Public Expenditure and Cash Limits.

Part 13.

ECONOMIC POLICY

Part 1: May 1979

Part 13: November 1980

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~27.11.80~~							
~~28-11-80~~							
~~8.12.80~~							
~~10.12.80~~							
~~15-12-80.~~							

PART 13 ends:-

16 . 2 . 81

PART 14 begins:-

17 . 2 . 81

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
C(80) 73	25/11/80
CC(80) 42nd Meeting, Item 5	27/11/80
CC(80) 44th Meeting, Item 1	11/12/80
E(81) 3	12/01/81
E(81) 5	12/01/81
Limited Circulation Annex, E(81) 1st Meeting	
Minutes, Item 2	14/01/81
E(81) 1st Meeting , Minute 2	14/01/81
CC(81) 2nd Meeting, Item 4	15/01/81
Limited Circulation Annex, CC(81) 2nd Conclusions	
Minute 4	15/01/81
C(81) 7	21/01/81
Limited Circulation Annex, CC(81) 3rd Conclusions	
Minute 4	22/01/81
CC(81) 3rd Meeting, Item 4	22/01/81
Limited Circulation Annex E(81) 6th Meeting, Item 2	12/02/81
PSP(O)(81)5	22/1/81

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES

Signed CWayland Date 8 March 2011

PREM Records Team

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

House of Commons Hansard	17/12/80
Rate Support Grant (Scotland)	Columns 436-440

Signed CWayland Date 8 March 2011

PREM Records Team

Public Exp!

CONFIDENTIAL

VLB

FILE

16 February 1981

The Prime Minister has considered the Chief Secretary's minute of 11 February about the Contingency Reserve, and in all the circumstances agrees that it would be unwise to reduce the size of the reserve.

Terry Mathews, Esq.,
Chief Secretary's Office.

CONFIDENTIAL

Ec Pol Public Exp

FILE

VLB

cc: Cabinet CO

CONFIDENTIAL

16 February 1981

End-Year Flexibility on Cash Limits

The Prime Minister has considered the Chief Secretary's minute of 11 February. She agrees with the Chief Secretary that we cannot afford to introduce a flexibility scheme at the present time.

Copies go to the Private Secretaries to the other members of Cabinet and to David Wright (Cabinet Office).

T P LANKESTER

T. F. Mathews, Esq.,
H.M. Treasury.

CONFIDENTIAL

BK

CONFIDENTIAL

ELIZABETH HOUSE,
YORK ROAD,
LONDON SE1 7PH
01-928 9222

FROM THE SECRETARY OF STATE

The Rt Hon Leon Brittan QC MP
The Chief Secretary to the Treasury
Parliament Street
London SW1P 3AG

16 February 1981

Dear Leon,

PUBLIC EXPENDITURE WHITE PAPER

Thank you for sending me a copy of your minute of 10 February to the Prime Minister.

I take your point in paragraph 4 of that Minute as a preliminary warning of further public expenditure cuts to come in 1982/83. I am well aware of the difficulties we face but I wish to make it clear now that I see little opportunity for further cuts in the education service in order to meet unplanned increases in public expenditure elsewhere.

I have two comments on Part 1 of the White Paper:-

Paragraph 7

I agree with what is said later about the importance of cash limits in the year ahead but I believe that the second sentence of this paragraph, which foreshadows cash planning in the medium term, is premature. In their report last summer on the Survey System officials, including yours, advised us that

> "Planning in cash is not really practicable when there are major uncertainties as to how much the cash will be worth. This is particularly true of "pure" cash planning, given the scale of likely uncertainties up to three or four years ahead. "Year 2 cash" planning is in principle much more attractive; but, given present expectations of error in inflation forecasts, the same conclusion has to apply to this option as well."

May I suggest that the second sentence should be omitted and the first transferred to a later paragraph, with the deletion of "accordingly" at the beginning of paragraph 8?

CONFIDENTIAL

Paragraph 24

My officials have already asked for the omission of the second sentence and I hope that you will agree to this. Education accounted for all but 4,000 of the reduction of 50,000 in the local authority manpower in the year to September 1980. This reduction of 5 per cent in teaching and non-teaching staff as a whole was greater than the fall in pupil numbers and it is misleading to suggest that education can without difficulty make a bigger contribution in future.

I am sending copies of this letter to the Prime Minister, the other members of the Cabinet and Sir Robert Armstrong.

Yours ever

Mark

MARK CARLISLE

CONFIDENTIAL

VLB

copied to CS Pay NHS Pay

Econ Pol Public Exp

cc: Cabinet
Chief Whip
Sir Robert Armstrong

FILE

10 DOWNING STREET

hcc: John Vereker
Bernard Ingham

From the Private Secretary

16 February 1981

Dear John,

The Prime Minister has considered the Chancellor of the Exchequer's minute of 13 February, and agrees that the 6 per cent factor for pay and the 11 per cent factor for prices should now be announced - subject to the views of the Leader of the House and of the Chief Whip - on the basis proposed.

I am sending copies of this minute to the other Members of the Cabinet, to the Chief Whip and to Sir Robert Armstrong.

Tim Lankester.

A. J. Wiggins, Esq.,
H.M. Treasury.

BK

CONFIDENTIAL

2

CHIEF SECRETARY TO THE TREASURY

cc Mr Hoskyns
Mr Walters
Mr Wolfson

Prime Minister

To note the consequences for the p.expenditure White paper of the ESSP decision.

MT

T.
17/2

PRIME MINISTER

ESSP

At Cabinet last week I was invited to consult colleagues on other ways of achieving the manpower and public expenditure savings in 1982-83 originally expected from this scheme.

2. There is no time now to find and agree such savings and include them in the White Paper to be published on Budget day. It must go to press this week. We shall have to delete the expenditure saving (rounded to £300 million at 1980 survey prices for 1982-83) from the social security programme and from the total. The contingency reserve is not large enough to allow an offsetting reduction in it.

3. The resulting public expenditure path will show a 1.6% drop between 1981-82 and 1982-83, instead of the former 2.1% drop; and a 2.4% drop between 1982-83 and 1983-84, instead of the former 2.1% drop (since we shall obtain the saving in that year.)

4. We shall have to take up the Cabinet remit in the 1981 survey, and this reinforces the sentence in the present draft of the White Paper about the need to review the plans for 1982-83 onwards. (See the first "Main Point" of the White Paper).

5. I am copying this minute to other members of the Cabinet and to Sir Robert Armstrong.

L.B.

LEON BRITTAN
16 February 1981

TL 17/2

Ec. A. Walters

A. Duguid

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

Dear Leon

16 February 1981

CASH LIMIT ON LOCAL AUTHORITIES HOUSING CAPITAL EXPENDITURE 1981-82

Your minute to the Prime Minister of 10 February asked for comments on the draft White Paper on public expenditure. We have already exchanged letters about the important question of the cash limit for capital expenditure by English local authorities (Table 1.6(2)).

I am afraid that I don't accept the conclusion of your letter of 4 February and I cannot accept the cash limit figure of £3,129.4 million given in the draft White Paper which has been calculated net of all housing capital receipts. Politically and presentationally, it is essential that that figure should be £3,498.3 million, which, in all essentials, matches the housing capital allocations already given to local authorities that I announced in the House of Commons.

For the sake of colleagues to whom this letter is being copied I should explain that the difference of £369 million arises because of the unique treatment of housing capital receipts under the new system of capital controls. In the case of non-housing capital receipts each authority may use them to augment their allocations of capital expenditure. But, in the case of most kinds of housing capital receipt, individual authorities may use only 50% of receipts in this way; and an estimate of the remaining 50% has been included in the sum distributed as housing investment allocations. This has been known to the Treasury, and agreed by the Treasury for more than a year.

The proposed cash limit figure covers a range of local authority capital programmes and the housing component is not separately identified in the draft White Paper. We shall, without any doubt be asked in Parliament, however, to identify the individual service components of the single cash limit. What you are in effect proposing is that I should tell Parliament that the cash limit for housing is actually £369 million below the figure for housing capital allocations that I announced in the Commons on 15 December. Frankly this is unthinkable in both political and Parliamentary terms. The Parliamentary reaction would be explosive. The Opposition would argue that we had concealed a further very large cut in housing, and this at a time when we are under heavy attack for the lowest housing programme since 1924/25. As I said in my earlier letter of 21 January, the complexity of the arguments about the difference between net cash limits and semi-net allocations would make it very difficult for us to refute the accusation. Even our own supporters - who are clearly beginning to wonder whether the reductions in capital for housing have gone too far - would be mystified.

One possible approach would be for all my colleagues with local government interests to agree that we would resolutely refuse to publish the component parts of the local authority capital cash limit. Such a line would be consistent with the fundamental philosopny of the new control system which leaves local authorities free, subject to the overall cash limit, to decide what types of capital expenditure to undertake. But I have no confidence that we could sustain such a position in the face of persistent requests - not least from the Treasury Select Committee - and I doubt whether all my colleagues would want to withold their components of the cash limit.

