0	46.0	43.0	37.0	884.0	63.3	50.9	5.2	906.0	60.2	47.1	5.2
FCO - ODA	1,627.0	134.2	91.5	61.5	1,692.0	211.9	112.7	2.7	1,734.0	327.9	142.0	2.0
Intervention Board for Agricultural Produce	1,342.0	-106.7	-108.3	-111.7	1,518.0	-141.9	-143.8	-147.1	1,556.0	-103.2	-105.3	-109.6
Ministry of Agriculture, Fisheries and Food	578.0	90.5	50.5	-46.3	590.0	125.1	73.4	-76.8	605.0	149.6	89.9	-95.6
Forestry Commission	77.0	1.1	1.1	1.1	80.0	3.2	3.2	3.2	82.0	5.6	5.6	5.6
Trade and Industry	1,300.0	-60.4	-60.4	-60.4	1,155.0	-49.6	-49.6	-49.6	1,185.0	-174.6	-174.6	-174.6
Export Credits Guarantee Department	122.0	89.5	89.5	88.9	61.0	-1.1	-1.1	-4.8	63.0	-92.2	-92.2	-101.2
Energy	421.0	27.4	25.8	-8.3	353.0	43.9	42.6	-1.0	362.0	33.1	31.6	-16.1
Department of Employment	3,887.0	141.3	-95.9	-385.2	3,894.0	169.0	-205.6	-623.1	3,991.0	253.2	-183.0	-770.5
Department of Transport	2,645.0	629.8	332.0	3.0	2,724.0	1,012.1	538.9	0.0	2,792.0	1,360.0	609.0	0.0
DOE - Housing	5,737.0	954.1	706.7	140.3	6,157.0	1,155.1	771.4	105.7	6,311.0	1,221.4	739.4	32.3
DOE - Other Environmental Services	1,194.0	402.9	206.2	-184.8	1,226.0	420.4	153.4	-188.6	1,256.0	328.5	174.1	-61.9
DOE - Property Services Agency	-138.0	151.1	82.1	82.1	-186.0	157.1	19.7	24.7	-191.0	112.2	-49.6	-49.6
DOE - Local Government	19,365.0	706.2	714.5	732.0	19,849.0	789.6	786.2	1,055.9	20,345.0	777.2	769.9	1,096.8
Home Office (inc. Charity Commission)	4,504.0	478.4	373.8	80.0	4,581.0	657.6	505.9	-190.7	4,695.0	760.7	611.9	-214.1
Legal departments	1,188.0	143.3	80.7	-4.3	1,261.0	206.3	123.6	-4.3	1,292.0	310.6	202.8	-5.0
Department of Education and Science	5,824.0	1,267.1	875.9	243.9	5,932.0	1,514.1	962.3	277.0	6,080.0	1,718.1	984.5	280.3
Office of Arts and Libraries	456.0	46.5	21.0	-1.8	486.0	52.4	10.6	-1.9	498.0	88.9	16.4	-1.9
Department of Health and OPCS	20,987.0	1,554.6	1,173.9	750.6	21,941.0	2,014.7	1,533.5	1,056.8	22,489.0	2,849.2	2,155.7	1,572.1
Department of Social Security	55,126.0	1,260.9	714.1	456.0	58,300.0	2,028.9	1,326.7	754.8	59,757.0	4,421.8	3,383.5	2,558.5
Scotland: negotiable	9,179.0	68.4	-26.4	-487.4	9,491.0	104.0	-18.2	-523.2	9,728.0	138.9	-15.0	-573.0
Scotland: formula		513.0	326.6	41.2		676.3	410.6	67.3		853.2	509.1	132.6
Scotland: local government		143.3	143.3	143.3		156.3	156.3	156.3		151.3	151.3	151.3
Wales: negotiable	4,133.0	136.9	71.4	0.4	4,247.0	219.9	37.3	-8.7	4,353.0	169.8	8.0	-44.0
Wales: formula		261.0	177.1	55.1		334.4	215.0	73.6		410.2	252.9	102.5
Wales: local government		74.1	74.3	75.0		79.1	79.3	92.7		79.3	78.9	95.1
Northern Ireland: negotiable	5,655.0	117.3	117.3	117.3	5,866.0	153.0	153.0	153.0	6,013.0	173.5	173.5	173.5
Northern Ireland: formula		228.4	166.1	67.0		282.1	192.7	64.9		336.0	221.2	80.0
Chancellor's Departments	4,322.0	230.0	181.4	153.3	4,530.0	301.0	243.2	195.2	4,644.0	430.4	343.5	261.5
Cabinet Office, Privy Council Office, etc	337.0	14.7	12.9	12.9	352.0	15.3	12.4	12.4	361.0	9.8	9.7	9.7
European Communities	1,950.0	35.0	35.0	35.0	1,580.0	-35.0	-35.0	-35.0	1,620.0	230.0	230.0	230.0
Nationalised Industries	-396.0	1,957.7	1,425.2		979.0	1,417.3	1,032.8		1,002.0	1,876.0	1,284.0	
Optimism/bids to come			600.0				1,150.0				800.0	
TOTAL ADDITIONS TO PROGRAMMES	173,450.0	12,168.7	<u>8,742.9</u>	2,139.8	181,644.0	14,962.8	<u>10,333.3</u>	2,246.6	186,182.0	20,630.5	14,185.8	4,571.7

*inc after other numbers*

*Annex A*



SECRET  
SUMMARY OF CHANGES IN FORECAST OUTCOME  
SINCE LAST SCORECARD

29/09/89

	1990-91 CHANGE IN FORECAST OUTCOME	1991-92 CHANGE IN FORECAST OUTCOME	1992-93 CHANGE IN FORECAST OUTCOME
Ministry of Defence	0.0	0.0	0.0
FCO - Diplomatic, Information, Culture	0.0	0.0	0.0
FCO - Overseas Development Administration	21.2	20.3	14.7
Intervention Board for Agricultural Produce	0.0	0.0	0.0
Ministry of Agriculture, Fisheries and Food	0.0	0.0	0.0
Forestry Commission	0.0	0.0	0.0
Trade and Industry	0.0	0.0	0.0
Export Credits Guarantee Department	0.0	0.0	0.0
Energy	0.0	0.0	0.0
Department of Employment	21.8	18.7	49.5
Department of Transport	0.0	0.0	0.0
DOE - Housing	0.0	0.0	0.0
DOE - Other Environmental Services	23.8	29.2	27.7
DOE - Property Services Agency	-0.9	-22.7	-34.2
DOE - Local Government	0.0	0.0	0.0
Home Office (inc. Charity Commission)	-4.3	-11.0	-9.5
Legal departments	-0.3	-7.3	-15.1
Department of Education and Science	100.0	125.0	150.0
Office of Arts and Libraries	0.0	0.0	0.0
Department of Health and OPCS	7.0	-1.0	-12.0
Department of Social Security	-0.5	-13.7	-22.7
Scotland: negotiable	0.0	0.0	0.0
Scotland: formula	-35.1	-35.7	-35.9
Scotland: local government	0.0	0.0	0.0
Wales: negotiable	20.0	0.0	0.0
Wales: formula	7.5	9.1	9.9
Wales: local government	0.0	0.0	0.0
Northern Ireland: negotiable	8.0	3.4	0.3
Northern Ireland: formula	1.5	2.0	2.4
Chancellor's Departments	0.0	0.0	-1.6
Cabinet Office, Privy Council Office, etc	0.8	-1.0	0.6
European Communities	0.0	0.0	0.0
Nationalised Industries	200.0	0.0	0.0
Bids to come/optimism	0.0	0.0	0.0
	-150.0	-100.0	-200.0
TOTAL	220.6	15.4	-75.9



**SECRET****Changes in forecast outcome**

- (i) **FCO-ODA:** new bids for ATP soft loans in 1991-92 and 1992-93; less optimistic forecast in year 1;
- (ii) **EMPLOYMENT:** outcome revised in light of Mr Fowler's letter of 26 September - outcome in 1992-93 may improve;
- (iii) **DOE-OTHER:** reduced optimism on outcome of bid for credit approvals for local environmental services;
- (iv) **DOE-PSA:** changes reflect latest position as outlined in Mr Edwards' submission of 25 September reporting official negotiations;
- (v) **HOME OFFICE:** (a) non-prisons: improved forecast outcome following reduced bids (Home Secretary's letter of 21 September) for police helicopter support and minor bids, and also increased savings offered for years 2 and 3 on charging for forensic science testing;  
(b) prisons: increased optimism on outcome of bids for prison services HQ staff;
- (vi) **EDUCATION:** less optimistic forecast of outcome on maintained sector capital;
- (vii) **LEGAL DEPTS:** division expect to be able to force reduction in performance pay element of LCD running costs in years 2 and 3; cutbacks also likely in court building; offset somewhat by rise in net Land Registry provision because of downturn in housing market;
- (viii) **HEALTH:** improvements because of further probing on NHS review bids and running costs; DH likely to accept some savings in AIDS provision and have withdrawn bid for VAT on fuel and power. Increases, however, because more importance than previously thought attached by DH to additional investment and LA credit approvals. Also, hard to refuse additional bid on centrally financed services;
- (ix) **SOCIAL SECURITY:** recosting of the effect of a 1 year freeze of Child Benefit;
- (x) **SCOTLAND (FORMULA):** removal of HRA subsidy from formula calculation - now established that it is not comparable;
- (xi) **WALES (NEGOTIABLE):** more realistic assessment of provision necessary in 1990-91 for home improvement grants in Wales;
- (xii) **N. IRELAND (NEGOTIABLE):** effect of July revision to economic assumptions on housing loan charges;
- (xiii) **NATIONALISED INDUSTRIES:** increase in Scottish Electricity EFL in 1990-91 due to increased interest costs because capital reconstruction now not likely to be possible much before date of flotation;

**SECRET**



## ADDITIONS TO GGE (EX PRIV PROC)

(£ billion)

	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>	<u>1992-93</u>
Baseline GGE ex priv proc		210	220.75	228.5
Additions on scorecard		8½	10½	14½
Drawdown of Reserve <sup>1</sup>		-4	-4	-4½
Additions to local authority self-financed expenditure, central government debt interest, and other adjustments		1½	1½	1½
<b>TOTAL ADDITIONS TO GGE</b>		<b>6</b>	<b>7½</b>	11½
NEW GGE (ex priv proc)	199.2	216	228½	239½
Money GDP <sup>1</sup>	516	552½	587½	621
Ratios of GGE to GDP	38½	39	39	38½

1 Giving Reserves of £3/7/10 billion.

2 Using July deflators, and real growth of 2% in each of 1989-90 and 1990-91 and 2½% in each of the later years (as in FSBR).

29 September 1989



SECRET

## EXPENDITURE TRENDS

GGE EX PRIV PROC  
(£ BILLION)

	Cash	Real	% Real growth on previous year	% GDP
1978-79 (outturn)	75.0	153.3	5.1	43½
1979-80	90.3	158.3	3.3	43½
1980-81	109.0	161.1	1.8	46
1982-82	121.0	163.0	1.2	46½
1982-83	133.1	167.5	2.7	46¾
1983-84	141.6	170.2	1.7	45¾
1984-85	152.7	175.0	2.8	46½
1985-86	160.9	174.7	-0.2	44½
1986-87	168.8	177.6	1.7	43¾
1987-88	176.9	176.9	-0.4	41½
1988-89	185.7	173.1	-2.2	39½ PEWP FSBR
1989-90	199.2	173.5	0.3	38½ (39½) (39½)
1990-91 (forecast of Survey outcome)	216.8	179.2	3.3	39 (39) (39)
1991-92	228.5	183.2	2.2	39 (38¾)
1992-93	239.8	186.6	1.9	38½ [38]

## Annual average real growth (%)

1968-69 to 1978-79	3
1978-79 to 1988-89	1½
1987-88 to 1992-93	1
1988-89 to 1992-93	2
1989-90 to 1992-93	2½

29 September 1989

SECRET



gepl.ip/jm/cst 29.9

SECRET

MACAUSLAN - CST  
29/9  
1989 SURVEY  
- PM MEETING

FROM: J MACAUSLAN  
DATE: 29 SEPTEMBER 1989  
EXTN: 4780

CHIEF SECRETARY

cc: Chancellor  
Sir P Middleton  
Mr Anson  
Mr Monck  
Mr Phillips  
Mrs Lomax  
Mr Luce  
Mr Riley  
Mr Sedgwick  
Mr O'Donnell  
Miss Walker  
Mrs Chaplin  
Mr Tyrie

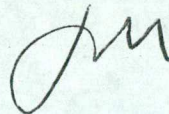
**1989 SURVEY: MEETING WITH THE PRIME MINISTER (3 OCTOBER)**

You asked me this morning for some more material for your meeting with the Prime Minister. I attach a few briefing sheets:

- A - a note on the **estimated outturn this year**, supplied by Michael Richardson.
- B - **a summary of the bids that were to all intents and purposes already conceded before the Survey** began - either because the decisions were already taken and the sums committed, or because they represent estimating changes on demand led programmes, or because they are the ineluctable consequences of agreed policy.
- C - **a summary of the major areas of upward pressure** not included in sheet B. The figures given are for the bid. In virtually all cases we expect to reduce the bid, in some cases very substantially so. The figures for MOD, UDCs, prison building, science, schools capital, and health are the new, lower, bids recently submitted, not the original bids.



- D - the growth in major programmes implied by the forecast Survey outcome; the growth in the first year is over the 1989-90 baseline, not over a recent estimate of outturn.
- E - some of the difficult decisions that will be required if we are to meet the forecast outcome.
- F what it might take to get a yet tougher outcome. (Please note that the figures for DSS do not assume a 3 year Child Benefit freeze). Many of these numbers are of course as long as a piece of string.