I believe it to be essential therefore to fix the local authority cash limit for 1981/82 at a level reflecting the sum of the various allocations given to local authorities. I accept that the adoption of my proposed cash limit figure offers less formal protection against capital overspending. But the risk of actual overspending arises only if we have significantly overestimated housing capital receipts. Your suggestion of potential extra spending of £369 million is quite out of the question. The greater part of the receipts, in particular those from mortgage repayments, are certain to be forthcoming: and such uncertainties as there inevitably are about receipts under Right to Buy are unlikely to be resolved much before the end of the financial year anyway.

I must ask you to agree that the cash limit for housing is to be the same as the allocation figure I have announced to Parliament.

I am sending copies of this letter to the Prime Minister, other members of the Cabinet and Sir Robert Armstrong.

yours ever

pp/ MICHAEL HESELTINE

17 FEB 1981

Rt Hon Leon Brittan MP

2F

Mr Lankester
Econ 11 1413

Econ Pol
Pub Fin
TL 17/2

D.2 Corres

MR BURNS

cc Mr Wiggins)
Mr Locke)
Mr Ryrie)
Mr Middleton) without
Mr Unwin) attachment
Mrs Gilmore)
Mr Cropper)
Mr Cardona)

I have just obtained a copy of a first draft of a paper by Professor Peacock and Professor Shaw of the University College at Buckingham, on the Public Sector Borrowing Requirement. I have not had time to read it yet, but pass it on directly since I have been told that its general line of argument is the diminished significance of the PSBR. Given its origin, the publication of this report (I gather no date has yet been fixed) could give Ministers some embarrassment. So I imagine it would be a good idea if someone could take a very quick look at it to see what the thrust of the argument is, and how far the rumour of the risk of embarrassment is a real one. If it is real, I can then take action with the Centre for Policy Studies.

AR

ADAM RIDLEY
16 February 1981

Copied to CS Pa

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

CASH LIMIT FACTORS

Now that we have decided in E Committee that the cash limit factors for the NHS and for other central government Votes should be 6 per cent for pay and 11 per cent for prices, there would be advantage in announcing this to Parliament.

2. It has become the established practice to tell Parliament when a cash limit factor is fixed, and given to some outside body. It would be in accordance with this for there to be some announcement at the time that the Secretary of State for Social Services tell the NHS management side. Since an announcement about the NHS alone would immediately raise questions about the remaining cash limits, principally for the Civil Service, it would seem preferable to make an announcement covering both groups at the same time.

3. Since confirmation of the 6 per cent is what most people are expecting, the announcement is straightforward. A Written Answer to a PQ - probably given by the Chief Secretary - should suffice. I attach a draft. The Leader of the House and the Chief Whip may wish to consider this procedure, in the light of the criticism at the end of the last session of the announcement of the local authority cash limit factors by Treasury Written Answer. Nevertheless the figures now proposed are those which people will have been expecting, and I rather doubt whether the announcement now warrants an oral statement.

/4.

4. If you agree, I will go ahead on the basis of a Written Answer. I will of course agree the timing with the Secretary of State and the Lord President in relation to their negotiations.

5. I am sending copies of this minute to the other Members of the Cabinet, to the Chief Whip and to Sir Robert Armstrong.

BWiggins

for (G.H.)

13 February 1981

(Approved by the Chancellor & signed in his absence)

DRAFT PARLIAMENTARY QUESTION AND WRITTEN REPLY

Q. To ask the Chancellor of the Exchequer whether he will confirm the cash limit factors to be used in calculating the cash limits for the National Health Service and for other central government cash limits?

Draft reply

Yes Sir. As I announced on 24 November last, the cash limits and Votes will allow for expenditure other than pay for an average level of prices in 1981-82 11% higher than the corresponding level in 1980-81. They will allow for increase in earnings of 6% in annual settlements due before 1 August 1981, and also provisionally of the same amount for annual settlements due after that date.

copied to CS Pay NHS

Prime Minister 1

CONFIDENTIAL

I think they should announce the 6 and 11 %. now, as proposed by the Chancellor?

Yes - I think it should be announced.

MR. LANKESTER cc. Mr. Ingham

Agree subject to colleagues' views?

CIVIL AND HEALTH SERVICE PAY

See attached minute

I understand that the Chancellor has been advised to propose to the Prime Minister that he announce the 6 per cent pay factor by written reply early next week.

If he does so, there are conflicting considerations:

(i) Everyone will interpret that as a 6 per cent pay norm, which will make it harder to present a 7-7½ per cent settlement (if that can be achieved) as being consistent with Government policy. In the case of the NHS there is some flexibility as between pay and non-pay elements; in the case of the Civil Service the extra amount might be squeezed out of the normal shortfall of staff below manpower ceilings (in which case the Treasury has to accept the risk of breach of cash limits involved in budgeting for more personnel than can be afforded). And if 7-7½ per cent cannot be achieved, there would have to be a very public climbdown.

(ii) But it will strengthen the hands of negotiators, and quell rumours in the media of Government willingness to go still further. Mr. Ingham thinks it would be helpful to have 6 per cent on the record.

The Lord President should be given the opportunity to comment (and will be advised to resist, I think); but the balance of advantage does seem to lie with making the announcement.

J.V.

13 February 1981

CONFIDENTIAL

SM

1.

CONFIDENTIAL

Prime Minister. I am not sure that a meeting will achieve very much, but it will no doubt make Mr Jenkin (and Lord Soames) feel better. Are you ready to see them?

Yes pl!

Prime Minister

I was dismayed at the reports in this morning's Times, Financial Times and Guardian, which the outside world will see as resulting from some kind of official guidance, about the Government's proposals for dealing with NHS and Civil Service pay. The decisions reached at yesterday's meeting of E Committee left me with some difficult handling problems; but the press reports make them immeasurably worse.

So what's new.

My provisional intention had been to inform both Sides of the Ancillary Staffs and Ambulancemen's Whitley Councils that the Government had now decided to announce a cash limit for the NHS based on a pay factor of 6 per cent. At the same time, I should have explained privately to the Management Sides that the limited flexibility presented by a prices factor of 11 per cent gave some scope for a settlement slightly in excess of 6 per cent, and that, if satisfied beyond reasonable doubt that it would be impossible to secure settlements at 6 per cent, they would be justified in moving somewhat above that figure. But I should have pressed them to aim for the lowest possible increase (ie something as near to 6 per cent as possible); and I should have kept in close touch with the progress being made. Had there been any signs of something in excess of 7 per cent being contemplated - a highly unwelcome development which I should have done my utmost to avoid - I should at once have reported back to colleagues.

These tactics have now become unrealistic. The Staff Sides will see them as no more than a charade, because they will assume that a 7 per cent increase is there for the asking, and 7½ per cent if they exert a modest amount of pressure. It thus seems most improbable that negotiations could be reopened on the basis of a straight 6 per cent offer; and even if the Management Sides were willing to try to do this - and I should not blame them if they were not - they would almost inevitably quickly be pushed to 7 per cent, and strongly pressed to go further. The prospects of securing pay settlements on terms which do not involve an unintended and politically damaging squeeze on health services are thus substantially worse than colleagues supposed them to be at the time of the meeting of E Committee.

I should greatly welcome an early opportunity of discussion with you and other Ministerial colleagues how we can best deal with these embarrassing developments. I am sending copies of this letter to Geoffrey Howe, Christopher Soames, Jim Prior George Younger, Nicholas Edwards, Leon Brittain and to Sir Robert Armstrong.

13·2·81

DB

(Dictated by the Secretary of State and signed in his absence)

Econ Pol Pt 13

3 PP's 1

Prime Minister

Agree ?

It would seem we have no alternative - MS.

R

13/2

PRIME MINISTER

END-YEAR FLEXIBILITY ON CASH LIMITS

Flag A

John Biffen sent you and the other Members of the Cabinet a minute on 8 July 1980 outlining two schemes for limited end-year flexibility. The scheme for nationalised industries was subsequently approved and announced to the House by the Chancellor on 4 August.

2. The other scheme was for limited flexibility in respect of certain capital and Defence procurement programmes. It would have provided for a carry-forward, subject to certain limits, of underspending on the cash limit from one year to the next.

3. There is much to be said in favour of this scheme. It would help with the management of the programmes concerned. But it would involve some increase in public expenditure. In particular, if we were to decide now to introduce it so as to allow a carry-forward from 1981-82 to 1982-83, it would be necessary to add some £250 million to the size of the Reserve for 1982-83, and so to the planning total for the year.

4. The draft White Paper which I circulated under cover of a separate minute yesterday shows that the total for 1982-83 is already uncomfortably high: it is little different from the levels achieved in 1978-79 and 1979-80. Regretfully, therefore, I have concluded that we cannot afford to make an addition to this amount in order to introduce a flexibility scheme. I therefore propose that it should remain in abeyance.

4. I am sending copies of this minute to the other Members of the Cabinet, and Sir Robert Armstrong.

L.B.

LEON BRITTAN
11 February 1981

Econ Pol Pt 13

CONFIDENTIAL

Prime Minister
Agree that Contingency Reserve should not be reduced?
TL
13/2

Yes md

PRIME MINISTER

PUBLIC EXPENDITURE WHITE PAPER: CONTINGENCY RESERVE

Thank you for your comments on the draft I sent you on Friday. They have been taken aboard in the draft which I am now circulating to our colleagues under cover of a separate minute to you.

2. The reference in the draft to converting the contingency reserve into a cash control has been removed. As I said in my earlier minute, the Chancellor and I will shortly be putting to you a proposal to move to cash rather than volume in our planning procedures for future years. I think that it would be better to put this proposed change in the operation of the reserve in 1981-82 to our colleagues at the same time as the proposals which are being developed in the Treasury for changing the general basis of the Survey to cash, so that they can be discussed together. The agreed changes can be mentioned in the Budget speech.

3. Your minute of 30 January to the Chancellor suggested that we should look again at the size of the contingency reserve in order to reduce the planning totals. The Chancellor and I have reexamined this. We had actually already reduced the figures somewhat before the Chancellor put them to you, but regretfully, after looking at it again, we have concluded that there is no scope for further reduction. I attach (for your eyes only) a list of some likely bids already foreseen - one or two have been virtually agreed already. There is very little left for unforeseen claims, yet some are bound to arise during the year.

CONFIDENTIAL

I entirely agree with you that we will have to take the most stringent line with any further bids. The Cabinet will have to reject bids which will undoubtedly be presented as being both desirable and urgent, in order to hold to the figures now suggested.

4. The large provision for the nationalised industries is based on an assessment of the position of individual industries, and is the realistic minimum we should allow.

5. I am sending you and our colleagues separately a note explaining that I cannot recommend adoption within the next two or three years of the more general end-year flexibility scheme, for departments other than nationalised industries, proposed last July by John Biffen. I should have liked to do this, but there is no room within our planning totals for the larger reserve that would be required.

L.B.

LEON BRITTAN
11 February 1981

CONFIDENTIAL

BASIS OF PROPOSED RESERVE (Volume only)

	£m, 1980 survey prices		
	1981-82	1982-83	1983-84
Nationalised industries (including end-year flexibility)	800	1,000	1,000
Rolls Royce	-	100	100
BL	-	100	200
Industrial and regional support (including 50+ on EFLs for energy prices)	200	100	100
Special employment measures	-	100	100
Defence (partial offset to reduction in cash limit following 1980-81 overspend)	100	-	-
Ports	75	40	25
MAFF - hill subsidies and EC fisheries policy	35	35	35
MCB grants for pit closures	20	35	50
Home Office - police and prisons	20	30	40
Overseas aid (carry-over)	-	10	-
Invalidity benefit - restoration of 5%	-	10	30
Other foreseen	20	30	45
Total foreseen	1,270	1,590	1,725
Unforeseen claims	200	400	250
TOTAL (rounded)	1,500	2,000	2,000

Memorandum

Cmnd 7841 (revalued)	1,400	1,750	2,300

(i.e. proposed contingency reserve in White Paper)

TL

Econ Pol Pt 13

Your Ref

with compliments

S A ROBSON

Treasury Chambers
Parliament Street
London SW1P 3AG
Tel: Direct Line 01-233
Switchboard 01-233-3000

PRINCIPAL PRIVATE SECRETARY

cc PS/ Chief Secretary
Sir A Rawlinson
Mr Bailey
Mr Littler
Mr Bridgeman
Mr Kemp
Mr Hansford
Mr Buckley

1981-82 CASH LIMIT FACTORS

This minute sets out the numbers involved in changing the 1981-82 cash limit factors. It is intended as background for this evening's meeting between the Chancellor and the Prime Minister.

2. All the cash limits have now been calculated using the 6% pay factor and the 11% price factor. The figures have been announced for the rate support grant, the universities grant and the local authority capital allocations.

3. For the other cash limits raising the pay factor to 7% would add £150 million as follows:

Armed forces	30
Health service	70
Civil service	50
	£150 million

4. In fact the addition for the Armed Forces is irrelevant as Cabinet has agreed that the defence cash limit should be raised to cover the cost of the forces' award. This means the increase in the cash limits over what they otherwise would have been is £120 million.

5. Lowering the price factor to 10% would save £170 million as follows

Defence	65
Health service	30
Other central Government	75
	£170 million

6. The saving on defence must be open to doubt. Cabinet agreed that the defence cash limit for 1981-82 would be reviewed in the light of defence price increases. Omitting the defence figure, the saving becomes £105 million.

7. If the defence saving could not be secured, moving from factors of 6% and 11% to factors of 7% and 10% would <u>increase</u> expenditure by £15 million (£120 million v £105 million).

8. All figures relate to UK; DHSS tend to quote health service figures only on an 'England and Wales' basis.

SAR

S A ROBSON
11 February 1981

Prime Minister to see

Duty Clerk
11/2/81

copied: to
Civil Service
Pay +
Public Sector Pay

Treasury Chambers, Parliament Street, SWIP 3AG
01-233 3000

PRIME MINISTER

PAY AND CASH LIMITS

You will have seen the letters to me from the Secretary of State for Social Services and the Lord President of 10 and 11 February 1981. I agree that, if the timetable of the negotiations requires this, we should discuss this at E Committee tomorrow. It might help the discussion if I set out my views for you and our colleagues before then.

2. It is essential that we should draw a clear distinction between the discussion of the pay settlement and the discussion of the cash limits factor. We did not intend the 6 per cent factor to be a pay norm. It is the basis for calculating the cash limits, which determine the finance available for each service. We have made it clear throughout publicly that particular settlements will diverge from that factor.

The pay negotiations

(a) National Health Service

3. I accept that it may well be necessary to settle at over 6 per cent for the NHS ancillary staff. I think that the negotiators should be instructed to do everything possible to secure 7 per cent rather then 7½ per cent.

4. I would see no difficulty with the move of the settlement date, subject to the conditions which Patrick Jenkin proposes. The first is that the lump sum should be subject to the limit he suggests. The second is that the base level for 1982-83 cash limit should not be increased by more than the pay factor for 1981-82. Payments during the current year would of course have to be contained within the existing cash limit.

5. But I am not convinced by the arguments that there has to be the same level of settlements throughout the NHS. The ancillaries had a smaller increase in the last round than other groups, so it would not be inconsistent for them to be paid more in this one. Moreover, most of the arguments in the letter seem to be based on comparability in this round. They ignore both the extent to which public sector groups have done relatively better in recent years, and the need to limit settlements to what we can finance.

(b) Civil Service

6. I think we must take a robust line on civil service pay. It would do great damage both economically and politically if we were seen to retreat in this area. The civil service has enjoyed increases in pay rates over the last two years of nearly 50 per cent and, despite our reduction in manpower, is enjoying job security at a time when unemployment is rising sharply in the private sector. There is little public sympathy for civil servants and I believe the unions and their members realise this and are influenced by it.

7. I see no reason why a settlement higher than 6 per cent for the NHS ancillaries requires an increase higher than 6 per cent for the Civil Service.

Cash limits

8. Even if the pay settlements have to be higher than 6 per cent, that does not in itself require a higher factor for pay in setting cash limits. There are powerful reasons to sustain our previous decision of 6 per cent.

9. A change of 1 per cent in the pay factor would cost £120 million for the NHS and Civil Service. We cannot afford additional expenditure next year on that scale, especially after what has happened since November to increase the intended volume for next year.

10. To announce an increase in the pay factor alone would be seen as a major climb-down by the Government. It would rightly draw considerable criticism from our supporters and from private sector employers. It is widely assumed that "broadly the same financial discipline" means 6 per cent. Nothing has happened since we fixed that factor for the RSG which should lead us to a change of view. It will be clear that we have ourselves based the Estimates on that assumption. If the pay factor alone were changed we would either have to delay publication of the Estimates, explaining why, or publish them as they stand and take a whole series of Supplementaries.

11. An announcement now would undermine the position which the Secretary of State for Education has taken in the negotiations on university teachers' pay. We should not prejudice achieving that settlement. The change would lead to pressures to re-open cash limits already announced, for the Universities and for the RSG: we cannot contemplate that.

12. Nor should sticking to the 6 per cent factor lead to an unacceptable squeeze on programmes. The prospect for inflation in the coming year is now somewhat better than I expected when I proposed, and Cabinet agreed, the price factors of 11 per cent. This may give some room for manoeuvre in those cases where the cash limits include both pay and price elements, since the cash limit will overprovide for the latter. In the case of the NHS, improvement by, say, 1 per cent in actual prices is worth £30 million, compared with the cost of an additional 1 per cent on pay of £70 million (for the United Kingdom as a whole). The net effect is that the volume is likely to be ⅓ per cent lower than we had in mind in November when the factors were first discussed. If inflation were somewhat less than 10 per cent - which is quite possible - there would be no squeeze at all. I recognise the Secretary of State's concern to maintain the volume of health spending, but in present circumstances running the risk of a marginal reduction would seem justifiable.