J MACAUSLAN



**1989-90 ESTIMATED OUTTURN**

Our latest assessment is that the 1989-90 planning total will be overspent by £0.7 billion. The estimated outturn is £167.8 billion, compared with the PEWP plan of £167.1 billion.

The plans included an unallocated Reserve of £3.5 billion. The latest estimate of claims on the Reserve is £4.2 billion.

The main increases over plans are as follows:

	£ billion
local authorities capital expenditure	1.7
local authorities current expenditure	1.2
<u>lower privatisation proceeds</u> (mainly the single instalment cash injection to Water)	<u>0.6</u>
British Coal (mainly poor output and lower sales)	0.6
British Rail (mainly blight compensation and high speed rolling stock)	0.2
NIO - financial restructuring of <b>Shorts</b> ( <i>cf previous</i> )	0.3
NHS pay awards	0.3

These claims are partly offset by the following savings:

	£ billion
Electricity (mainly lower tax liabilities)	0.3
Water (better performance before privatisation)	0.2
DSS - lower benefit payments	0.2
IBAP - lower subsidy payments	0.2



1989 SURVEY: COMMITMENTS ETCCommitted

Student loans/awards	150	230	250
Poorer pensioners	200	200	200
Pensioners earnings	375	400	400
Other	325	370	300
	-----	-----	-----
	1050	1200	1150
AEF (incl police pay) (GB)	1,250	1,400	1,450

Demand led/estimating

Students loans/awards	85	110	105
Health review bodies	170	175	175
Social Security uprating etc	550	1000	1325
Other ?	200	75	1800
	-----	-----	-----
	1000	1350	3400

Costs of agreed policies

Extension of VAT	150	215	180
Restructuring	275	250	250
HRA (offset within GGE)	370	370	370
Loss of Electricity EFL	500		
	-----	-----	-----
	1300	850	800

TOTAL COMMITMENTS ETC  
(incl estimated territorial  
consequences) (fbn)

5

5¼

7



SECRET

C

## MAJOR UPWARD PRESSURES

29 September 1989

		<u>Bid</u>			<u>Pressure point</u>
MOD		250	675	1175	Inflation
ODA	Aid programme	130	200	290	GNP ratio
DTP	Roads programme	550	850	1200	E(A) decision
DOE	Housing Corporation	240	475	745	
	LA housing capital	380	360	230	
	Local environment capital	200	290	330	
	UDCs	280	170	0	Docklands
	Community Charge up to	500	500	500	
HO	Prison building	150	180	130	Dilapidation
DES	Higher education	220	240	250	Inflation
	Science	90	120	120	Inflation
	Schools capital	340	470	575	Dilapidation
DH	Service growth	500	850	1750	
	NHS capital	200	250	300	
	NHS review	275	330	370	White Paper
DSS	Poorer families	105	110	110	
	Pensioner premium	140	145	150	
	Disability	120	210	470	OPCS
BR		325	400	385	
LRT		235	390	380	
Megaprojects		90	415	925	



GROWTH IN MAJOR PROGRAMMES: \*  
FORECAST SURVEY OUTCOME

29 September 1989

(% over previous year, using 1989-90 baseline)

	<u>1990-91</u>	<u>1991-92</u>	<u>1992-93</u>
MOD	5.6	4.1	5.5
ODA	<u>11.8</u>	5	3.9
DTI	-8	-11	-9
DE	-6	-2.7	3.3
DTp	<u>22.9</u>	<u>9.6</u>	4.2
DOE - housing	[148]†	<u>7.5</u>	1.8
DOE - OES	<u>19.6</u>	-1.5	3.7
HO	<u>15.1</u>	4.1	4.1
DES	<u>17.9</u>	2.9	2.5
DH	<u>10.4</u>	5.9	5.0
DSS	[4.5]†	6.8	5.9
SO	6.7	4.3	3.3
WO	[16.4]†	2.8	2.5
N Ireland	8.2	4.6	3.2

\* Including central government support for local authorities (except RSG and non-domestic rates, which are not split by department); excluding nationalised industries.

† Distorted by introduction of Housing Revenue Account Subsidy: DOE and WO figures are artificially high, DSS artificially low



SECRET

E

29 September 1989

1989 SURVEY: DIFFICULT DECISIONS  
REQUIRED BY FORECAST OUTCOME

MOD Held to 2½% efficiency target

ODA Some decline in ratio of aid to GNP - *BYN*

DE ET held below 450,000 entrants; increased employer contributions to YTS

DTp No more than modest start on new roads programme: consistent with Government's commitment?

DOE Halve bid for Housing Corporation

DES Little inroad into dilapidation, little extra science

DSS Much reduced disability package  
Child benefit freeze for 1990-91  
UB reduced to 9 months

SO Formula consequentials of English AEF settlement  
Water bid rejected

Rail *mm* Big real fare increases next January for Network South East and London Underground



## A TOUGHER OUTCOME

F

[£m difference from forecast outcome]

	<u>1990-91</u>	<u>1991-92</u>	<u>1992-93</u>	<u>C O M M E N T</u>
MOD	-	-	-350	1% real growth in 1992-93
DE	-30	-50	-50	ET at around 400 000 entrants, more employer contributions to YTS
DTP	-50	-125	-175	No additional roads building, squeeze maintenance
<u>DOE-housing</u>	-150	-200	-250	Little for Housing Corporation or renovation
DOE-OES	-70	-70	-70	Minimal local environment capital, less for inner cities
HO	-50	-125	-175	Defer 5 prisons, squeeze other bids
DES	-75	-75	-75	Keep science flat real; little extra capital for schools or HE
DH	-100	-125	-150	Less for capital and HCHS activity
DSS	-100	-150	-200	UB for 6 months; no extra for poorer families; minimal disability package. (Could also consider 3 year CB freeze).
<b>TOTAL (£bn)</b>	<b>-<math>\frac{3}{4}</math></b>	<b>-1</b>	<b>-1<math>\frac{1}{2}</math></b>	



paul/sep.29.29

McINTYRE - CST  
29/9  
SURVEY - PM MEETING

**CONFIDENTIAL**

**FROM: J P McINTYRE (ST1)**  
**DATE: 29 September 1989**  
**EXT: 4799**

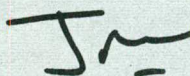
**CHIEF SECRETARY**

cc . Chancellor  
Mr Anson  
Mr Phillips  
Mrs Lomax  
Miss Peirson  
Mr MacAuslan  
Mr Francis  
Mr Hamshare  
Mrs Chaplin  
Mr Tyrie

**SURVEY : MEETING WITH PRIME MINISTER ON 3 OCTOBER : SOCIAL SECURITY**

You may find it helpful to have the attached notes on the social security programme generally and the three main issues you may wish to mention to the PM.

2. We will let you know the Law Officers' advice on child benefit as soon as we have it. It has been requested by Monday (2 October). The attached notes assume the Law Officers' advice would permit a planning assumption of no uprating in Years 2 and 3.



**J P McINTYRE**

**CONFIDENTIAL**



SOCIAL SECURITY

Bull Points

(i) Spending on benefits up nearly 40% in real terms since 1978-79. (Main factors: pensioners - higher numbers and cost of SERPS; and doubling of real expenditure on long term sick and disabled, mainly through higher take-up).

(ii) New policy measures since April 1988 reforms have added £1 billion in 1990-91 and 1991-92 (list at Annex A). These and rising cost of existing policies have more than wiped out big savings from fall in unemployment (over £2 billion a year since start of 1988 Survey).

Defensive

(i) Don't want re-run of April 1988 row before election. So must avoid cuts

April 1988 was major redeployment of resources, including cuts in cash amounts paid to 1 million housing benefit claimants, over ½ of them pensioners. No proposals of this kind now on table. But some savings measures essential.

(ii) Most of DSS bids already agreed or else to pay for higher inflation

These are unavoidable. Means little scope for further bids and need to consider offsetting savings measures. New policy bids of 400/500/800 on table. Unaffordable in present Survey, except perhaps part of disability bid.

(iii) Do more for pensioners

£575 million already agreed to pay for abolition of the earnings rule and poorer pensioners' package. Both take effect this month (Oct.). These are additions to DSS baseline in the Survey. Pensioners also to gain more than average from Independent Taxation next April. So no scope for doing more this year.

MAIN ISSUES

A. CHILD BENEFIT. Propose further freeze next April and to base plans for 1991 and 1992 on continuing freeze instead of uprating (as assumed now). Decisions in later years will still be for annual review. Would save -340/-600/-760, but 90/170/210 would be spent in extra means tested benefits to compensate poorer families.



Defensive

- (i) Do more for poorer families (like this year's 50p real increase)

Will protect them against price rises, through higher income support and family credit. But may be no scope for real increases. Need to get across how much has already been done. 1988 reforms put extra £300 million a year into IS for families and FC eg family with 2 children (one under 11, one over 11) on £100 a week net income will get £28 in family credit next year, compared with £11 if family income supplement were still in place. [Might afford some real increase in these benefits if no child benefit uprating assumed for years 2 and 3].

- (ii) Planning on freeze for 1991 and 1992 would cause big row

May not cause too much surprise. Freeze next year would be 3rd successive year. Would stress in presentation that assuming a freeze in later years is no more prejudicial to outcome of the annual reviews required by statute than present convention of assuming full upratings. Real increase in income support and family credit would help to meet critics. Grasping this nettle now would make next year's decision easier; expectations of an increase in future years would be further dampened.

B. UNEMPLOYMENT BENEFIT. Propose replacing UNEMPLOYMENT [with means tested benefits (income support etc) after 6 months instead of 12. Primary legislation in coming Session. Implementation; October 1990. Transitional protection for all on UB at point of change. So no savings till 1991-92. Net savings of 0/-80/-165 in Survey period. Would get 50,000 off the count in 1991 (those who decide to leave register when UB stops).

BENEFIT

Defensive

- (i) Would be highly controversial

Would bring forward what happens now at 12 months. Consistent with other measures eg Restart interviews begin after 6 months. Only 7 per cent of unemployed would be affected (130,000), as only 1 in 5 unemployed for over 6 months qualify for UB. Those with no other income in household would get IS etc. Half the gross savings would automatically go into extra means tested benefits.

- (ii) Breaches contributory principle

No. UB has always been seen as temporary benefit for people between jobs. Need to strike better balance between contributory principle and objective of concentrating benefits on those in need. 6 months would be reasonable period for insurance cover (12 months period fixed in 1948, before means-tested benefits provided better safety-net). Employees getting £3 a week NIC reductions - so cost of cover reduced.



(iii) Would look bad in Europe (Social Charter debate etc)

Safety-net provided by income support and housing benefit would give us good defence against any criticism.

(iv) Bad timing if unemployment goes up next year

Background is that long term unemployment has fallen sharply. Number out of work for over 6 months down 29% in last year to 900,000. No reason to believe there will be marked reversal of this trend. [IF PRESSED: if unemployment not falling in next 2 years, very helpful to get 50,000 off count from this measure].

C. DISABLED 2 problems. First, need to check rapid increase in spending - up 90 per cent in real terms since 1978-79 with further increases projected. Over £8 billion a year now being spent. Second, need to respond at some point to OPCS reports. Measures to check growth in spending now agreed in principle with DSS. Dispute is over size of short term package needed to respond to OPCS and buy acceptance of long term savings. John Major proposed £100m package to meet key pressure points. DSS want much more, rising to £500 million in Year 3.

Defensive(i) What are savings proposals?

Main proposal is to phase out earnings-related addition to invalidity benefit. Would be done gradually. Existing IVB recipients completely unaffected. Future IVB recipients would retain full entitlements earned by NI contributions paid up to the point of change. Would save only £5 million in Year 3 of Survey. But £370 million by 2000. Flat rate IVB and age-related additions unaffected. (Primary legislation needed).

Unchecked, cost of earnings-related component would rise from £½ billion to nearly £2 billion by 2000. Phasing it out gradually, as proposed, would therefore still mean a large increase of £1 billion in next ten years. Over time, phasing out should encourage more private provision.

(ii) Better to play this issue long. Avoid stirring up

This alternative strategy has disadvantages. We would miss opportunity to restrain long term growth in spending. And pressure could build up in future Surveys for more expensive response to OPCS. Acting quickly could avoid this.

(iii) £100 million won't satisfy pressure groups

Probably not. But need is to convince own supporters that government has done as much as was reasonable to expect in hard Survey. Package would include more help for carers, poorer disabled people, and those with severely handicapped babies. Would come on top of massive increase in spending since 1978-79. OPCS reports based on 1985 data - considerable increase in expenditure and numbers helped since then. [Precise amount available for this package obviously depends partly on DSS removing other bids and accepting UB and child benefit savings. Something extra for war widows and war pensioners might also be possible to sweeten package].



**DSS : POLICY MEASURES AGREED SINCE APRIL 1988 REFORMS (1)**

	<u>£ million</u>	
	1990-91	1991-92
Income Support: Extra compensation for 20% of Community Charge	124	128
Community Charge rebate: taper cut from 20% to 15%	100	103
Family credit/Income support child rates: extra 50p	70	70
Housing benefit: rents taper at 65% instead of increasing to 70%	48	49
Housing benefit and community charge benefit: higher capital limit	38	39
Housing benefit: transitional protection	23	14
RPI error (over-compensation)	11	11
Exceptionally cold weather payments	7	7
Mobility allowance: extension to 75-80 year olds	3	8
Overseas pensions	2	3
Abolition of pensioners earnings rule	375	390
Poorer pensioners package	199	206
Widows	6	6
Income support: 16-17 year olds	4	4
Income support: hostels *	-	-
War pensions	4	4
<b>Total policy changes</b>	<b>1014</b>	<b>1042</b>

\* £10 million a year savings from reforms redeployed to other departments.

**MEMORANDUM ITEMS**

Total policy savings in 1988 survey	240	259
Savings from fall in unemployment (2.6 million to 1.75 million) (2)	-2255	-2350
Administration: additions agreed in 1988 Survey	351	310

(1) Survey list includes measures agreed in 1988 Survey and agreed bids so far in this year's Survey.