13. Even that risk only arises on the assumption that all NHS staff would receive the higher pay settlements. I have argued above that it would be defensible to give the ancillaries more than others. Since an additional 1 per cent of the ancillaries' pay bill would cost about £12 million, it is clear that it could be afforded within the margin created by the improvement in the prospect for prices.

14. There is less room for manoeuvre between the pay element and the price element on the majority of Votes and cash limits which include Civil Service pay. In those cases holding to the present 6 per cent factor while agreeing a higher settlement would involve a greater reduction in numbers than already planned. But it would be difficult, surely, to defend an increase in the pay factor of 7 per cent on the grounds that 6 per cent would involve an intolerable extra reduction in Civil Service manpower. If colleagues consider that such a reduction is intolerable, then we must go for a lower settlement.

Conclusion

15. I therefore feel very strongly that the right course now is to retain the 6 per cent factor and to accept that any settlements of a higher percentage rate should be financed by the advantage to be gained from retaining the 11 per cent price factor, and from economies within the cash limits concerned. If despite the arguments I have set out colleagues were to consider that we had to increase the pay factors, I would have to propose the reduction of the price factor to 10 per cent for the reasons which we discussed earlier, not least the need to offset the increased cost of £120 million. The effect of the two changes would mainly be a switch between different cash limits with a slight net increase in public expenditure (some £15 million). The effect on the NHS cash limits would be to icrease gross expenditure by just over

$\frac{1}{3}$ per cent. It hardly seems worth the opprobrium and other disadvantages in changing the factors to achieve such a marginal effect.

16. I am copying this minute to members of E Committee and Sir Robert Armstrong.

pp. (G.H.)
11 February 1981

APPROVED BY THE CHANCELLOR OF THE EXCHEQUER AND SIGNED IN HIS ABSENCE

CC. J VERÉKER

CONFIDENTIAL

Civil Service Pay

Mr Hoskyns
Mr Wolfson

LORD PRESIDENT OF THE COUNCIL

Civil Service Department
Whitehall London SW1A 2AZ
01-273 4400

The Rt Hon Sir Geoffrey Howe, QC, MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON SW1P 3AG

copied to
Civil Service Pay
+ Public Sector Pay

11 February 1981

Dear Geoffrey,

CIVIL SERVICE PAY NEGOTIATIONS

On Monday morning I met representatives of the Civil Service non-industrial unions. They confirmed their rejection of the offer of 6% made to them by officials last week. I undertook to consider their representations. But I held out no hope that we would move from our tabled offer.

The unions made it clear that they also attach great importance to what can be said to them now about the future arrangements for settling Civil Service pay. That is dealt with in the two E papers which we have circulated to our colleagues and which will be discussed at Thursday's meeting. I suggest we also reconsider at that meeting the level of pay increase which we are prepared to go to for the Civil Service.

My judgement is that some industrial action in the Civil Service is pretty well certain; but that a step up from 6% to 7% coupled with a statement on the lines I suggest in E(81)16 would bring about a qualititative change in the intensity of that action in that it would strengthen the hand of the moderates. This outturn would still I believe be widely seen in national terms as a considerable achievement.

So I ask for authority to go to 7% with the unions together with a formula on the future, as and when in my judgement this would be helpful. I would not necessarily use them both together.

I have seen Patrick Jenkin's letter about the NHS pay negotiations. I believe we have to look at the two groups together and deal with the pay factor on the same basis for both. Clearly if Patrick Jenkin is able to negotiate a settlement in the NHS at 7% this would greatly strengthen my hand in persuading the Civil Service to accept similar treatment.

I am copying this letter to the Prime Minister, other members of the Cabinet and to Sir Robert Armstrong.

Yours ever

Christopher

SOAMES

CONFIDENTIAL

copied to Civil Service Pay + Public Sector Pay

cc Mr Hoskyns
Mr Vereker
Mr Wolfson

CONFIDENTIAL

Prime Minister

I am sure this advice on handling is right. (On the substance, I believe it will be very hard for the Chancellor to accept a 7% pay factor - given the appalling PSBR prospect. 7 and 10% would only be cheaper than 6 and 11% if we assume no revision in mid-year of the defence cash limit. A 10% price factor would make such a revision all the more likely*). TL.

Ref. A04246

MR WHITMORE

I gather that in the discussion of public service pay tomorrow the Secretary of State for Social Services and the Lord President will seek authority to raise their pay offers from 6 to 7 per cent, and will ask that their cash limits should be raised accordingly.

See letters attached

2. It appears that the Chancellor of the Exchequer is at present minded to argue strongly in favour of sticking to the agreed cash limit factors of 6 per cent for pay and 11 per cent for prices; but that, if the sense of the meeting goes against him on the pay factor, he will say that he must reopen the price factor.

3. He is clearly right to try to stick to the agreed factors of 6 per cent and 11 per cent. I fear, however, that, if he threatens to reopen the price factor at tomorrow's meeting, we shall (in the light of the history) have a very bad discussion. I wonder whether the Prime Minister might suggest to him that, if he cannot hold the Committee to the 6 per cent and 11 per cent, he should say no more than that if the Committee decides to go for a 7 per cent pay factor for the Civil Service and NHS cash limits he will have to consider the consequences and come back to his colleagues in a week's time with further proposals without specifying what those might be. That would at least give time for some more considered discussion of the consequences, and would slightly improve the prospects of avoiding another round of disorganised discussion.

RA

ROBERT ARMSTRONG

11 February 1981

* The arithmetic is as follows -

1% on pay for NHS and civil service = £120m

1% on non-pay = £170m (of which £65m is accounted for by defence).

TL.

CONFIDENTIAL

CHIEF SECRETARY TO THE TREASURY

~~(1) Mr Hoskyns~~

(2) Mr Walters ←

You may want to see. (The PM has read Part I and has not commented already). T

PRIME MINISTER

PUBLIC EXPENDITURE WHITE PAPER

in folder attached

I enclose a draft of the White Paper for publication on Budget Day, 10 March.

2. I am afraid the timetable is tight and I must therefore ask you and our Cabinet colleagues, to whom I am copying this minute and enclosure, for any comments by next Tuesday, 17 February, at the latest.

3. The greater part of the White Paper, which reflects the decisions Cabinet have already taken, has been cleared with other Departments at official level.

4. I should draw attention to the following points. First, the volume totals in 1980-81 and 1981-82 are higher even than we expected last November, and there is no decline between those two years. The draft says frankly that the totals are too high, despite the Government's considerable achievement in making the cuts announced on 24 November by the Chancellor, and that we shall have to look again at our plans for 1982-83 onwards in the coming survey.

5. The main reasons for the disappearance of the decline between the two years are the higher forecast take-up of special employment measures, the higher unemployment assumptions and the higher British Steel figure for 1981-82 now under discussion.

6. Second, there is far more emphasis on cash than in previous White Papers. For the first time the cash limits and broad cash totals for 1981-82 will be included.

7. Copies go to members of the Cabinet and Sir Robert Armstrong.

L. B.

LEON BRITTAN
10 February 1981

RC

CONFIDENTIAL

cc Mr Vereker
Mr Horgan
Mr Watson

DEPARTMENT OF HEALTH & SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Parliament Street
LONDON SW1

10 February 1981

Dear Geoffrey,

THE NHS CASH LIMIT

Following rejection of the 6 per cent offers made to NHS ancillary staff and ambulancemen I saw representatives of the unions and management yesterday. The purpose of this letter is to give my assessment of the situation and to outline proposals for handling NHS pay which I hope we can discuss in E Committee on Thursday.

Negotiating prospects

I see no prospect of peaceful settlements at 6 per cent, which amounts to an increase of £3.65 per week on basic rates for the ancillary staff. They are looking for an increase of £4.60 per week as negotiated for local government manual workers. Many of the staff in the two groups perform similar duties and a long established pay link has been upheld by several independent enquiries, most recently by Clegg. The ambulancemen see themselves as part of the "emergency services" and want similar pay increases to the police and firemen. This was rejected by Clegg and must be rejected now. There is little prospect of getting them to settle below the 7½ per cent settlement in local government since they formed part of this negotiating group until 1974 and their memories are still fresh. We shall have to accept a prolonged period of industrial action from both groups if we keep offers to 6 per cent.

This might be the right course if we were dealing only with these two groups. But nursing, works and maintenance and laboratory staffs will also resent being held to 6 per cent and we must expect demonstrations in protest and industrial action. The health services unions are likely to unite and fairly widespread disruption of the NHS seems likely. It seems doubtful whether the Government would have public support in holding the nurses down to a lower level of pay increase than was given to the BL workers and dustmen. Moreover, the restructuring of the NHS would be at risk. The timetable is already tight and requires the cooperation of unions (to negotiate more flexible grading agreements) and a good deal of work by management. It is to be expected that the unions would not and management could not keep to the timetable if there is major industrial unrest.

CONFIDENTIAL

The prospects of settlements for most NHS staff at $7\frac{1}{2}$ per cent are good. I believe the lowest level at which there is any prospect of securing settlements in the NHS is 7 per cent. This would give the ancillary staff £4.25 on basic rates compared with £4.60 in local government. There would still be difficulties with some groups eg electricians and ambulancemen, but these would be manageable if we have not alienated the rest.

Change of settlement date

The Management Side of the Ancillary Staffs Council wishes to change their settlement date from December to April and are looking for a 15 months settlement. In order to avoid disturbing differentials with other groups, notably the nurses, they propose that basic pay should be increased by the amount of the NHS pay factor, from December 1980 and that staff should be given a lump sum in the order of £50 - £75 in compensation for the deferment of the next settlement until April 1982. The lump sum would not exceed the value of a 6 per cent increase from December 1981 to April 1982.

It is by no means certain that this idea will be acceptable to the trade unions but it would be helpful to align the settlement dates with the financial year, as in the case of the University Teachers, and I would like to give the Management Side leave to proceed. The base level for 1982/83 cash limit would not need to be increased by more than the pay factor for 1981/2.

Funding

Pay increases of 7 per cent cannot be funded within a 6 per cent pay factor without imposing a volume squeeze of £60m. Following our hard decisions on public expenditure we are pledged to maintain the volume of services and this will be recorded in the White Paper that is to be published shortly. Accordingly pay increases of 7 per cent require a pay factor of 7 per cent.

Announcement of the cash limit

The negotiators are awaiting Government's announcement of the cash limit in order to have a firm framework for the negotiations.

Summary

In my view:-

a. a 6 per cent pay factor implies 6 per cent pay increases for NHS staff. These cannot be secured without considerable unrest and disruption to services and - mainly because of the nursing staff - public sympathy for Government is unlikely;

b. there is a worthwhile prospect of settlements at 7 per cent which implies a 7 per cent pay factor in the NHS cash limit for 1981/82;

c. for administrative reasons there would be advantage if the settlement dates for ancillary staff (and for ambulance and maintenance staff) were deferred until 1 April 1982. Suggested terms as outlined in paragraphs 5 and 6;

E.R.

d. it is now necessary to take a final decision on the pay factor and to convey this to the negotiators.

I am sending copies of this letter to the Prime Minister, other members of the Cabinet, and Sir Robert Armstrong.

Yours ever

Patrick

Econ Pol

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

10 February 1981

The Rt Hon Lord Soames GCMG, GCVO,
CH, CBE
Lord President of the Council
Civil Service Department
Whitehall
London SW1A 2AZ

142

Dear Christopher.

PAY AND CASH LIMITS

Thank you for sending me a copy of your letter of 23 January about Cabinet's decision on pay and price factors. I should like to add to Geoffrey Howe's reply of 28 January.

2 Naturally I do not dispute that the crucial judgement is how low a settlement we can successfully achieve in the Civil Service. However, we should not overlook the repercussions outside the public services if the Government were seen to retreat significantly from the 6% figure which has been given so much prominence. We would come under criticism from private industry who are pressing so hard on the need for moderate pay increases. Nearer home, the Chairmen designate of British Telecommunications and of Posts and Giro consider that the chance of low settlements in their industries would be greatly increased if the Government shows that it is determined to keep the average settlement in the Civil Service within the 6%. While pay in those Corporations is no longer linked directly to that in the Civil Service, the size of the settlement there, may well influence their negotiations and any subsequent arbitration proceedings.

3 I am sending copies of this letter to the recipients of yours.

Ever, Keith.

CONFIDENTIAL

2.

P.M.
To see, please
Duty Clerk.

Treasury Chambers, Parliament Street, SWIP 3AG
01-233 3000

9 February 1981

T. Lankester, Esq.,
Private Secretary,
10, Downing Street

Dear Tim,

MONTHLY NOTE FOR THE PRIME MINISTER ON THE CGBR

I am enclosing this month's note for the Prime Minister ahead of Tuesday's publication of the CGBR in January.

The report covers the two months to the end of the financial year, rather than the usual three month forward look. Figures for April would at this stage exclude the effect of the Budget and would be of little significance. Forecasts for April and May including the effect of the Budget will be given in the next note.

The publication of the outturn for January is unlikely to cause any difficulties. The figures are good. The Press Notice will show a surplus of £1,714 million for the month. This compares with our forecast of £850 million, which was, of course, not published. As the report makes clear, we do not think this improvement carries through to the end of the year. The main points of the report are summarised on the first page.

Yours
John

A.J. WIGGINS

THE PROFILE OF THE CENTRAL GOVERNMENT BORROWING REQUIREMENT (CGBR) IN THE REMAINDER OF 1980-81: NOTE OF FEBRUARY 1981

Summary

- The provisional estimate of the CGBR in January is a surplus of £1,714 million. This compares with a forecast of a surplus of £850 million included in last month's note. The cumulative CGBR for the ten months of the year is £11,381 million. (paragraphs 1-2).

- Timing differences on Inland Revenue receipts account for much of this temporary improvement in the CGBR which is unfortunately not expected to carry through to the end of the year. (paragraphs 3-10).

- Inland Revenue and Customs and Excise have revised their forecasts for February and March downwards, net lending to local authorities is expected to increase, and a revised view has been taken of receipts of oil royalties and of the surplus on the National Insurance Fund. (paragraphs 12-18).

- As a result, the forecast outturn for the year as a whole is now put at £13,250 million, compared with the previous forecast of £12,850 million. (paragraph 11).

OUTTURN OF THE CGBR IN JANUARY

1. The provisional estimate of the CGBR in January of a surplus of £1,714 million will be published in the regular Press Notice on Tuesday 10 February, along with the cumulative total of £11,381 million.

2. The outturn for the month is very much better (£864 million) than the forecast in last month's note of a surplus of £850 million. Details are given in table 1 attached.

3. Inland Revenue accounts for much of the improvement. (Inland Revenue receipts only score in the arithmetic of the CGBR when they are paid into the Consolidated Fund.) They were some £650 million higher than forecast. The main components are set out in the following table:-

	£ million
Consolidated Fund Receipts (Inland Revenue)	
tax receipts accounted for in December but not paid into the Consolidated Fund	+260
tax receipts paid into the Consolidated Fund in January but accounted for at the beginning of February	+ 40
timing of transfers of National Insurance contributions to the National Insurance Fund (see below)	+170
underestimate of total net receipts	+180
	+650
Other Funds and accounts	
timing of transfers of National Insurance contributions to the National Insurance Fund (see above)	-170
Net effect on CGBR	+480

4. Most of the £650 million reflected swings in the timing of payments into the Consolidated Fund. Some £260 million of income tax receipts had already been brought to account in tax offices in the last three days of December, but were

in transit through the banking system and were therefore not reflected in payments into the Consolidated Fund until after the New Year. The extent of this "pipeline" effect was not known at the beginning of January when the forecast in last month's note was prepared. Inland Revenue have undertaken a special exercise this month to increase the amount of information available for the preparation of the Budget, and they already know that some £40 million had been paid into the Consolidated Fund at the end of January in advance of being brought to account.

5. £170 million relates to transfers into the National Insurance Fund of National Insurance contributions received with PAYE. Again, this was largely an unwinding of the position at the end of December. Since it is offset by a corresponding difference on the National Insurance component of "other funds and accounts" it has no net effect on the CGBR.

6. The remaining £180 million represents an underestimate of total net receipts by Inland Revenue. Income tax collection in January was underestimated by about £160 million and total corporation tax by some £20 million. PAYE receipts were higher than anticipated, mainly because employers reduced or delayed over the holiday period their payments due in December, and this accounts for most of the £160 million. Collection of advance corporation tax in January was some £50 million higher than forecast, and this was only partially offset by an overestimate of £30 million of mainstream corporation tax.

7. Customs and Excise receipts again fell short of the forecast levels. The major reason was a shortfall in VAT receipts. Payments of VAT in January are mainly made by large companies in manufacturing industries.

8. Excise duties were in total much as expected. Receipts of oil duty continued to run below forecast, reflecting the continuing low level of fuel oil consumption. Beer duty similarly continued to run below forecast, possibly reflecting consumer resistance to rising prices. On the other hand, spirit duty receipts were well above forecast (£40 million). The receipts rose sharply after the announcement of the early Budget date, suggesting some anticipation of duty increases in the Budget and, perhaps, of threatened price increases in February.

9. Customs duties and agricultural levies continued to run below estimate, reflecting reduced demand from consumers and industry. These duties are EC "Own Resources", and the revenue shortfall is offset by reduced payments to the Community on the expenditure side of the account. As expected £211 million was received from the EC in January under the 30 May agreement.

10. Expenditure: Money issued to Departments to finance supply expenditure was very close to the forecast, and there was no evidence to suggest that any new problems are developing. Net lending from the National Loans Fund was £133 million below the forecast, the difference being about equally divided between local authorities and public corporations.