(2) Change between 1988 Survey baseline assumption and current assumption.





FROM: D I SPARKES  
DATE: 29 SEPTEMBER 1989

MRS LOMAX (GEP)

*mp*

1989 SURVEY: MEETING WITH PRIME MINISTER, 28 SEPTEMBER

The Chancellor has seen and was most grateful for your minute of 26 September.

*D.I.*

DUNCAN SPARKES



SECRET

FROM: MRS R LOMAX (GEP)  
DATE: 2 October 1989  
EXTN: 4499

PL1

**CHANCELLOR**

cc Chief Secretary  
Sir P Middleton(o/r)  
Mr Anson  
Mr Monck  
Mr Phillips  
Mr Riley  
Mr Luce  
Mr Sedgwick  
Mr MacAuslan  
Mr O'Donnell  
Miss Walker  
Mrs Chaplin  
Mr Tyrie

Ch/ Before I get copies of the aide-memoire for you to give PM & Lord President, please let me know whether you have any further amendments. Nick Monck has suggested one at para 7(ii)

**1989 SURVEY : MEETING WITH THE PRIME MINISTER (3 OCTOBER)**

I attach an aide memoire for your meeting with the Prime Minister tomorrow, revised in the light of your meeting earlier today. I have removed the few figures which indicate our forecast outcome for GGE, so copies could, if you wished, be left with Sir G Howe, as well as the Prime Minister. The material on Star Chamber is now at Annex A, and the detailed report on progress in individual bilaterals is at Annex B.

2. You asked about the additions to GGE made in the 1986 Autumn Statement. Excluding privatisation proceeds, these were £4/4.9 billion in years 1 and 2 of the Survey. (Estimated privatisation proceeds were increased from £4.7 billion to £5 billion in each year, so additions to total GGE were £3.7/4.6 billion). As a percent of the then forecast of money GDP, these additions to GGE (excluding privatisation proceeds) represented 1 per cent in both years. Our current forecast outcome is for additions to GGE (ex pp) of £6/7½ billion or 1/1¼% of GDP, including the tentative amounts incorporated in the latest Scorecard for further additions for the Community Charge (which may be on the low side, at least next year).

RACHEL LOMAX

SECRET



NOTE OF MEETING  
PES  
2/10/89



MINUTES OF A MEETING HELD IN THE CHANCELLOR'S ROOM  
AT HM TREASURY ON MONDAY 2 OCTOBER 1989

Present:

- Chancellor
- Chief Secretary
- Sir T Burns
- Mr Anson
- Mr Monck
- Mr Phillips
- Mr Luce
- Mrs Lomax
- Mr MacAuslan
- Miss Walker
- Mrs Chaplin
- Mr Tyrie

.....

**PUBLIC EXPENDITURE SURVEY**

Papers: Miss Walker of 29 September; Mr McIntyre of 29 September; Mr MacAuslan of 29 September; Mrs Lomax of 28 September.

Mr Anson said that the Survey had been, as expected, extremely difficult and an upward blip in the GGE/GDP ratio in 1990-91 looked inevitable. It was all the more important, therefore, to restore the downward trend in the ratio in subsequent years. There was little room for manoeuvre and some of the factors that had helped last year, such as the fall in unemployment, were absent. It looked likely that between three and five programmes would need to be referred to Star Chamber.

2. The Chancellor said that he would wish to emphasise to the Prime Minister that the forecast outcome implied even larger additions to plans than in 1986. The scale of the problem was





vividly illustrated by the table showing the level of public spending over the past five years; in real terms, it was actually lower in 1989-90 than in 1984-85. Public expenditure had been very tightly controlled for an unprecedented five year period and it was not surprising that the pressures for higher spending were now intense.

3. The Chancellor noted that the forecast outturn for 1989-90 was an overspend of some £0.7 billion. It would be desirable to present this if at all possible as exclusively due to a shortfall in privatisation proceeds. It was arguable that the cost of the Shorts restructuring was really an offset to privatisation proceeds.

4. There was a brief discussion of the projected levels of the Reserve. Mr Anson said that these would have to be decided at the end of the Survey. A pattern of £3/6/9 billion provided a good starting point at this stage.

5. Looking at the list of difficult decisions that required to be taken to achieve the forecast outcome, the Chancellor noted that the Government had never committed itself to maintaining the overseas aid budget as a proportion of GDP; indeed, to do so would contradict the wider aim of reducing GGE as a share of GDP. On rail fares, the Chancellor said that the RPI implications would have to be weighed carefully against those for the EFLs of the industries concerned. On child benefit, he noted that the opinion of the Law Officers was awaited as to whether a freeze could be incorporated in the baseline; he thought this would be difficult to secure in any event and noted that there was an argument for including an increase in the baseline which could then be treated as a "hidden reserve".





6. On the programmes on which the Prime Minister's support should be sought at her meeting with the Chancellor and the Chief Secretary the following day, the Chief Secretary singled out social security where it would be essential to secure savings against what looked an expensive package of disability measures. It was equally important to squeeze DoE bids hard in return for the expected concession on community charge transitional relief and to hold MOD to their three year deal; the Chancellor mentioned in this connection the savings that might be made from greater NATO collaboration and specialisation in defence projects. On the DTp programme, rephrasing of major capital projects could make a significant difference to the GGE/GDP ratios in later years. We should resist Mr Parkinson's suggestion that mega-projects should be discussed outside the framework of the Survey. The Chancellor wondered whether, in view of the appalling escalation in the cost of the Channel tunnel rail link, there was a case for abandoning this part of the project and upgrading the existing track instead.

7. Turning to the membership of Star Chamber, the Chancellor said that, in addition to the Lord President and Chief Secretary, Mr Ridley, Mr Clarke, Mr Fowler and Mr MacGregor (if the latter settled bilaterally) were the preferred candidates, with Mr Wakeham as a possible alternative. It might be difficult to exclude Mr Baker but it was worth trying. The Chancellor's aide-memoire to the Prime Minister need not however cover membership of Star Chamber; he would raise the matter orally.

8. On the timing of the Autumn Statement, it was noted that the State Opening of Parliament looked almost certain to take place on 21 November but no official announcement would be made for some time. The Chancellor said that if practicable he would wish to make the Autumn Statement on the same day as public expenditure Cabinet, in other words on either 9 or 16 November. This pointed



SECRET



to delaying prorogation until 17 November. The choice between the two dates would have to be made nearer the time but, meanwhile, the Lord President's office, Cabinet Office and the Chief Whip's office had all been made aware of these options.

D.S.

DUNCAN SPARKES

2 October 1989

**Circulation:**

Those present  
Sir P Middleton

SECRET





10 DOWNING STREET  
LONDON SW1A 2AA

From the Private Secretary

H/EXCHEQUER	
REC.	4 OCT 1989
ACTION	CST
COPIES TO	

4/10 ✓

3 October 1989

PUP

✓

Dear Sir,

PUBLIC EXPENDITURE

The Prime Minister held a meeting this afternoon to discuss the position reached in the Public Expenditure Survey discussions. Those present were the Lord President, Chancellor, Chief Secretary and Sir Robin Butler and Mr. Richard Wilson (Cabinet Office).

I should be grateful if you and copy recipients would ensure that this letter is seen only by a strictly limited number of named individuals.

The Chancellor and Chief Secretary explained that this was proving an exceptionally difficult public expenditure round. Even if extremely tough settlements were reached in all cases the prospect was for very large additions to the planning total and general government expenditure. It also seemed inevitable that the general government expenditure/GDP ratio would increase substantially between 1989/90 and 1990/91, and might only just get back to the 1989/90 figure by 1992/93.

Discussion then turned to a selection of individual programmes. The Chief Secretary said that a settlement had already been reached with the Secretary of State for Trade and Industry and that negotiations were proceeding reasonably satisfactorily in the cases of Health, Environment and the Home Office. He hoped to be able to reach settlements in all these cases. However much greater difficulties were being experienced in a number of other areas.

Transport

The Chief Secretary said that total bids over the three years of the Survey totalled some £6.6 billion and were equivalent in 1990/91 to some 23 per cent of the base line. There was no way that bids on this scale could be accommodated. The Prime Minister agreed that the bids would have to be substantially reduced, both to reflect to what could be afforded and given the implications of the bids for pressure on the construction industry.

Defence  
Industry

The Chief Secretary said that difficulties had arisen because



the Secretary of State wished to reopen the earlier three year settlement. But this was unacceptable because the Department had failed to achieve the planned 2.5% efficiency savings, and were in any event continuing to under-spend the budget. The Prime Minister commented that it would simply not be possible, given the overall position, to put up defence expenditure in this Survey.

### Education

The Chief Secretary said that the present Secretary of State was continuing to press the very large bids submitted by his predecessor of well over £1 billion in each year. The Prime Minister commented that bids of this scale were clearly unaffordable. She said that the Secretary of State had mentioned separately to her his desire not to press ahead rapidly with further funding of City Technology Colleges, and that he would prefer to give priority to the funding of grant-maintained schools and the science budget. She sympathised with these priorities. It was also noted in discussion that as and when demographic trends led to a renewed increase in the school population the appropriate response to this would be to permit some increase in pupil/teacher ratios.

### Employment

The Chief Secretary said he was looking for net savings below base line of around £100 million in 1990/91 and some £200 million in 1991/91, via a scaling down of Employment Training and Youth Training. The Prime Minister agreed that savings should be pursued in this programme, given the background of much reduced unemployment.

### Social Security

The Chief Secretary said that large bids were unavoidable, particularly those resulting from the higher than expected RPI. But difficult decisions were necessary on a complex set of policy issues. The Secretary of State was pressing a large package of assistance for the disabled, costing some £500 million. The Chief Secretary thought that some extra help for the disabled would need to be conceded, but he was seeking to persuade the Secretary of State to accept a very much smaller sum. If so, this could still only be afforded if policy savings were made in other areas; first by continuing the freeze of child benefit, either for one year or all three years of the survey, and second by reducing the period of eligibility for unemployment benefit from 12 months to 6 months.

The Prime Minister said that she agreed an increase in child benefit could not be afforded in the coming year, although some of the resulting saving would need to be re-deployed to additional family credit. She also felt that, in the longer term, consideration needed to be given to some return to a system of child tax allowances. As regards reducing the period of entitlement to unemployment benefit, she had serious doubts; this would be very difficult for the Government to present.

### Other Issues

Discussion then turned to the possibility that, if the Chief



Secretary was unable to reach agreement bilaterally with all colleagues on the outstanding programmes it might be necessary to establish a "Star Chamber" committee under the Lord President's chairmanship. If this did prove necessary it was agreed that, in addition to the Lord President and Chief Secretary, the Secretary of State for Trade and Industry should be a member. There would also be advantage in appointing the Secretaries of State for Health and Employment as members if, as was hoped, their programmes could be settled bilaterally. The sixth member of the committee might be the Secretary of State for Education and Science, although whether his programme could be settled bilaterally was in considerably greater doubt. If it could not, the options would be either to do without a sixth member, or to consider the possibilities of the Secretary of State for Energy or the Secretary of State for Northern Ireland.

It was agreed that, should the Star Chamber need to meet it should start its work immediately after the Conservative Party Conference. There was however no need for this to be raised at Cabinet on 5 October; the possibility of establishing the committee had already been covered in the July Cabinet public expenditure discussions. The aim should be to complete all the public expenditure negotiations so that the outcome could be endorsed by Cabinet on 9 November, with an announcement the same afternoon. If this timetable could not be achieved the fall-back date would be 16 November.

I am sending copies of this letter to the Private Secretaries of the Ministers attending and to the others present.

*Yan.*  
*Paul*

(PAUL GRAY)

John Gieve, Esq.,  
HM Treasury.



SECRET

FROM: MRS R LOMAX (GEP)  
DATE: 3 October 1989  
EXTN: 4499

PS/CHANCELLOR

cc PS/Chief Secretary  
Mr Anson  
Mr Phillips  
Mr Monck  
Mr MacAuslan

*Ch/ To note amendments.*

*6 copies behind for  
you to give out at meeting.*

*RLS*

MEETING WITH PRIME MINISTER : 3 OCTOBER

As requested, I have amended the progress report for the Prime Minister to take account of Mr Monck's late comments on Transport. I have also taken the opportunity to update the entry for DOE in the light of this morning's bilateral. We are now in serious negotiation with them, and there must be a good chance that we will not need to take them to Star Chamber. I have therefore relegated them from the "Quite Likely" list to the "Possible".

*RL*

RACHEL LOMAX



S E C R E T**PUBLIC EXPENDITURE SURVEY : PROGRESS REPORT****Introduction**

As expected, very difficult Survey - probably the most difficult since 1980. Intense economic and political pressures for higher spending across whole range of programmes.

2. July Cabinet agreed that top priority was to defeat inflation. Remit was to :-

- maintain downward trend in GGE ratio (ex pp).
- stick "as close as possible to existing plans".

(Necessarily vague, given change in definition of planning total.)

3. Starting point is existing plans which imply only modest decline in ratio. Low expenditure and higher money GDP pushed ratio down in 1988-89. Could happen again this year, to some extent (though spending not likely to undershoot). Recognised therefore that might be a blip up in the ratio in 1990-91. But all the more important to have some decline thereafter.

4. Even this ambition now at risk. Since July, total bids risen. Anything for the Community Charge would be extra.

**BILATERALS**

5. First round bilaterals on all programmes; second round meetings on some.

(i) Virtually Settled : DTI, Northern Ireland, Department of Energy.

(ii) Entered serious negotiations on Health, Defence, Home Office, Wales, FCO, Employment. DOE.

S E C R E T



(iii) Proving difficult : Transport (including Nationalised Industries), Education, MAFF, Scotland. Some difficult specific policy issues on Social Security.

**LIKELY SURVEY OUTCOME**

6. Excluding any addition for the Community Charge, forecast outcome of Survey implies:-

- Substantial cash additions to GGE.
- Rise in GGE ratio in 1990-91, very little decline thereafter, year 3 about same as 1989-90 outturn (assuming latest unpublished assumptions about money GDP - could go down as well as up).
- Real growth in GGE over Survey period broadly the same as that of real GDP ie well above 1½ per cent achieved between 1978-79 and 1989-90.

Forecast outcome already assumes tough decisions on Social Security, Defence, Transport, Employment, Home Office, Education. Chief Secretary pressing very hard on individual programmes but unlikely to do better in aggregate. Anything extra for Community Charge adds directly to planning total on new definition, and likely to push up general government spending.

**KEY OUTSTANDING ISSUES**

7. (i) Social Security: Child benefit - Treasury seeking further one year freeze, and to end present uprating assumption in PEWP in years 2 and 3. Law Officers advising on uprating assumption. Unemployment benefit - Treasury option to replace UB by income support after six (rather than twelve) months requires primary legislation. Disability - scale of package needed this year to respond to OPCS and contain long term upward trend in spending. Department bidding for amounts



S E C R E T

rising to £½ billion in 1992-93, including major new benefit, with no net savings until next century.

- (ii) Transport: (Total road and rail bids about £6½ billion over three Survey years.) Affordable scale of extra spending on roads, following E(A) and White Paper commitment, given risk of construction overheating. Cost overruns, particularly on Channel tunnel related rail investment. Large bids, additional to those for safety, for London Transport. Realism and affordability of commitment this year to three new London rail mega-projects. These must be handled in Survey. Strong case for going ahead with improvement in existing LRT lines and with the Jubilee Line extension for Canary Wharf (subject to satisfactory O & Y contribution), but postponing East-West Crossrail and Chelsea Hackney. (Department wants to introduce two private Bills this November.)
- (iii) Environment : How much extra can be afforded this year to meet preferences for subsidised housing to complement possible homelessness package. Consistency with past policy and market orientated approach; no public policy commitments; steeply rising (Housing Corporation) baseline. How much can be afforded for UDCs etc given escalating cost of Docklands transport.
- (iv) Education : Affordability. A wide range of very large bids on higher education, science, schools capital. Big gap remains, especially on schools capital and science.
- (v) Defence : Extent to which effects of higher inflation can be absorbed by achieving 2½% efficiency savings promised at Prime Minister's VFM seminar.
- (vi) ODA : whether overseas aid should maintain its share of GNP, when public expenditure as a whole is falling as a proportion of national income.



- (vii) Employment : Scale of reduction in baseline to reflect lower unemployment, demography, need for employers to contribute more towards training, and scope for limiting access to ET by groups not covered by manifesto guarantees.
- (viii) Scotland : How vigorously to pursue reductions in Scottish over-provision eg by adjusting population base or disallowing bids on block or absorbing part of AEG settlement within block.
- (ix) OAL : Seeking to re-open generous 1987 3-year deal. Strong arts and museums lobbying.
- (x) Central government support for local government capital spending (relevant especially to Education, DOE) : Extent to which Central Government should signal need for restraint on LA capital spending, by holding down Central Government support (credit approvals, grant). Huge overspend this year. Risk that receipts could start to fall away after 1991-92, but ample accumulated receipts in 1990-91. Low priority of much LA spending.
- (xi) Running costs : Growth in 1990-91 likely to be nearly 10%. Real pay pressures, but need for maximum efforts to absorb through greater efficiency gains. Large executive departments should aim for over 1½% target.



ANNEX A

STAR CHAMBER

Referrals

Quite likely : Transport (including Nationalised Industries)  
Education  
Social Security

Possible : DOE (Housing and Other Environmental Services)  
Employment  
Defence  
Scotland

Star Chamber can be set up by correspondence. Chief Secretary to minute Prime Minister, copied to colleagues, picking up reference to possible need for Star Chamber in July Cabinet minutes. No need to identify Departments likely to be referred.

Prime Minister will want to consider membership of Star Chamber. It could comprise:-

Sir G Howe  
Mr Lamont  
Mr Ridley

Plus (depending on progress on their programmes by the end of the week) two or three from:

Mr Wakeham  
Mr Clarke  
Mr MacGregor ) but may not have settled by then  
Mr Fowler )

Parliament will be sitting during Star Chamber, dealing with some very difficult Commons business. Timetable is tight, given water privatisation. May be a case for six members.



S E C R E T

## ANNEX B

## PROGRESS IN INDIVIDUAL BILATERALS

## DEFENCE

MOD increased their bids substantially following the revised inflation assumptions issued in July. They made some reductions following the first bilateral, but still seek to reopen 3 year settlement. Reasonable possibility of settling outside Star Chamber, but large gap still remains in years 2 and 3 following second bilateral.

Main issue : impact of higher inflation and scope for efficiency savings, to offset it.

## FCO - DIPLOMATIC

Bids substantial - mainly running costs. Settlement probably possible, linked to acceptable deal on aid.

Main issue : scope for pruning lower priority diplomatic service activity to offset rising costs.

## FCO - OVERSEAS DEVELOPMENT ADMINISTRATION

Large bids to meet existing commitments and new demands which would increase overseas aid as proportion of GNP. Still significant gaps to be bridged at second bilateral.

Main issue : how far overall programme needs to grow in real terms, allowing flexibility for new initiatives (eg on environment) in addition to commitments (eg Nigeria), and whether in addition it needs to maintain/increase its share of GNP.

## AGRICULTURE

Reductions offered on CAP due to prospects for harvest; but

1  
S E C R E T



substantial new bids for domestic agriculture. No significant savings offered at first bilateral.

**TRADE AND INDUSTRY**

Virtually settled. Mr Ridley has offered substantial savings below baseline, though with some increases (not finally settled) on running costs. Details to be tied up in correspondence.

**ENERGY**

Settled close to baseline on departmental programme. Electricity privatisation precludes firm decisions on Nationalised Industries pending contract negotiations. Major long term threats on Coal, but, as working assumption, stick to baseline for Autumn Statement. Electricity EFL still to be decided.

**EMPLOYMENT**

Following first bilateral, Mr Fowler reduced bids and offered savings to stay roughly on baseline (somewhat over in year 3). Treasury looking for substantial reductions below baseline in all years. Could go to Star Chamber.

**TRANSPORT (including Nationalised Industries)**

Road and rail bids total some £6½ billion. Treasury accept case for significant increase, but want substantial reductions in bids, on grounds of realism and construction prices, as well as affordability. Unlikely to settle without collective discussion.

Issues : Department not moving from £3 billion road bid justified by higher construction costs, early start to expanded road programme following White Paper. Little progress on rail. Department bidding to cover escalating costs, particularly of Channel tunnel related rail investment (including property blight in Kent). Also large new bids for London Transport (on top of safety). No substantive discussion yet possible on 3 rail mega-projects (EW Crossrail and Chelsea Hackney to relieve congestion



plus Jubilee line extension for Canary Wharf). Department wants private Bills on 2 mega-projects this November (including Jubilee line). (Uncertainties about financing and timing of construction of Channel fixed link could be relevant).

#### **ENVIRONMENT**

Very large bids for housing, local environmental services, urban spending (including LDDC). Department has moved, but significant gap remains on housing and local environmental services.

Issues : Department wants significant increase in subsidised housing as well as homelessness package. Treasury resisting former on grounds of realism and affordability. Huge bids for local environmental services (in practice largely LA administrative buildings and leisure centres as well as more important waste disposal items) to cushion possible, but uncertain, impact of lower receipts. Scope for offsetting escalating cost of Docklands transport (where latest reports suggest Rosehaugh Stanhope may be wavering on Royals).

#### **HOME OFFICE**

Progress on key issues, but still some way to go. Settlement likely.

Issues : Implication of lower prison population projections (allowing surplus of places in 1992-93) for spending on new and existing prisons. Scale of additional police manpower needed to meet public commitments.

#### **EDUCATION**

Could be long slow negotiation, possibly to Star Chamber. Mr Baker submitted wide range of very large bids for higher education, science, schools capital, and other minor items. Mr MacGregor offered only small reductions so far, leaving big gap on science and schools capital.



**OFFICE OF ARTS AND LIBRARIES**

Mr Luce seeking to reopen 3 year deal agreed in 1987 (rolled forward last year). First bilateral 3 October.

Issue : effect of inflation on 3 year deal.

**HEALTH**

Constructive progress, early settlement likely. Substantial additions (over £1 billion in 1990-91) unavoidable to implement NHS review and maintain reasonable level of service growth.

Issue is scale, in face of inevitable uncertainties about likely costs of review.

**SOCIAL SECURITY**

Additions since April 1988, including agreed benefit bids, worth £1 billion in 1990-91. Discussion narrowed down to a few key issues which will need to be referred to colleagues.

Issues : Child benefit. Treasury want further 1 year freeze, with protection for poorer families, and to reverse present uprating assumptions in PEWP for years 2 and 3. Annual upratings would still need policy decisions. Law Officers' ~~advising on this.~~ <sup>advise OK.</sup>

Unemployment benefit. Department question politics of Treasury option to replace UB by income support after 6 months (now 12). Needs primary legislation. Disability. Need to respond to OPCS report and contain sharp long-term upward trend in spending. In July John Major proposed a £100 million package to meet key pressure points, in return for longer term action to reduce real growth in spending on disability. Department now bidding for amounts rising to £½ billion in 1992-93, including major new benefit, with no net savings until next century.

**SCOTLAND**

Mr Rifkind's unwillingness to discuss ways of reducing over



provision led to postponement of first bilateral. Could go to Star Chamber.

Issue: Mr Rifkind seeking extra provision, beyond formula consequential of comparable English increases; Treasury seeking to reduce Scottish over provision, either by an adjustment for diverging trends in population, or by other means. Bids outside block unlikely to cause trouble.

#### **WALES**

At first bilateral Mr Walker showed signs of willingness to moderate bids. Settlement likely.

Issues : Mr Walker has bid for programmes normally covered by the block arrangements (as well as for expanded industry programmes, including RSA).

#### **NORTHERN IRELAND**

Settled. Additions for Shorts and social security. (Mr Brooke withdrew some bids and agreed to absorb others).

#### **RUNNING COSTS**

Total of departments' bids would represent over 11 per cent increase in running costs in 1990-91 compared with 1989-90. Real pay pressures will make it difficult to reduce this much below 10 per cent. Main issue is scope for efficiency gains to offset pay and price increases, and extent to which these can be taken as expenditure savings.



FROM: S P B WALKER  
DATE: 6 October 1989  
EXT: 5522

1. MRS LOMAX *Rh 6/10*  
2. CHIEF SECRETARY + 1

cc Chancellor  
Mr Anson  
Mr Monck  
Mr Phillips  
Mr Riley  
Mr Sedgwick  
Mr Luce  
Mr MacAuslan  
Mr Richardson  
Mr Hansford  
Mr Mowl  
Mrs Chaplin  
Mr Tyrie  
Mr Wray

SURVEY SCORECARD

I attach, at Annex A, this week's scorecard, and at Annex B a table showing the changes in divisions' forecasts of outcome since last week's version together with a short description of the reasons for the main changes, prepared by Mr Wray. Annexes C and D show the implications of the new figures for GGE and the GGE/GDP ratios and growth rates.

2. The scorecard is in a revised format which shows separately the programmes which have now been settled, or are close to settlement, and those which still the subject of negotiation. The "Treasury" and "departmental" positions in most cases represent the latest positions formally stated in Ministerial correspondence: they may not be the positions which will be set out in the papers to be sent to Star Chamber.

Changes since last week

3. There have been a number of significant changes since last week: particularly as a result of letters from Messrs Hurd, MacGregor and Pattn. The change on housing is particularly striking: this represents a sizeable reduction between last week's scorecard and your briefing for this week's bilateral and a further reduction since then. There has also been significant movement on the nationalised industries: this reflects progress on the transport industries and British Coal. The amount to be



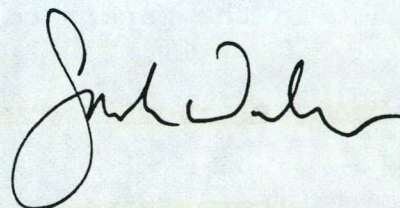
allocated for community charge relief has been agreed, and is shown as a separate line in the scorecard.

4. The GEP reserve for "optimism/bids to come" now chiefly reflects the effects of possible revisions to the economic assumptions as a result of the September forecast. Ahead of the Chancellor's meeting later this month it is inevitable very uncertain.

#### GGE

5. The figures in Annex C include reserves of £3/6/9 billion, in the light of the Chancellor's remarks at his meeting on Monday. The other components of GGE have gone up in the second and third years as a result of a new calculation by LG of local authority self-financed expenditure, partly offset by changes to central government debt interest and other national accounts adjustments. All these figures are liable to change again before the Autumn Statement, in particular in the light of decisions on the forecast.

6. The GGE/GDP ratio reflects the improvement in the scorecard position. It is calculated on the same assumption about money GDP as last week. If the forecast predicts lower real growth this year and next money GDP may come down, which would push up the GGE/GDP ratio.