FORECAST FOR THE CGBR IN THE REMAINDER OF 1980-81

11. As part of the normal preparation for the Budget, a complete reappraisal has been made of the outturn in the remainder of the year, drawing on detailed advice from a number of Departments. This suggests that the improvement in the CGBR in January was a temporary effect, caused by swings in the timing of receipts and payments and therefore not expected to carry through to the end of the year. The figures are still subject to revision, but they imply a CGBR for the year as a whole of £13,250 million compared with the forecast of £12,850 million included in last month's note. Table 3 attached gives the details of this new forecast.

12. The main changes from the forecast given in last month's note are as follows:-

	Effect of outturn in January	Effect of revised view of February and March	Total effect on end-year forecast
Consolidated Fund receipts:			
Inland Revenue	+650	-300	+350
Customs and Excise	-120	-180	-300
Oil royalties		-150	-150
NLF net lending to:			
local authorities	+ 70	-370	-300
public corporations	+ 60	+ 90	+150
Other funds and accounts:			
revised view of the surplus on the national insurance fund	-100	-250	-350
Other items	+300	-100	+200
	+860	-1,260	-400

13. Inland Revenue have revised their forecasts for February and March downwards by a total of £300 million, despite the high level of receipts in January. As explained, the apparent improvement in January was largely due to timing effects from the Christmas break, and also (perversely) from the early receipt of some money at the end of the month. Inland Revenue now consider that their previous forecast of Schedule D income tax looks over-optimistic and they also have a revised view of the monthly profile of PAYE collection.

14. Customs and Excise have also reduced their forecasts for February and March following another month when receipts failed to reach the forecast levels.

15. The new forecast for other Consolidated Fund receipts includes a revised view of oil royalties in February and March. This takes account of lower production levels and of a lower sterling price of oil which in turn reflects a higher exchange rate than previously assumed. The effect on the forecast of the CGBR is some £150 million.

16. Expenditure: The figures for Supply Services are much as before. If anything they suggest a slight improvement. The Spring Supplementary Estimates have been allowed for, including some £260 million on Defence. But a precautionary allowance has also been made for a further possible overspend on Defence.

17. Net lending from the NLF to local authorities and public corporations was very low in January, and well below the forecast. Net lending to public corporations is now expected to continue at a low level for the rest of the year because of a revised view of borrowing by the Electricity Council. In contrast, lending to local authorities is expected to be high, particularly in March. The forecast has been revised upwards by a total of £370 million. This reflects both the decision to reallocate unused PWLB quotas among local authorities and early news of their total borrowing plans.

18. Finally, the new forecast for February and March incorporates a revised view of the surplus on the National Insurance Fund reflecting the latest advice from the Department of Health and Social Security on on level and timing of receipts of National Insurance contributions from Inland Revenue and of payments over to the Post Office. The net adverse effect on the forecast of the CGBR is £250 million, but the weekly flows of money both ways through the Fund are very large.

19. Table 2 attached sets out the CGBR outturn since April 1979, together with the new forecast to the end of the financial year.

Banking January and February

20. The unadjusted CGBR in banking January (11 December to 21 January) was a surplus of £684 million, compared with the forecast surplus of £160 million included in last month's note. The unadjusted forecast of the CGBR for banking February (27 January to 18 February) is £1,140 million.

TABLE 1

CENTRAL GOVERNMENT BORROWING REQUIREMENT - JANUARY

£ million

	Forecast	Outturn	Effect on CGBR
RECEIPTS			
Consolidated Fund			
Inland Revenue	5,050	5,704	+654
Customs and Excise	2,550	2,430	-120
Other	1,250	1,121	-129
National Loans Fund			
Interest etc receipts	200	240	+ 40
Total receipts	9,050	9,495	+445
EXPENDITURE			
Consolidated Fund			
Supply services and Contingencies Fund	6,250	6,261	- 11
Other	350	342	+ 8
National Loans Fund			
Service of the national debt	1,450	1,400	+ 50
Net lending	150	17	+133
Total expenditure	8,200	8,020	+180
Other funds and accounts	-	+239	+239
CGBR	+850	+1,714	+864

TABLE 2

CENTRAL GOVERNMENT BORROWING REQUIREMENT

	In month		Cumulative		
	1979-80	1980-81	1979-80	1980-81	Difference
April	1.3	0.9	1.3	0.9	-0.4
May	1.5	2.4	2.8	3.3	+0.5
June	1.0	1.3	3.8	4.6	+0.8
July	-	0.8	3.8	5.4	+1.6
August	1.1	1.6	4.9	7.0	+2.1
September	1.7	0.8	6.6	7.9	+1.2
October	0.1	0.1	6.8	8.0	+1.3
November	1.8	2.8	8.6	10.8	+2.2
December	1.6	2.3	10.2	13.1	+2.9
January	-2.5	-1.7	7.7	11.4	+3.7
February	0.3	(1.4)	8.1	(12.8)	(4.7)
March	0.2	(0.5)	8.2	(13.2)	(5.0)

Note: Some rows may not across add because of rounding. Each column is correctly rounded.

TABLE 3

CENTRAL GOVERNMENT BORROWING REQUIREMENT

£ m

	(1) April to January	(2) February Forecast	(3) March * Forecast	(4) Whole * Year	(5) Budget Forecast for whole Year
Receipts					
Consolidated Fund					
Inland Revenue	27,184	2,650	3,700	33,500	32,860
Customs and Excise	18,611	1,700	1,700	22,000	24,000
Other	7,124	850	1,950	9,900	8,555
National Loans Fund					
Interest etc receipts	3,792	300	850	4,950	5,050
Total receipts	56,711	5,500	8,150	70,350	70,465
Expenditure					
Consolidated Fund					
Supply services	54,719	6,000	6,400	67,100	64,765
Other	2,600	300	250	3,150	3,460
National Loans Fund					
Service of the national debt	8,258	650	1,050	9,950	10,000
Net lending	3,128	200	400	3,700	2,905
Total expenditure	68,705	7,150	8,100	83,900	81,130
Other funds and accounts	+613	+150	-500	+300	+1,352
CGBR	-11,381	-1,450	-450	-13,250	-9,313

*The forecasts for March and for the whole year exclude the proposed transfer of British Leyland shares from the NEB to the Department of Industry. The payment of £1,284 million for the shares would be included in the figures for Supply Services. The corresponding repayment of Public Dividend Capital by the NEB would be included in the figure for other Consolidated Fund receipts. The net effect on the CGBR would be zero.

Note: Some rows and columns may not add due to rounding.

jfh

MR WRIGHT

The Prime Minister was grateful for Sir Robert's minute of 3 February (ref. A04170) and has noted the outcome of this discussion with Sir Douglas Wass on the handling of public expenditure issues.

TPL

9 February 1981

KRB

File

Econ. Pol.

BF 12/2/81

10 DOWNING STREET

From the Private Secretary

9 February 1981

The Prime Minister was grateful for the Chief Secretary's minute of 6 February with which he enclosed the latest draft of the Public Expenditure White Paper. She has noted the points in the Chief Secretary's minute, and has read Part 1 of the draft. On paragraph 5 of the latter, she has queried the third sentence which says that "The Government reaffirm the central principle that finance should determine expenditure, not expenditure finance." She wonders if this statement can be defended at a time when spending as a proportion of GDP is likely to be increasing. She has also suggested on that same paragraph that "provisional working targets" might read better as "indicative working targets".

In Part 2 of the draft, the Prime Minister has noted the estimating assumptions for unemployment underlying the social security programme.

TL

T.F. Mathews, Esq.,
Chief Secretary's Office.

010

Prime Minister 2

I suggest you just read ~~up to~~ Part I - i.e. up to para 46. But you should note that the social security plans (Flag A) assume 2.7m net unemployed in 1982/83 and 83/84 (compared with 1.8 in last year's white paper).

TL

CHIEF SECRETARY TO THE TREASURY

PRIME MINISTER

PUBLIC EXPENDITURE WHITE PAPER

in folder behind file

I enclose a draft of the White Paper. I propose to circulate it to our Cabinet colleagues on Tuesday, subject to your comments and to any final drafting points raised with me in the Treasury. Publication on Budget Day will require a deadline for comments of Tuesday week.

The section on cash planning and the point that expenditure is too high are to be strengthened. TL

2. I draw your attention to the following points. First, the opening paragraphs say frankly that the totals are too high, despite the Government's considerable achievement in making the cuts announced on 24 November by the Chancellor. The final sentence of paragraph 2, implying that we must take steps in the next survey to reduce our plans, is in my view true and useful. But some of our colleagues may not like it.

3. Second, there is far more emphasis in cash than in previous White Papers. For the first time the cash limits and broad cash totals for 1981-82 will be included. This will fit in with a more extended passage in the Budget speech about our intended shift towards cash in our planning procedures, on which the Chancellor and I shall be consulting you shortly and then, I hope, our colleagues.

4. Third, the figures have changed a little since the Chancellor minuted you on 23 January. Estimating changes have reduced the 1980-81 total. This is good in itself. But for 1981-82 the British Steel figures now under discussion are of course higher

than previously assumed, so that the 1981-82 total is increased. In consequence, there is now no reduction between the two years.

5. Fourth, table 1.2 shows a large estimate (44½%) for the ratio of public expenditure to GDP in 1980-81. (It is usual to publish estimates up to the current year.) The cause is not so much the increase in expenditure as the fall in GDP. Only 43% was suggested in the press last November. We expect a fall in the ratio over the later years, and can appropriately say so in the FSBR, which is printed later and can take account of the assumptions for the growth of GDP over the medium term when these are decided for the purpose of the Budget.

Treasury are considering your suggestion that the Reserve be named.

6. The figures for the contingency reserve are for the moment the same as in the Chancellor's minute to you.

TL

L.B.

LEON BRITTAN
6 February 1981

Circ with CST/PM of 6.2.81

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PART ONE

THE EXPENDITURE PLANS

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MAIN POINTS FROM THE WHITE PAPER

* The totals in 1980-81 and future years are higher than previously expected and higher than the Government would wish in the light of their financial and economic objectives. The Government regard this development as one which requires the most serious attention during the 1981 annual survey, when the plans for 1982-83 onwards will be reviewed.

* The recession and other factors have exerted upward pressure, for example on unemployment benefit and special employment measures. This pressure has been only partially offset by the major reduction in the net contribution to the European Community budget and the substantial reductions which the Government have made in the majority of other programmes.

* The changes in programmes since Cmnd 7841 have led to some shift in their relative sizes, and in particular to relative rises in social security and support for industry and employment.

* In future, the Government intend the cash aspects to predominate in medium-term expenditure planning as well as in control during the year through cash limits. For the first time in this annual series of White Papers, the cash limits and broad cash totals for 1981-82 are included.

Planning totals

£ billion, 1980 survey prices

	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
January 1979 White Paper (Cmnd 7439)		80.3	82.1	83.5	85.1	-
March 1980 White Paper (Cmnd 7841)		78.4	77.8	76.9	75.4	75.2
Now planned	78.0	77.8	79.2	79.2	77.6	76.0

PART 1: THE EXPENDITURE PLANS

This White Paper sets out the Government's expenditure for the years 1981-82 to 1983-84, as they stand after the past year's annual review. As previously announced, the planning period has been shortened by one year; the last year covered by the present White Paper is the same as in the last White Paper, Cmnd 7841 of March 1980.

2. The totals of expenditure, both the outturn now estimated for 1980-81 and the planning totals for future years, are higher than in Cmnd 7841, higher than was expected in November, and higher than the Government would wish in the light of their financial and economic objectives. The Government regard this development as one which requires the most serious attention during the 1981 annual survey, when the plans for 1982-83 onwards will be reviewed.

3. The recession has exerted upward pressure on some expenditures, and this is expected to continue. Increases in unemployment benefit and special employment measures have added probably about £¾ billion (cash) in 1980-81 and are expected to add £1 billion in 1981-82. In 1980-81 Supplementary Estimates have been presented representing an overspend of £260 million on the defence cash limit (see Part 2) and there may be an overspend on local authorities' total current expenditure. On many other programmes spending has been closer to plan than expected, so that the original provision for shortfall is now thought to have been overestimated: this has caused perhaps a £1 billion increase in 1980-81. Partly for these reasons the forecast for shortfall in later years has also been reduced by about £½ billion (cash).

4. In order to offset as far as possible these upward pressures, the Government have made substantial reductions. As announced by the Chancellor of the Exchequer on 24 November 1980, besides the major reduction in the UK net contribution to the European Community budget, amounting to some £¾ billion in 1980-81 and 1981-82, cuts amounting to some £1½ billion (cash) have been made in the majority of spending programmes in 1981-82, and these have been carried forward into the later years. These cuts in many cases involved painful and difficult decisions, but the Government have regarded their commitment to constrain public expenditure in total as the overriding consideration.

Cash Spending

5. Following past practice, much of this White Paper is stated in terms of volume plans expressed in constant prices. But the Government's policy is that all

PLANNING TOTAL

TABLE 1.1

	1981-82	1975-76	1976-77	Outturns 1977-78	1978-79	1979-80	1980-81 estimated	1981-82	Plans 1982-83	1983-8[illegible]
	£ billion projected cash spend (a)	£ million, 1980 survey prices								
PUBLIC EXPENDITURE PROGRAMMES										
1. Central government (including Government finance for nationalised industries)	76.5	54,377	52,837	50,994	54,737	56,109	58,435	58,655)		
2. Local authorities	25.5	24,268	22,896	21,541	21,426	21,762	20,250	19,200)	76,600	75,200
3. Certain public corporations' capital expenditure	1.5	1,777	1,616	1,350	1,251	1,225	1,19[illegible]	1,130)		
ADJUSTMENTS										
4. Nationalised industries' net overseas and market borrowing (b)	- 0.8	861	1,853	1,187	537	-322	-500	-585	-400	-550
5. Special sales of assets (net)	- 0.2	-	-	-697	-	-999	-325	-175	-125	-125
6. Contingency reserve	2.0	-	-	-	-	-	193(c)	1,500	2,000	2,000
7. General allowance for shortfall	- 0.7	-	-	-	-	-	-	-500	-500	-500
8. PLANNING TOTAL	104.0	81,283	79,202	74,375	77,951	77,776	79,245	79,225	77,600	76,000
9. Percentage change on previous year			-2.6	-6.1	+4.8	-0.2	+1.9	-	-2.1	-2.1
Memorandum										
A. Debt interest - gross	13.6	8,466	9,495	9,391	9,767	10,346	10,500	10,400	10,000	9,500
- net (Not included above)	5.8	1,694	2,185	2,476	2,853	3,836	4,100	4,400	4,500	4,500
B. Nationalised industries' total net borrowing (Included in lines 1 and 4)	1.0	2,555	2,268	906	1,349	1,535	1,550	815	-50	-700

(a) See paragraph 9.

(b) Including Civil Aviation Authority.

(c) Balance remaining at (4) February 1981: it is expected to be fully spent by the end of the year.

indicative?

volume plans are to be regarded as no more than provisional working targets; ?
their attainment is dependent on the availability of finance. The Government reaffirm the central principle that finance should determine expenditure, not expenditure finance. It is actual cash expenditure which must be considered in relation to, and made consistent with, the Government's objectives for taxation, the borrowing requirement and the money supply.

Some hope! We have reversed the process of 'spending'.

6. Total cash spending, some £ billion in 1979-80, is now expected to total £ billion in 1980-81 and £ billion in 1981-82. An important element in this is the public services wage bill, which has risen 50 per cent between 1978-79 and 1980-81. Large increases in pay resulted from the commitments inherited from the previous Government. Public service pay now shows a marked improvement relative to private sector pay compared with 1970-72. Before 1970 the relationship between public and private sector pay had been broadly stable since 1950. On top of these pay increases the rundown in public service employment in recent years has been much slower than in the private sector, which has carried the brunt of the recession. As a result of high pay increases and a slow rundown of employment, between 1979-80 and 1980-81 the paybill in the public services has risen twice as fast as in the private sector.

7. The principle that cash determines volume during the year is already well established in the system of cash limits. In future the Government intend the cash aspects of medium-term expenditure planning to predominate.

8. Accordingly, for the first time in this annual series of expenditure White Papers, this one includes the cash limits for the year ahead, 1981-82, which are set out in table 1.6. These are the operative control figures for the coming year and are those published in the Estimates. Cash figures for 1981-82 are also shown, as well as volume figures for that year, in tables 1.1 and 1.7.

9. The cash figures for 1981-82 are based on a planned volume of expenditure expressed in broadly the prices of late 1979 (formally, 1980 survey prices) and are markedly lower than the corresponding cash figures. The cash figures include provision for inflation over the period of, on average, about two years between late 1979 and 1981-82. Pay and price increases between late 1979 and late 1980 averaged 25-30 per cent and about 19 per cent respectively. In addition the cash figures include provision for an average increase in prices other than pay of 11 per cent between the average levels of 1980-81 and 1981-82. For pay increases the provision included is for an increase in earnings of 6 per cent in annual settlements due before 1 August 1981 and, provisionally, of the same amount for

annual settlements due after that date. The Government will decide nearer the time what can be afforded for public service pay after July 1981. It will be necessary to achieve a further downward movement in the size of settlements in the economy as a whole if unnecessary increases in unemployment are to be avoided.