S P B WALKER



SECRET  
SUMMARY SCORECARD

Date of last update: 06/10/89

(£million)

	1990-91 BASELINE	1990-91 DEPT POSITION	1990-91 OUTCOME	1990-91 HMT POSITION	1991-92 BASELINE	1991-92 DEPT POSITION	1991-92 OUTCOME	1991-92 HMT POSITION	1992-93 BASELINE	1992-93 DEPT POSITION	1992-93 OUTCOME	1992-93 HMT POSITION
<b>TOTAL ALREADY AGREED</b>	56,286.0	2,909.9	2,909.9	2,909.9	57,889.0	3,488.4	3,488.4	3,488.4	59,336.0	3,914.1	3,914.1	3,914.1
<b>STILL IN BILATERAL DISCUSSIONS</b>												
Ministry of Defence	21,187.0	381.0	81.0	53.0	22,101.0	757.0	29.0	0.0	22,653.0	1,264.0	700.0	0.0
Intervention Board for Agricultural Produce	1,342.0	-152.2	-152.2	-152.2	1,518.0	-157.4	-157.4	-157.4	1,556.0	-120.8	-120.8	-120.8
Ministry of Agriculture, Fisheries and Food	578.0	67.8	50.2	-38.8	590.0	94.1	73.1	-61.2	605.0	108.1	89.6	-71.5
Department of Employment	3,887.0	-84.2	-95.9	-105.0	3,894.0	-128.4	-205.6	-290.0	3,991.0	-108.1	-206.8	-367.0
Department of Transport	2,645.0	538.0	322.0	272.0	2,724.0	721.0	519.0	339.0	2,792.0	941.0	589.0	389.0
DOE - Housing	5,737.0	600.7	600.7	600.7	6,157.0	628.4	568.4	568.4	6,311.0	636.8	536.8	496.8
DOE - Other Environmental Services	1,194.0	249.7	229.5	229.5	1,226.0	183.6	159.3	159.3	1,256.0	220.2	180.3	160.3
Department of Education and Science	5,824.0	903.4	791.7	382.9	5,932.0	1,004.6	868.9	458.8	6,080.0	1,039.6	890.8	451.4
Office of Arts and Libraries	456.0	45.0	32.0	19.4	486.0	49.2	20.4	6.8	498.0	88.5	30.4	0.9
Scotland: negotiable	9,179.0	49.4	-26.4	-487.4	9,491.0	77.5	-18.2	-523.2	9,728.0	114.4	-15.0	-576.0
Wales: negotiable	4,133.0	136.9	71.4	0.4	4,247.0	219.9	37.3	-8.7	4,353.0	169.8	8.0	-44.0
Chancellor's Departments	4,322.0	230.0	192.3	153.3	4,530.0	301.0	244.5	195.2	4,644.0	430.4	361.1	261.5
European Communities	1,950.0	35.0	35.0	35.0	1,580.0	-35.0	-35.0	-35.0	1,620.0	230.0	230.0	230.0
Department of Social Security	55,126.0	1,260.9	713.9	456.0	58,300.0	2,029.1	1,326.7	754.8	59,757.0	4,422.0	3,383.5	2,558.5
Nationalised Industries	-396.0	1,957.7	1,166.0		979.0	1,400.3	599.8		1,002.0	1,619.0	964.0	
<b>TOTAL</b>	117,164.0	6,219.1	4,011.2	1,418.8	123,755.0	7,144.9	4,030.2	1,406.9	126,846.0	11,054.9	7,620.9	3,369.1
Territorial consequences: Scotland		365.6	311.0	204.0		459.3	378.3	227.7		595.3	464.3	285.3
: Wales		196.4	172.1	138.0		238.5	201.6	155.3		296.8	236.5	180.3
: Northern Ireland		189.2	169.0	123.4		222.7	190.7	121.2		262.9	216.2	134.2
Community charge		300.0	300.0	300.0		700.0	700.0	700.0		300.0	300.0	300.0
Economic assumptions <i>etc</i>			250.0				500.0				750.0	
<b>TOTAL ADDITIONS TO PROGRAMMES</b>	173,450.0	10,220.3	8,163.3	5,134.2	181,644.0	12,313.9	9,549.2	6,159.4	186,182.0	16,504.0	13,582.0	8,263.0

AGREED PROGRAMMES

	1990-91 BASELINE	1990-91 CHANGE	1991-92 BASELINE	1991-92 CHANGE	1992-93 BASELINE	1992-93 CHANGE
FCO - Diplomatic, Information, Culture	841.0	51.3	884.0	60.1	906.0	57.2
FCO - ODA	1,627.0	76.5	1,692.0	107.7	1,734.0	137.0
Forestry Commission	77.0	1.1	80.0	3.2	82.0	5.6
Trade and Industry	1,300.0	-59.3	1,155.0	-48.5	1,185.0	-173.8
Export Credits Guarantee Department	122.0	89.5	61.0	-1.1	63.0	-92.2
Energy	421.0	25.8	353.0	42.6	362.0	31.6
DOE - Property Services Agency	-138.0	82.1	-186.0	19.7	-191.0	-49.6
DOE - Local Government	19,365.0	714.2	19,849.0	792.4	20,345.0	788.1
Home Office (inc. Charity Commission)	4,504.0	300.5	4,581.0	424.7	4,695.0	469.9
Legal departments	1,188.0	77.4	1,261.0	121.0	1,292.0	181.0
Department of Health and OPCS	20,987.0	1,202.9	21,941.0	1,565.5	22,489.0	2,145.7
Scotland: local government		143.3		156.3		151.3
Wales: local government		74.3		79.3		78.9
Northern Ireland: negotiable	5,655.0	117.3	5,866.0	153.0	6,013.0	173.5
Cabinet Office, Privy Council Office, etc	337.0	13.0	352.0	12.5	361.0	9.9
<b>TOTAL ALREADY AGREED</b>	56,286.0	2,909.9	57,889.0	3,488.4	59,336.0	3,914.1



SECRET  
SUMMARY OF CHANGES IN FORECAST OUTCOME  
SINCE LAST SCORECARD

06/10/89

	1990-91	1991-92	1992-93
	CHANGE IN	CHANGE IN	CHANGE IN
	FORECAST	FORECAST	FORECAST
	OUTCOME	OUTCOME	OUTCOME
Ministry of Defence	0.0	0.0	0.0
FCO - Diplomatic, Information, Culture	8.3	9.2	10.1
FCO - Overseas Development Administration	-15.0	-5.0	-5.0
Intervention Board for Agricultural Produce	-43.9	-13.6	-15.5
Ministry of Agriculture, Fisheries and Food	-0.3	-0.3	-0.3
Forestry Commission	0.0	0.0	0.0
Trade and Industry	1.1	1.1	0.8
Export Credits Guarantee Department	0.0	0.0	0.0
Energy	0.0	0.0	0.0
Department of Employment	0.0	0.0	-23.8
Department of Transport	-10.0	-19.9	-20.0
DOE - Housing	-106.0	-203.0	-202.6
DOE - Other Environmental Services	23.3	5.9	6.2
DOE - Property Services Agency	0.0	0.0	0.0
DOE - Local Government	-0.3	6.2	18.2
Home Office (inc. Charity Commission)	-73.3	-81.2	-142.0
Legal departments	-3.3	-2.6	-21.8
Department of Education and Science	-84.2	-93.4	-93.7
Office of Arts and Libraries	11.0	9.8	14.0
Department of Health and OPCS	29.0	32.0	-10.0
Department of Social Security	-0.2	0.0	0.0
Scotland: negotiable	0.0	0.0	0.0
Scotland: formula	-15.6	-32.3	-44.8
Scotland: local government	0.0	0.0	0.0
Wales: negotiable	0.0	0.0	0.0
Wales: formula	-5.0	-13.4	-16.4
Wales: local government	0.0	0.0	0.0
Northern Ireland: negotiable	0.0	0.0	0.0
Northern Ireland: formula	2.9	-2.0	-5.0
Chancellor's Departments	10.9	1.3	17.6
Cabinet Office, Privy Council Office, etc	0.1	0.1	0.2
European Communities	0.0	0.0	0.0
Nationalised Industries	-259.2	-433.0	-320.0
Community charge	300.0	700.0	300.0
Bids to come/optimism	-350.0	-650.0	-50.0
TOTAL	-579.6	-784.1	-603.8



**SECRET****Changes in forecast outcome**

- (i) **FCO-DIP WING/ODA:** reflects provisional settlement reached by officials: details contained in Mr Mountfield's submission of 5 October;
- (ii) **IBAP:** revised in light of further information on 1989 harvest;
- (iii) **EMPLOYMENT:** improved outlook following Mr Fowler's recent letter;
- (iv) **TRANSPORT:** forecast revised in light of this week's bilateral;
- (v) **DOE-HOUSING:** improved position following Tuesday's bilateral especially on Housing Corporation, HRA subsidy and credit approvals following Mr Patten's letter of 5 October; totals also reflect up to the minute discussions at official level;
- (vi) **DOE-OES:** increase on London Docklands Development Corporation element of Urban Development Corporations following Tuesday's bilateral, as outlined in Mr Patten's letter of 5 October;
- (vii) **HOME OFFICE:** reductions as a result of reduced bids offered by the Home Secretary in his letter of 5 October following Monday's bilateral. In addition, decision to have only 1 year settlement on police manpower has led to improved outcome (in this Survey) for years 2 and 3;
- (viii) **LEGAL DEPTS:** reflects provisional agreement at official level on the Lord Chancellor's Department: HE will be seeking your approval in a separate submission;
- (ix) **DES:** improved outlook following Mr McGregor's letter of 5 October;
- (x) **OAL:** reduced optimism on 3 year programme and cost of construction of British Library; see Mr Farthing's submission of 5 October;
- (xi) **HEALTH:** reflects outcome reached at official level following Thursday's bilateral; final settlement should be marginally lower;
- (xii) **CHANCELLOR'S DEPARTMENTS:** increased realism as to likely outcome on Customs and Excise as reflected in Mr Gilhooly's submission of 2 October;
- (xiii) **NATIONALISED INDUSTRIES:** reflects agreement with Dept of Energy on treatment of British Coal and Mr Parkinson's reduced bids for transport industries after the latest bilateral;

**SECRET**



SECRET

## ADDITIONS TO GGE (EX PRIV PROC)

(£ billion)

	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>	<u>1992-93</u>
Baseline GGE ex priv proc		210	220.75	228.5
Additions on scorecard		8½	9½	13½
Drawdown of Reserve <sup>1</sup>		-4	-5	-5½
Additions to local authority self-financed expenditure, central government debt interest, and other adjustments		1½	1½	1½
<b>TOTAL ADDITIONS TO GGE</b>		<b>5½</b>	<b>6½</b>	<b>10½</b>
NEW GGE (ex priv proc)	199.4	215½	227	239½
Money GDP <sup>1</sup>	516	552½	587½	621
<b>Ratios of GGE to GDP</b>	<b>38½</b>	<b>39</b>	<b>38½</b>	<b>38½</b>

1 Giving Reserves of £3/6/9 billion.

2 Using July deflators, and real growth of 2% in each of 1989-90 and 1990-91 and 2½% in each of the later years (as in FSBR).

6 October 1989

SECRET



SECRET

## EXPENDITURE TRENDS

**GGE EX PRIV PROC**  
 (£ BILLION)

	Cash	Real	% Real growth on previous year	% GDP
1978-79 (outturn)	75.0	153.3	5.1	43 $\frac{1}{4}$
1979-80	90.3	158.3	3.3	43 $\frac{1}{2}$
1980-81	109.0	161.1	1.8	46
1982-82	121.0	163.0	1.2	46 $\frac{1}{2}$
1982-83	133.1	167.5	2.7	46 $\frac{3}{4}$
1983-84	141.6	170.2	1.7	45 $\frac{3}{4}$
1984-85	152.7	175.0	2.8	46 $\frac{1}{4}$
1985-86	160.9	174.7	-0.2	44 $\frac{1}{2}$
1986-87	168.8	177.6	1.7	43 $\frac{3}{4}$
1987-88	176.9	176.9	-0.4	41 $\frac{1}{2}$
1988-89	185.7	173.1	-2.2	39 $\frac{1}{4}$ <u>PEWP</u> <u>FSBR</u>
1989-90	199.4	173.8	0.4	38 $\frac{3}{4}$ (39 $\frac{1}{4}$ ) (39 $\frac{1}{4}$ )
1990-91 (forecast of Survey outcome)	215.6	179.0	3	39 (39) (39)
1991-92	227.1	182.2	1 $\frac{1}{4}$	38 $\frac{3}{4}$ (38 $\frac{3}{4}$ )
1992-93	239.3	186.4	2 $\frac{1}{4}$	38 $\frac{1}{2}$ [38]

## Annual average real growth (%)

1968-69 to 1978-79	3
1978-79 to 1988-89	1 $\frac{1}{4}$
1987-88 to 1992-93	1
1988-89 to 1992-93	1 $\frac{1}{4}$
1989-90 to 1992-93	2 $\frac{1}{4}$

6 October 1989

SECRET





FROM: JOHN GIEVE  
DATE: 6 OCTOBER 1989

PLP

SIR T BURNS

cc Sir P Middleton

**TREASURY RUNNING COSTS: UK MACROECONOMIC MODEL**

The Chancellor has now seen your minute of 24 July and the attached paper. Although he has doubts about the arguments, in the circumstances he is prepared to accept your advice.

Jc

JOHN GIEVE



FROM: MRS R LOMAX (GEP)  
DATE: 11 October 1989  
EXTN: 4499

- 1. MR ANSON
- 2. CHIEF SECRETARY

Note below

*(us sc down  
a sup up  
a cut  
one to what  
how low  
even  
b. [unclear])*

- cc Mr Monck
- Mr Phillips
- Mr Riley
- Mr MacAuslan
- Miss Walker
- Mrs Chaplin
- Mr Tyrie

*Is this  
main  
miss accept  
[unclear]  
CST's  
on to  
posit.*

Copies attached for:

**Chancellor**  
Sir P Middleton

*SM also  
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prop*

**STAR CHAMBER : CHIEF SECRETARY'S PAPER**

I attach a draft of your Memorandum for Star Chamber. If the Group is to start work next Wednesday, a final version should be sent to the Lord President at least, early next week, preferably on Monday.

The Draft Memorandum

2. We would particularly welcome your views on the overall framework of the paper - the terms of the remit for Star Chamber, the structure of the argument, and the nature and detail of the supporting justification. The figures are illustrative at this stage. We can update them as necessary on Monday, when the position on outstanding programmes is clearer. I will submit the Annexes, on the detail of the agreed programmes, before the weekend.

3. In framing the remit, we have assumed that Star Chamber would start from total departmental positions on each of the disputed programmes (ie including agreed elements). As in the past, it would be asked to work within a given envelope (indicated in paragraph 14). In practice, the envelope is closely based on the forecast outcome for the three programmes, taken together. Your room for manoeuvre is the difference between your declared overall position (in paragraph 6) and the forecast outcome/envelope. This difference is also, in effect, the sum at Star Chamber's disposal, to distribute as it chooses between the Departments that appear before it. Our present figuring implies



that it could be something of the order of £3 billion, most of which falls in year 3, though that could change. You may also want to consider shading the size of the envelope, in the light of the new scorecard.

4. Our main aim has been to keep the paper simple, and to avoid raising issues which might encourage Star Chamber to question its remit. While the paper indicates, in general terms, the sort of outcome which might be consistent with the Cabinet remit, it asks Star Chamber to take on trust your estimate of the sums that can be afforded if this objective is to be met. For example, there is very little discussion of the size of the Reserve or of the items outside the planning total but within GGE. The underlying arithmetic, especially on money GDP is, of course, still very uncertain, ahead of the Chancellor's meeting on the economic forecast. This approach may expose us to requests for further briefing, especially from the Lord President, but we will have to cope with that as best we can.

#### Do we need Star Chamber?

5. The immediate question, which you may wish to discuss with some of us on Monday, is whether you want to go to Star Chamber at all, and if so, on which programmes (or parts of programmes) and when. The paper may be helpful background to those decisions. The conventional wisdom is that Star Chamber works best with about 3 or 4 programmes, though the size and nature of the unresolved issues is also relevant. The envelope approach used in previous years becomes somewhat unreal if there are only a couple of programmes in dispute.

6. If you reach the view that you cannot resolve the outstanding issues bilaterally, it may be difficult to find a satisfactory alternative to Star Chamber, without delaying the timetable unduly. Last year, for example, there was an ad hoc group under the Prime Minister's chairmanship which dealt with outstanding matters on Social Security. This year any collective discussion involving the Prime Minister will eat into the time needed to prepare adequately for an oral statement on 9 November.



The option of November 16 is, of course, still open, but it is unlikely to be easy, given the imminence of water privatisation.

7. MP will be submitting further advice on the timetable for the run up to the Autumn Statement in the next day or so. As you know, Cabinet Office have pencilled in two meetings of Star Chamber on Wednesday and Thursday afternoon. My present view is that, if we need Star Chamber and we are to complete the Survey in good order for an oral statement on 9 November, the Group will need to start work in earnest in the middle of next week and move fairly briskly from then on. Given the difficulties we face this year, if the Survey arithmetic is not resolved by the end of the month, we will jeopardise our ability to achieve an effective presentation on 9 November.

RL

RACHEL LOMAX

This draft has been extensively discussed with myself and with Mr. Monck and Mr. Phillips. It is of course illustrative in assuming that these three programmes will be the ones which will go to Star Chamber, but it gives a better feel for the structure of the paper if actual examples are included. As Mrs. Lomax says, it asks Star Chamber to take the underlying figures on trust, but this follows precedent and we could anyway not give much more detail when Treasury Ministers have still to take decisions on the forecast.

The paper will need polishing up in the light of your and the Chancellor's comments, and also to take account of the actual list of candidates and the final stance of yourself and the Ministers concerned on those programmes before the Star Chamber discussions begin. This "envelope" approach works best if there are three or more substantial candidates and Star Chamber thus has some genuine choice. The paper would need to be a bit different if there was only one major candidate.

A

J. ANSON

*Handwritten in red ink:*  
Cabinet Office  
Star Chamber  
J. Anson



**PUBLIC EXPENDITURE SURVEY : POSITION REACHED AFTER THE BILATERALS**

Memorandum by the Chief Secretary to the Treasury

This paper reports the outcome of my bilateral discussions with colleagues, and outlines the task for the Lord President's Group for resolving the outstanding issues, within the remit agreed by Cabinet in July.

Progress in Bilaterals

2. The table at Annex A records the settlements I have been able to reach bilaterally. Annex B provides a brief description of each settlement. I am still discussing [DES, MAFF, OAL, Scotland and Wales] but I expect to be able to settle them bilaterally.

3. In summary, discussions so far imply the following additions to baseline:

	1990-91	£ billion	
		1991-92	1992-93
Additions agreed in Bilaterals	3.7	3.3	4.2
Aggregate External finance for local authorities (GB)	1.3	1.5	1.7
Community Charge transitional relief/safety net	0.3	0.7	0.4
Programmes still in bilateral discussion (expected outcome)	1.1	1.2	1.3
<b>Total additions to programmes</b>	<b>6.4</b>	<b>6.6</b>	<b>7.6</b>

Substantial as these increases are, they reflect difficult decisions by a number of colleagues on their own programmes, for which I am grateful. The original bids for the programmes covered by the first line of the table were £8/9½/11½ billion, for the three years of the Survey.

not attached



4. I have not been able to reach agreement with colleagues on:

Transport (including nationalised industries)  
Defence  
Social Security

5. The amounts still at issue could have a significant impact on the Survey outcome. Taken together the additions sought are:

Transport	1.7	2.3	2.8
Defence	0.4	0.8	1.3
Social Security	1.2	2.0	4.3
<hr/>			
Total	3.3	5.1	8.4
<hr/>			

On Transport, [there is provisional agreement on some of the rail bids, but] I am seeking a substantial reduction in the massive bids for higher spending on roads. The additions sought for Defence are to compensate for inflation. I have resisted reopening the three year agreement and believe that the effects of inflation can be absorbed through improved efficiency. A substantial part of the Social Security bid is for estimating changes (including economic assumptions) and agreed policy changes but there are also other policy bids, and I am seeking policy savings.

6. In summary the amounts I have offered so far are:

Transport	1.5	1.6	1.9
Defence	0.1	-	-
Social Security	0.5	0.8	2.6
<hr/>			
Total	2.1	2.4	4.5
<hr/>			



The Cabinet Remit

7. Cabinet agreed that the top priority was to defeat inflation, and that the objectives for the Survey should be:

- to maintain the downward trend in general government expenditure (excluding privatisation proceeds) as a proportion of GDP;
- to stick as close as possible to existing plans.

8. These objectives are very demanding. The GGE/GDP ratio has fallen by over 7 percentage points since its peak in 1982-83. A combination of low spending and higher money GDP led to an unexpectedly sharp fall to 39¼ per cent in 1988-89 and a further fall in the ratio is expected this year. Existing plans imply only a modest decline from now on. As John Major told Cabinet in July, the effects of lower unemployment are built into the baseline and we will not repeat last year's savings from extra receipts.

9. The size of the additions to general government expenditure is likely to attract even more attention than usual. The Survey has been conducted using a new definition of the planning total, which includes Central Government grants to local authorities, and credit approvals, rather than total local authority expenditure. For the local authority components, and hence for the planning total as a whole, there can therefore be no direct comparison with previous plans. Such a comparison will still be possible for GGE and for Central Government's own spending, and also for those individual programmes or parts of programmes (such as Defence, Social Security and national roads) where there is little or no local authority involvement.

The Task for the Group

10. In considering the outstanding issues, the Group will need to take account of their implications for the overall outcome of the Survey, bearing in mind the degree of restraint which has been



agreed elsewhere. The effect of additions to programmes on GGE will depend on a number of factors: notably the size of the Reserves in each year, and forecasts of local authority self financed expenditure (which is outside the planning total, but within GGE). The GGE ratio will also reflect the latest assumptions about money GDP.

11. If the plans are to be credible, and we are to avoid difficulties in next year's Survey, the Chancellor will once again need to set Reserves that are large and rising. Projections of local authority self-financed expenditure and money GDP will need to take account of the economic forecast which is also customarily published in the Autumn Statement.

X ] 12. The prospect is that, even with a tight settlement for the remaining programmes, we shall be publishing additions to GGE even higher than in 1986. The outcome is also likely to mean some rise in the ratio between 1989-90 and 1990-91, with very little downward movement over the rest of the Survey period. This is why I have felt compelled to press colleagues so hard, and why I have felt unable to offer more to those with whom I have not yet reached agreement.

13. If we are to satisfy the Cabinet remit, I have some scope for movement, but it is very limited. We need to hold the GGE ratio in 1990-91 to no more than 39 per cent. This is the figure in last year's Autumn Statement, but it will imply a rise on this year's estimated outturn. It is all the more important, therefore, that the ratio should decline thereafter, to a level no higher than that expected for this year, and preferably lower. If we could not achieve even these objectives it would be difficult to argue that we were (in the words of the Cabinet remit) maintaining the downward trend in the ratio.

14. On our present projections, these objectives could just be achieved if the amounts added to the three disputed programmes can be confined within the following envelope:

2.3

3.2

6.5

4



This would provide room for concessions, beyond what I have so far offered (paragraph 6 above) of:

0.2

0.8

2.0

15. In the context of the sharp fall in the ratio in recent years, I believe that, if carefully presented, this outcome should enable us to demonstrate our continued determination to keep a grip on public spending in difficult economic circumstances. However, if we are to carry conviction, we cannot in my judgement afford to go any further.



FROM: S P B WALKER  
DATE: 13 October 1989  
EXT: 5522

The figures in Annex C

1. MRS LOMAX

could still change very significantly - as a result of

revised economic assumptions,

2. CHIEF SECRETARY + 1 revised calculations

of local authority spending, debt interest etc. he should have a clearer picture next week.

Rh.  
13/10.

cc Chancellor  
Sir P Middleton  
Mr Anson  
Mr Monck  
Mr Phillips  
Mr Riley  
Mr Sedgwick  
Mr Luce  
Mr MacAuslan  
Mr Richardson  
Mr Hansford  
Mr Mowl  
Mrs Chaplin  
Mr Tyrie  
Mr Wray

*Para 6 is  
fully a  
smaller return*

SURVEY SCORECARD

I attach, at Annex A, this week's scorecard, and at Annex B a table showing the changes in divisions' forecasts of outcome since last week's version together with a short description of the reasons for the main changes, prepared by Mr Wray. Annexes C and D show the implications of the new figures for GGE and the GGE/GDP ratios and growth rates.

2. Several departments have been settled since last week's scorecard, including DOE, Education, the Home Office and Employment. The overall effect of these settlements has been to improve the forecast outcome in the later years, particularly 1992-93. The other main change has been in the forecast outcome for the nationalised industries, reflecting PE's latest view of our chances of success on East-West Crossrail.

3. The DOE local government and equivalent territorial lines are based on the assumption that AEF will be rolled forward in the later years by the GDP deflator, as proposed in Mr Edwards' submission of 13 October. The figures shown reflect the July economic assumptions, and are thus subject to change as a result of the Chancellor's meeting next Wednesday.

*What  
supplies  
with  
env?*

*Wray*



## Ratios and growth rates

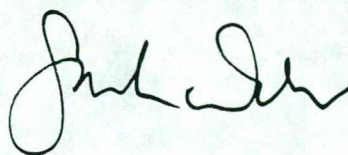
4. The scorecard is based on the same assumptions about money GDP, and the various items outside the planning total, as used last week, and on that basis the GGE/GDP ratios are unchanged. Mr Edwards is submitting separately about the calculation of total local authority expenditure to be used for the future years in the Autumn Statement.

## Economic assumptions

5. As you know, the economic assumptions are to be discussed at the Chancellor's meeting next Wednesday, in the light of the economic forecast. This week's scorecard again includes an allowance, unchanged from last week, for the effects of possible changes to the economic assumptions. The key assumptions for the Survey arithmetic are those for the RPI, interest rates and money GDP. If the inflation assumption is higher, you will have to consider whether to compensate any programmes which, while not demand-led, have been settled explicitly on the basis of the current assumptions. This category includes Mr Clarke and Mr MacGregor (in respect of student awards). A higher assumed price level would also, of course, make negotiations with Mr King more difficult. On money GDP, in general higher figures help the GGE/GDP ratio, though the profile is obviously relevant too.

## New planning total

6. The growth in the new planning total between 1989-90 estimated outturn and 1990-91 plans now looks likely to be even higher than we previously expected. This is because it appears that practically the whole of the Reserve in this year's plans will be allocated to local authority spending outside the new planning total. First indications suggest that the figure could be as high as 6 per cent. We will investigate further and submit advice next week.



S P B WALKER



SECRET

Date of last update: 13/10/89

## SUMMARY SCORECARD

(£million)

	1990-91 BASELINE	1990-91 DEPT POSITION	1990-91 OUTCOME	1990-91 HMT POSITION	1991-92 BASELINE	1991-92 DEPT POSITION	1991-92 OUTCOME	1991-92 HMT POSITION	1992-93 BASELINE	1992-93 DEPT POSITION	1992-93 OUTCOME	1992-93 HMT POSITION
<b>TOTAL ALREADY AGREED</b>	76,220.0	4,328.4	4,328.4	4,328.4	78,196.0	4,700.4	4,700.4	4,700.4	80,150.0	5,425.9	5,425.9	5,425.9
<b>STILL IN BILATERAL DISCUSSIONS</b>												
Ministry of Defence	21,187.0	381.0	81.0	53.0	22,101.0	429.0	29.0	0.0	22,653.0	730.0	700.0	0.0
Ministry of Agriculture, Fisheries and Food	578.0	67.8	50.2	-38.8	590.0	94.1	73.1	-61.2	605.0	108.1	89.6	-71.5
Department of Transport	2,645.0	537.8	324.0	268.0	2,724.0	720.9	523.9	330.0	2,792.0	941.1	594.0	380.0
Office of Arts and Libraries	456.0	45.0	32.0	19.4	486.0	49.2	20.4	6.8	498.0	88.5	30.4	0.9
Department of Social Security	55,126.0	1,229.5	694.2	597.7	58,300.0	1,996.2	1,314.5	928.4	59,757.0	4,372.9	3,419.7	2,779.9
Scotland: negotiable	9,179.0	46.0	-26.4	-487.4	9,491.0	68.2	-18.2	-523.2	9,728.0	96.4	-15.0	-576.0
Wales: negotiable	4,133.0	136.9	71.4	0.4	4,247.0	219.9	37.3	-8.7	4,353.0	169.8	8.0	-44.0
Chancellor's Departments	4,322.0	230.0	202.0	153.3	4,530.0	301.0	265.1	195.2	4,644.0	430.4	380.3	261.5
Nationalised Industries	-396.0	1,375.2	1,111.2	896.2	979.0	1,057.8	684.8	644.8	1,002.0	1,309.0	819.0	779.0
<b>TOTAL</b>	97,230.0	4,049.2	2,539.6	1,461.8	103,448.0	4,936.3	2,929.9	1,512.1	106,032.0	8,246.2	6,026.0	3,509.8
Territorial consequences: Scotland		354.1	318.4	278.8		427.4	382.8	316.9		538.0	456.6	384.0
: Wales		188.8	172.8	163.9		221.6	202.0	184.2		268.3	235.4	214.3
: Northern Ireland		184.2	170.0	148.6		212.1	191.1	158.8		244.2	211.3	176.4
Community charge		345.0	345.0	345.0		675.0	675.0	675.0		375.0	375.0	375.0
			250.0				500.0				750.0	
<b>TOTAL ADDITIONS TO PROGRAMMES</b>	173,450.0	9,489.8	8,164.2	6,766.5	181,644.0	11,232.9	9,641.2	7,607.5	186,182.0	15,177.6	13,560.2	10,165.5

## AGREED PROGRAMMES

	1990-91 BASELINE	1990-91 CHANGE	1991-92 BASELINE	1991-92 CHANGE	1992-93 BASELINE	1992-93 CHANGE
FCO - Diplomatic, Information, Culture	841.0	51.3	884.0	60.1	906.0	57.2
FCO - ODA	1,627.0	76.5	1,692.0	107.7	1,734.0	137.0
Intervention Board for Agricultural Produce	1,342.0	-152.2	1,518.0	-157.4	1,556.0	-120.8
Forestry Commission	77.0	1.1	80.0	3.2	82.0	5.6
Trade and Industry	1,300.0	-59.3	1,155.0	-48.5	1,185.0	-173.8
Export Credits Guarantee Department	122.0	89.5	61.0	-1.1	63.0	-92.2
Energy	421.0	24.9	353.0	41.6	362.0	30.4
Department of Employment	3,887.0	-97.0	3,894.0	-215.0	3,991.0	-273.0
DOE - Housing	5,737.0	605.7	6,157.0	569.3	6,311.0	533.6
DOE - Other Environmental Services	1,194.0	234.5	1,226.0	159.3	1,256.0	160.3
DOE - Property Services Agency	-138.0	82.1	-186.0	19.7	-191.0	-49.6
DOE - Local Government	19,365.0	703.3	19,849.0	781.9	20,345.0	864.0
Home Office (inc. Charity Commission)	4,504.0	315.8	4,581.0	417.5	4,695.0	445.7
Legal departments	1,188.0	77.4	1,261.0	120.1	1,292.0	179.9
Department of Education and Science	5,824.0	793.7	5,932.0	881.5	6,080.0	889.9
Department of Health and OPCS	20,987.0	1,204.5	21,941.0	1,568.7	22,489.0	2,146.0
Scotland: local government		131.3		164.3		169.3
Wales: local government		80.0		97.0		103.0
Northern Ireland: negotiable	5,655.0	117.3	5,865.0	153.0	6,013.0	173.5
Cabinet Office, Privy Council Office, etc	337.0	13.0	352.0	12.5	361.0	9.9
European Communities	1,950.0	35.0	1,580.0	-35.0	1,620.0	230.0
<b>TOTAL ALREADY AGREED</b>	76,220.0	4,328.4	78,196.0	4,700.4	80,150.0	5,425.9



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13/10/89

SUMMARY OF CHANGES IN FORECAST OUTCOME  
SINCE LAST SCORECARD

	1990-91	1991-92	1992-93
	CHANGE IN	CHANGE IN	CHANGE IN
	FORECAST	FORECAST	FORECAST
	OUTCOME	OUTCOME	OUTCOME
Ministry of Defence	0.0	0.0	0.0
FCO - Diplomatic, Information, Culture	0.0	0.0	0.0
FCO - Overseas Development Administration	0.0	0.0	0.0
Intervention Board for Agricultural Produce	0.0	0.0	0.0
Ministry of Agriculture, Fisheries and Food	0.0	0.0	0.0
Forestry Commission	0.0	0.0	0.0
Trade and Industry	0.0	0.0	0.0
Export Credits Guarantee Department	0.0	0.0	0.0
Energy	-0.9	-1.0	-1.2
Department of Employment	-1.1	-9.4	-66.2
Department of Transport	2.0	4.9	5.0
DOE - Housing	5.0	0.9	-3.2
DOE - Other Environmental Services	5.0	0.0	-20.0
DOE - Property Services Agency	0.0	0.0	0.0
DOE - Local Government	-10.9	-10.5	75.9
Home Office (inc. Charity Commission)	15.3	-7.2	-24.2
Legal departments	0.0	-0.9	-1.1
Department of Education and Science	2.0	12.6	-0.9
Office of Arts and Libraries	0.0	0.0	0.0
Department of Health and OPCS	1.6	3.2	0.3
Department of Social Security	-19.7	-12.2	36.2
Scotland: negotiable	0.0	0.0	0.0
Scotland: formula	7.4	4.5	-7.8
Scotland: local government	-12.0	8.0	18.0
Wales: negotiable	0.0	0.0	0.0
Wales: formula	0.7	0.3	-1.0
Wales: local government	5.7	17.7	24.1
Northern Ireland: negotiable	0.0	0.0	0.0
Northern Ireland: formula	0.9	0.5	-4.9
Chancellor's Departments	9.7	20.6	19.2
Cabinet Office, Privy Council Office, etc	0.0	0.0	0.0
European Communities	0.0	0.0	0.0
Nationalised Industries	-54.8	85.0	-145.0
Community charge	45.0	-25.0	75.0
Bids to come/optimism	0.0	0.0	0.0
TOTAL	0.8	92.0	-21.7



**SECRET**

**Changes in forecast outcome**

- (i) **EMPLOYMENT:** changes reflect settlement reached;
- (ii) **DOE-OES:** changes reflect position set out in your letter of 10 October which Mr Patten is expected to accept; comprises increased offer on urban group offset by acceptance of reduced bid on local environmental services;
- (iii) **HOME OFFICE:** changes reflect Home Secretary's letter of 5 October;
- (iv) **DES:** changes reflect settlement reached yesterday;
- (v) **SOCIAL SECURITY:** reflect latest proposed Treasury offer on disability as outlined in Mr McIntyre's submission of 27 September: would result in reductions in years 1 and 2 and increase in year 3; also, possible settlement at official level on administration (see Mr Anson's submission of 9 October) leading to reductions in all 3 years;
- (vi) **CHANCELLOR'S DEPARTMENTS:**
  - (a) **Customs and Excise:** less optimistic forecast of outcome on running costs;
  - (b) **Inland Revenue:** reflects position set out in Mr Gilhooly's submission of 6 October;
- (vii) **NATIONALISED INDUSTRIES:** reflects latest position on LRT mega-projects as outlined by Mr Moore on 12 October;

**SECRET**



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**ADDITIONS TO GGE (EX PRIV PROC)**

(£ billion)

	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>	<u>1992-93</u>
Baseline GGE ex priv proc		210	220.75	228.5
Additions on scorecard		8½	9¾	13½
Drawdown of Reserve <sup>1</sup>		-4	-5	-5½
Additions to local authority self-financed expenditure, central government debt interest, and other adjustments		1½	1¾	2¾
<b>TOTAL ADDITIONS TO GGE</b>		<b>5½</b>	<b>6½</b>	<b>10¾</b>
NEW GGE (ex priv proc)	199.4	215½	227½	239½
Money GDP <sup>2</sup>	516	552½	587½	621
Ratios of GGE to GDP	38¾	<b>39</b>	<b>38¾</b>	<b>38½</b>

1 Giving Reserves of £3/6/9 billion.

2 Using July deflators, and real growth of 2% in 1990-91 and 2¾% in each of the later years (as in FSBR).

13 October 1989

SECRET



SECRET

## EXPENDITURE TRENDS

GGE EX PRIV PROC  
(£ BILLION)

	Cash	Real	% Real growth on previous year	% GDP
1978-79 (outturn)	75.0	153.3	5.1	43½
1979-80	90.3	158.3	3.3	43½
1980-81	109.0	161.1	1.8	46
1982-82	121.0	163.0	1.2	46½
1982-83	133.1	167.5	2.7	46¾
1983-84	141.6	170.2	1.7	45¾
1984-85	152.7	175.0	2.8	46½
1985-86	160.9	174.7	-0.2	44½
1986-87	168.8	177.6	1.7	43¾
1987-88	176.9	176.9	-0.4	41½
1988-89	185.7	173.1	-2.2	39½ <u>PEWP</u> <u>FSBR</u>
1989-90	199.4	173.8	0.4	38¾ (39¾) (39¾)
1990-91 (forecast of Survey outcome)	215.6	179.0	3	39 (39) (39)
1991-92	227.2	182.1	1¾	38¾ (38¾)
1992-93	239.2	186.2	2¾	38½ [38]

## Annual average real growth (%)

1968-69 to 1978-79	3
1978-79 to 1988-89	1¾
1987-88 to 1992-93	1
1988-89 to 1992-93	1¾
1989-90 to 1992-93	2½

13 October 1989

SECRET



*prop*

FROM: MRS R LOMAX (GEP)  
DATE: 23 October 1989  
EXTN: 4499

CHIEF SECRETARY

cc Chancellor  
Sir P Middleton  
Mr Anson  
Mr Monck  
Mr Phillips  
Mr Riley  
Mr Sedgwick  
Mr MacAuslan  
Miss Walker  
Mrs Chaplin  
Mr Tyrrie

*12/2*

*77*  
*(see my suggests)*  
*Chancellor*  
*minutes to PPR*

*Chancellor*  
*X below seems sensible &*  
*you could discuss with PM at*  
*your bilateral on Wednesday.*

*J*

*Told APS/CST*  
*24/10*

**STAR CHAMBER : WEDNESDAY 25 OCTOBER**

As requested, I attach:

- a revised copy of the Chief Secretary's paper, edited to remove the references to the implications for GGE of the likely Survey outcome, together with updated versions of the two annexes
- a slightly revised version of the Chief Secretary's speaking note
- a Private Secretary letter to No 10, to cover the Star Chamber paper, which includes the missing material on GGE.

2. I understand the Lord President's office have been asking to see a copy of the paper during the course of tomorrow.

*RL*

RACHEL LOMAX



S E C R E T

## PUBLIC EXPENDITURE SURVEY : POSITION REACHED AFTER THE BILATERALS

Memorandum by the Chief Secretary to the Treasury

This paper reports the outcome of my bilateral discussions with colleagues, which have been conducted within the remit agreed by Cabinet in July.

The Cabinet Remit

2. Cabinet agreed that the top priority was to defeat inflation, and that the objectives for the Survey should be:

- to maintain the downward trend in general government expenditure (excluding privatisation proceeds) as a proportion of GDP;
- to stick as close as possible to existing plans.

3. These objectives are very demanding. The GGE/GDP ratio has fallen by over 7 percentage points since its recent peak in 1982-83. A combination of low spending and higher money GDP led to an unexpectedly sharp fall to 39¼ per cent in 1988-89 and a further fall in the ratio is expected this year. Existing plans imply only a modest decline from now on. As John Major told Cabinet in July, the effects of lower unemployment are built into the baseline and we will not repeat last year's savings from extra receipts.

Progress in Bilaterals

4. The table at Annex A records the settlements I have been able to reach bilaterally. Annex B provides a brief description of each settlement. I am still discussing MAFF, OAL, Scotland and Wales but I expect to be able to settle them bilaterally.

5. In summary, discussions so far imply the following additions to baseline:

S E C R E T



	1990-91	1991-92	£ billion 1992-93
Additions agreed in Bilaterals	5.8	6.7	10.3
Aggregate External finance for local authorities (GB)	1.3	1.5	1.7
Community Charge transitional relief/safety net	0.3	0.6	0.3
Programmes still in bilateral discussion (expected outcome)	0.5	1.0	1.2
<hr/>			
Total additions to programmes	7.9	9.8	13.4

Substantial as these increases are, they reflect difficult decisions by a number of colleagues on their own programmes, for which I am grateful. The original bids for programme expenditure at the beginning of September were £13/17/23½ billion, for the three years of the Survey.



## AGREED PROGRAMMES

## ANNEX A

	1990-91 BASELINE	1990-91 CHANGE	1991-92 BASELINE	1991-92 CHANGE	1992-93 BASELINE	1992-93 CHANGE
Ministry of Defence	21,187.0	0.0	22,101.0	215.0	22,653.0	750.0
FCO - Diplomatic, Information, Culture	841.0	52.7	884.0	61.5	906.0	58.6
FCO - ODA	1,627.0	76.5	1,692.0	107.7	1,734.0	137.0
Intervention Board for Agricultural Produce	1,342.0	-152.2	1,518.0	-157.4	1,556.0	-120.8
Forestry Commission	77.0	1.1	80.0	3.2	82.0	5.6
Trade and Industry	1,300.0	-54.3	1,155.0	-36.5	1,185.0	-148.8
Export Credits Guarantee Department	122.0	89.5	61.0	-1.1	63.0	-92.2
Energy	421.0	24.9	353.0	41.6	362.0	30.4
Department of Employment	3,887.0	-96.5	3,894.0	-215.0	3,991.0	-273.5
Department of Transport	2,645.0	425.0	2,724.0	525.0	2,792.0	550.0
DOE - Housing	5,737.0	605.7	6,157.0	569.3	6,311.0	533.6
DOE - Other Environmental Services	1,194.0	234.5	1,226.0	159.3	1,256.0	160.3
DOE - Property Services Agency	-138.0	82.1	-186.0	19.7	-191.0	-49.5
Aggregate external finance for LAs*	19,365.0	1,275.0	19,849.0	1,640.0	20,345.0	1,475.0
Home Office (inc. Charity Commission)	4,504.0	310.6	4,581.0	417.3	4,695.0	446.3
Legal departments	1,188.0	77.2	1,261.0	119.6	1,292.0	179.7
Department of Education and Science	5,824.0	781.0	5,932.0	868.0	6,080.0	861.0
Department of Health and OPCS	20,987.0	1,198.4	21,941.0	1,554.7	22,489.0	2,126.5
Department of Social Security	55,126.0	634.2	58,300.0	1,301.5	59,757.0	3,474.7
Northern Ireland: negotiable	5,655.0	109.8	5,866.0	146.5	6,013.0	173.5
Cabinet Office, Privy Council Office, etc	337.0	13.5	352.0	12.4	361.0	9.6
European Communities	1,950.0	-85.0	1,580.0	50.0	1,620.0	450.0
Nationalised Industries	-396.0	1,117.2	979.0	531.8	1,002.0	512.0
Territorial consequences		662.9		779.7		914.0
<b>TOTAL ALREADY AGREED</b>	<b>154,782.0</b>	<b>7,423.8</b>	<b>162,300.0</b>	<b>8,773.8</b>	<b>166,354.0</b>	<b>12,243.0</b>

\*Includes equivalent figures for Scotland and Wales. Excludes grants within AEF which are counted in other departmental programmes.



## ANNEX B

SUMMARY OF AGREED PROGRAMMES

CMO UNTIL 31/12/1989

£ million

1990-91	1991-92	1992-93
---------	---------	---------

Defence

0	+215	+750
---	------	------

The addition for 1991-92 is not new money but represents Treasury contributions towards the cost of disposal by BNFL of pre-1971 wastes agreed in last year's Survey. The addition for 1992-93 represents a 3% increase in real terms in defence expenditure over 1989-90.

FCO - Diplomatic Wing

+53	+62	+59
-----	-----	-----

Increases provide for additional visa work, economic assistance for Poland, continuing UK contributions to peacekeeping forces in Iran/Iraq and Angola, scholarships and exchanges; security, relocation and overseas price movements.

FCO - ODA

+77	+108	+137
-----	------	------

Increases provide for continued support for economic reform in Nigeria, soft loans under new arrangements for Aid and Trade Provision, and increases to bilateral aid, including forestry initiatives.



IBAP

-152                      -157                      -121

Reductions reflect IBAP's latest forecast of expenditure, taking account of UK and EC harvest information.

Forestry Commission

+1                              +3                              +6

Additions are for superannuation, forest recreational facilities, and land purchases, offset by savings on planting grants.

Trade and Industry

-54                              -37                              -149

The main reductions are on science and technology spending, the business development initiative, regional enterprise grants and English Estates.

ECGD

+90                              -1                              -92

Changes result from changed assumptions about interest rates in the UK and abroad.



Energy

+25                      +42                      +30

The additions provide for cost increases on decommissioning nuclear facilities and merging radioactive waste; extra R&D on renewable energy sources; and the setting up of the office for regulating the electricity industry following privatisation.

Employment

-97                      -215                      -274

Reductions in ET and YTS reflect a tighter labour market and increased contributions from employers towards the cost of training young people. There is additional provision for the employment of disabled people, rationalisation of the Employment Service's office network, and for the new Training and Enterprise Councils.

Department of Transport

+425                      +525                      +550

The settlement of £1.5 billion over the three years is half the level of the original bids. It is consistent with the E(A) commitment to a substantial increase in the roads programme: roads expenditure in 1990-91 will be 30% above the 1989-90 level. It will also enable DTp to fulfil its commitment to eliminate road maintenance backlogs by 1992-93. Local authority bids were cut by two-thirds.



DOE - Housing

+606                    +569                    +534

Additions provide for substantial real increases in the Housing Corporation grant to support subsidised rented housing by housing associations, and a £¼ billion package of measures to ease homelessness. There are technical additions of nearly £½ billion a year (which do not affect GGE) resulting from the reform of the Housing Revenue Account Subsidy. Offsetting savings reflect higher New Towns housing receipts and the effects of proposed real-terms increases in council rents.

DOE - Other Environmental Services

+235                    +159                    +160

Additions provide more support for Urban Development Corporations (particularly for transport projects in London Docklands); increased local authority credit approvals for waste disposal and methane in landfill sites; the establishment of a Climate Change Centre; increased environmental research; and more resources for the HM Pollution and Planning Inspectorates.

DOE - PSA

+82                    +20                    -50

For Property Holdings, additions provide for higher rents, major new works, some estate rationalisation, a further reduction in the maintenance backlog and major Parliamentary works projects; year 3 reductions reflect higher receipts. For Services, additions include IT capital expenditure, set-up costs of new design offices, and redundancy costs.



Home Office

+311                    +417                    +446

Settlement provides for a 10 per cent real increase in expenditure on prisons in 1990-91 (with reductions below baseline in later years to reflect lower prison population projections); additional staff for the passport department, more measures to divert offenders from custody and new anti-drugs initiatives; and a 7 per cent real growth in police grant in 1990-91 including an additional 1,100 police officers.

Lord Chancellor's and Law Officers' Departments

+77                      +120                      +180

For LCD, additions allow for the resource implications of the Civil and Competition Policy Initiatives, rising workloads in the county courts, and consequentials for legal aid; higher accommodation charges (notably for the Crown court) and the rising cost of the court building programme, partly offset by a slow-down in new construction. For other legal departments, additions largely reflect the rising costs of major building projects.

Department of Education and Science

+781                      +868                      +861

Programmes agreed allow for increases between 1989-90 and 1990-91 of: 8 per cent for the Science budget on top of the large increase announced last year; 24 per cent for maintained sector capital provision - largely for schools; and 9 per cent for higher education, to finance 27,000 more student awards than previously allowed for, allow an 8 per cent increase in academic pay, and help deal with deferred maintenance. They also allow for the cost of introducing top-up student loans in September 1990.



Department of Health and OPCS

+1198            +1555            +2127

Main additions provide for the knock-on effects of the 1989 pay awards to doctors and nurses; revised forecasts of demand-led expenditure on the Family Practitioner Services; continued growth in hospital activity in response to demographic and other pressures; the costs associated with implementation of the NHS Review; increases for hospital capital expenditure; and the likely cost of pay awards in 1990-91 to non-clinical staff.

Department of Social Security

+634            +1302            +3475

Large estimating increases result in higher expenditure in 1992-93, particularly on pensioners and the disabled. Provision is also made for the impact of higher uprating assumptions. Higher benefits for poorer families and poorer pensioners, and abolition of the pensioners' earnings rule require extra provision. Expenditure on community charge benefit will be higher than on rate rebates. The net effect of changes in disability benefits will add to expenditure, particularly in later years. These increases are offset in part by the effects of lower unemployment. The Secretary of State has also decided to find savings through not uprating Child Benefit, and by tightening up the rules for recovery of maintenance from liable relatives.

Northern Ireland

+110            +147            +174

Additions include the cost of Shorts privatisation.



Nationalised Industries

+1117

+532

+512

Increased provision for British Railways and London Regional Transport assumes real fare rises in 1990 of about 4.5 per cent for BR and about 5 per cent for LRT. No provision has been made for new railway lines in London. Increased provision for Post Office because of expected level of tariff increases on letters business and additional capital requirements; reductions in year 3 from British Shipbuilders from disposal of remaining yards and assets; electricity prices will rise by 6½ per cent in 1990-91.



S E C R E T

SPEAKING NOTE FOR THE CHIEF SECRETARY :  
STAR CHAMBER

As expected, very difficult Survey, probably the most difficult since 1980. Intense economic and political pressures for higher spending across whole range of programmes, against difficult market background. Faced bids at beginning of September totalling £13/17/23½ billion.

2. July Cabinet agreed very demanding remit:-

- maintain downward trend in GGE ratio
- stick as close as possible to existing plans

Background now very familiar. GGE/GDP ratio fallen by 7% since 1982-83. In 1988-89, combination of low spending and higher money GDP led to unexpectedly sharp fall in the ratio to 39¼%, and a further fall is expected this year. Last year's plans implied only a modest decline over the Survey period. As John Major told Cabinet in July, benefits of lower unemployment and higher receipts already built into baseline and will not be repeated. Higher inflation means upward pressures on demand-led programmes.

3. So very grateful to those colleagues who scaled down their bids substantially over the past six weeks. Required some very difficult decisions. For example:-

- On Social Security, freezing child benefit for the third year running [though real increases in family credit for poorer families].
- Employment and DTI: significant reductions below baseline (for second year running in case of DE).
- Capital spending: bids for desirable capital spending on transport, schools capital, prison building, housing, hospitals reduced/rephased.

S E C R E T



- Defence: held to three-year agreement, despite higher inflation.
- [some smaller (in spending terms) but still troublesome decisions eg postponement of Sheffield supertram, civil R and D, increased employer contributions to YTS, health education]

4. But still able to find money for some important policy initiatives:-

- Health: meeting cost of NHS Review proposals, without detriment to patient services.
- Disability: major response to OPCS report. Package includes new Disability Allowance, partly offset by savings on AP, IVB and SSP. Also helping disabled into employment (DE).
- Transport: substantial increase in spending on roads, following White Paper commitment. Extra rail and tube investment, including more money for safety.
- £½ billion homelessness package, plus extra resources for subsidised housing.
- full costs of student loans, plus maintaining real value of student grants and providing for 27,000 more students.
- Community Charge transitional relief.
- support for local authority environmental action eg. improving landfill sites, waste disposal.
- 1100 extra police manpower.

Also a number of relatively inexpensive, but politically attractive measures (eg publicity for initiatives on teacher recruitment and training, acceleration of Project 2000 for nurse



training programmes, know-how fund for Poland, crack initiative, action on food safety, aid for forestry in developing countries, Earth remote sensing satellite, World conference on Climate Change.)

5. Arithmetic still being finalised, but in broad terms position now reached implies total additions to programmes, including this year's AEF settlement, and extra sums announced for transitional relief for Community Charge/Area Protection Grant, of some £8/10/13½ billion.

6. Likely to mean additions to GGE even higher than large increases in 1986. Not an easy prospect. But the GGE ratio in 1990-91 should just be held to 39%. This was the figure in last year's Autumn Statement, but it will imply a rise on this year's estimated outturn. This made it all the more important to achieve some decline in the ratio thereafter, to a level no higher than expected for this year. In my view, failure to achieve even this objective would have made it difficult to argue that we were meeting the Cabinet remit.

7. This should just be possible. It can be presented as continuing the downward trend in the ratio, albeit at a much more modest rate, though we cannot show a reduction in every year as we have done after other recent Surveys. The trend will be interrupted by the unexpectedly low level this year, leading to some increase next year.

8. This presentation will need great care. But coming after the sharp fall in the ratio in recent years, it should enable us to demonstrate our continued determination to keep a grip on public spending, in very difficult economic circumstances.



**SECRET****DRAFT LETTER FROM PS/CHIEF SECRETARY TO PS/PRIME MINISTER****1989 SURVEY**

The Chief Secretary thought the Prime Minister would like to have a brief report on progress so far in the public expenditure round.

2. As you know, the Chief Secretary has been able to reach substantial agreement with colleagues without recourse to Star Chamber. There will be one meeting of the group on Wednesday 25 October, at which the Chief Secretary will report to colleagues on the outcome of his bilateral discussions. The attached copy of the paper which he intends to hand round at the meeting provides a convenient summary of the outcome for each of the main programmes. One or two Ministers may want to minute the Prime Minister separately on the handling of particular issues, but the overall additions to their programmes are now settled.

3. We are still working on the detailed implications of this outcome for the planning total, General Government Expenditure (GGE) and the GGE/GDP ratio. As expected, the prospect is that we will publishing large cash additions to GGE, even larger than in 1986. However, the Chief Secretary is reasonably confident that we should be able to hold the GGE ratio in 1990-91 to no more than 39%. This was the figure in last year's Autumn Statement, but it will imply a small rise on this year's outturn. (This is now expected to be 38½-38¾%, ~~a little~~ <sup>below</sup> <sup>significant</sup> below the figure of 39¼% previously published.) Accordingly the Chief Secretary has attached great importance to achieving some decline in the ratio over the Survey period, to a level in 1992-93 no higher than that expected for this year. As things stand at present, this should just be possible.

4. The Chief Secretary recognises that the presentation of this outcome will need great care. But he believes we can point to the continuing downward trend in the ratio, albeit at a much more modest rate, even though we cannot show a reduction in every year

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**SECRET**

as we have done after other recent Surveys. Instead, the trend will be interrupted by the unexpectedly low level this year, leading to some increase in the ratio next year. Coming after the sharp fall in the ratio in the past few years, the Chief Secretary believes that this should enable us to demonstrate our continued determination to keep a firm grip on public spending in difficult economic circumstances.

5. When she last discussed the Survey with the Chancellor and Chief Secretary, the Prime Minister expressed a preference for making the Oral Statement on 9 November, following a discussion at Cabinet the same morning. We hope to be able to meet this timetable.

**CARYS EVANS**

**SECRET**