10. About 60 per cent of public expenditure is subject, directly or indirectly, to cash limits or, in the case of the nationalised industries, to external financing limits. The possibility of extending the use of cash limits is being examined. The main exclusions are those "demand determined" services where, once policy and rates of payment have been determined, expenditure in the short term depends on the number of qualified recipients; social security benefits are the obvious example. There are no direct cash limits on local authority current expenditure, but the major part of the central government's contribution to financing such expenditure is the rate support grant which, like some specific grants, is subject to cash limits. In some other cases the coverage of the cash limit does not correspond precisely to the expenditure in the White Paper; it may include other payments (eg certain payments from one Government Department to another) or receipts. The external financing limits for nationalised industries are a form of cash limit, of which the role and method of operation were described in the statement by the Chancellor of the Exchequer on 4 August 1980 (Official Report, Cols 41 and 42).

11. Each cash limit represents the maximum amount of cash that the Government propose to spend on the services covered by that limit in 1981-82. Departments and spending authorities are required so to manage their expenditure, including expenditure on pay, that the cash limits are not exceeded. One exception is that, if the decision taken by the Government in the light of the recommendations of the Armed Forces Pay Review Body should entail an increase in Forces' pay beyond the 6 per cent provided in the overall cash limit for the Defence Budget, that limit would be increased by the amount involved. ? [illegible]

12. Once fixed, cash limits will not normally be revised during the course of the year, unless a specific policy decision is taken to change the level of provision for the service concerned. A serious view is taken of any overspending, and it is the general policy that, should any overspend occur, a corresponding deduction is made in the limit the following year. In addition a full investigation is initiated, and, where overspending involves Supplementary Estimates, the Public Accounts Committee of the House of Commons has indicated its intention to consider calling evidence from the Department involved.

Contingency Reserve

13. The planning totals include a substantial unallocated reserve for contingencies and other requirements which cannot be quantified at this stage. The Government maintain the policy of treating the contingency reserve as a control figure. Decisions to incur additional expenditure which cannot be accommodated within existing programmes will be contained within the reserve.

Public Expenditure and GDP

14. The ratio of public expenditure (including debt interest) to gross domestic product (GDP) in 1979-80 was 41½ per cent, the same as in 1978-79. The ratio for 1980-81 is expected to be significantly higher (see table 1.2). This reflects the increase in both the volume of expenditure and its relative cost (because of the high public sector pay increases in the year) and an unexpectedly sharp reduction in real national income. For 1981-82, the Government intend that the relative cost of the plans should fall by some [½] per cent, which will require a much lower rate of increase in public service earnings than over the past two years.

15. The ratio of general government (comprising central and local government) expenditure on goods and services to GDP shows a similar pattern up to 1979-80, without such a steep rise in 1980-81 (because the sharp rise in transfer payments, such as social security, is excluded).

Volume figures: changes since Cmnd 7841

16. As explained earlier, total expenditure has increased since Cmnd 7841. The volume of expenditure increased by almost 2 per cent between 1979-80 and 1980-81, and is estimated at about 1¾ per cent higher in 1980-81 than planned in Cmnd 7841. In 1981-82 the planned volume total would be about the same as in 1980-81: that is 3 per cent higher than planned in Cmnd 7841 but still 5 per cent lower than the previous Government's plans. The total is planned to decline after 1981-82. (See table 1.1, which has been simplified in presentation since Cmnd 7841. As in recent White Papers, general discussion of public expenditure is in terms of the planning total, line 8.)

17. The allocation of expenditure between programmes is shown in table 1.6, and the overall changes in programmes since Cmnd 7841 are shown in table 1.11. The main changes are discussed below. As announced in Cmnd 7841, separate programmes are shown in this White Paper to cover expenditure within the responsibility of the Secretary of State for Scotland and the Secretary of State for Wales, consistent with their discretion to determine expenditure priorities. Some other minor changes in the structure of the programmes have been made.

RATIOS OF PUBLIC EXPENDITURE TO GDP AT MARKET PRICES

Table 1.2

per cent

	Planning total plus debt interest(1)	General government expenditure on goods and services(1)
1974-75	46½	26
1975-76	46½	26½
1976-77	44½	25½
1977-78	40½	23½
1978-79	41½	23
1979-80	41½	23
1980-81 (estimated)	44½	25

(1) The expenditure totals include non-trading government capital consumption to make them comparable with gross domestic product (expenditure estimate) at market prices.

18. The largest single programme is social security, which rises to well over a quarter of the total by the end of the period. The plans reflect the assumed increase in unemployment, a larger number of retirement pensioners and other changes including the decision, announced by the Chancellor on 24 November, to take account in the 1981 uprating of the over-provision in the November 1980 uprating (because of the lower than expected increase in prices). Overall, the programme continues to rise throughout the survey period. The rise is particularly steep between 1980-81 and 1981-82 (6½ per cent in real terms), following quite a sharp rise in 1980-81 (almost 3 per cent). The large increases in 1981-82 and the later years since Cmnd 7841 are principally due to the change in the unemployment assumption, from 1.8 million a year to 2.5 million in 1981-82 and 2.7 million in 1982-83 and 1983-84 (excluding school leavers etc).

19. The other main area in which the Government have provided for an expansion of spending is employment measures and industrial support. As announced on 26 January, £620 million in cash will be provided to BL in 1981-82 and £370 million in 1982-83, reflecting the Government's decisions on BL's 1981 Corporate Plan. £130 million will also be provided to Rolls Royce in 1981-82 in support of its plans. The Secretary of State for Employment announced on 21 November 1980 an increase in expenditure on special employment measures in 1981-82 to allow for the continuation of existing schemes and the expansion of others, notably the Youth Opportunities Programme. Provision has been made for the measures to continue at their expanded level in the later years. Further additions reflect new forecasts of take-up of the Temporary Short-Time Working Scheme and of expenditure from the Redundancy Fund. In total, these increases amount to some £880 million (cash) in 1981-82. Other increases include the increase of over £60 million (cash) in 1981-82 (announced by the Chancellor of the Exchequer on 24 November) in expenditure on industrial support.

20. Expenditure on health is being increased by some £135 million (cash) in 1981-82 as a result of decisions not to proceed with some proposals for charges and after taking account of savings of some £35 million through better use of resources; corresponding increases and savings are being made in the later years. The plans provide for gross NHS spending to grow by 5 per cent in volume between 1980-81 and 1983-84.

21. Reductions are being made in expenditure on education, science, and the arts, on transport and on expenditure within the responsibility of the Department of the Environment. Planned expenditure on law and order has also been reduced, but will still show volume growth of some 6 per cent over the planning period.

These changes are reflected as appropriate in the reduction in local authority current expenditure which the Government are seeking (see paragraphs 39 and 44 below).

Efficiency

22. The improvement of efficiency remains a high priority. Severe restraint on public spending, the setting of strict cash limits, and reductions in civil service numbers all contribute to this objective. Ministers are critically examining each year the costs of running their departments and are reviewing their functions. A particular aspect is the scrutiny programme being carried out by departmental Ministers with the help of Sir Derek Rayner. To date these scrutinies have identified potential savings of the order of £200 million a year. Further scrutinies, both in departments and service-wide, are being carried out in 1981. In addition work is proceeding on the underlying basis for efficiency, for example clarifying the management responsibilities of Ministers and senior officials, and of central and spending departments; and on improved forms of output measurement.

Staffing

23. Public service manpower has fallen since the Government took office in May 1979, and the expenditure plans imply a continuing reduction over the next few years. The size of the civil service has already been reduced to 697,000 from 732,000 in April 1979. The Government intend that it should be further reduced to about 630,000 by the end of 1983-84, which would represent the smallest civil service since the end of the Second World War. The planned increase in resources for the National Health Service (see paragraph 20 above) has led to a projected increase in manpower reflecting the labour - intensive nature of the Service. Manpower in the armed forces is also projected to increase over the survey period, reflecting the priority which the Government attach to defence. During 1980 decisions were announced which will lead to the abolition of over 430 non-departmental public bodies.

24. In local government, manpower has been brought down by 50,000 since 1979, but will need to fall at a rather faster rate in the future if local authority expenditure is to be kept within these plans. This will be made easier, for the education service, by falling numbers of school pupils.

European Community budget refunds

25. The Council of Ministers agreed on 30 May 1980 that the United Kingdom's net contribution to the Community budgets for 1980 and 1981 should be reduced

substantially by means of special refunds. These refunds are enabling public expenditure programmes generally in the United Kingdom to be maintained at higher levels than the country could otherwise have afforded. They are expected to amount to some £600 million (cash) in 1980-81 and some £825 million (cash) in 1981-82, the precise sums depending on our net contributions before refunds and on the exchange rate between the £ and the European unit of account. Allowing for the refunds and other revisions, our net budget contribution is now expected to be some £450 million at 1980 survey prices in 1981-82 (some £530 million in cash), a reduction of £750 million compared with the corresponding figure in Cmnd 7841.

26. For the succeeding years, the White Paper tables assume that our net contribution will continue at the same level in real terms as in 1981-82. This is no more, however, than a stylised assumption. The actual net contribution will depend on the outcome of the Community's budget restructuring review provided for in the 30 May agreement. The Government will naturally do their utmost to achieve a fully satisfactory outcome in this review, negotiations on which are expected to begin later this year.

Debt Interest

27. Debt interest is shown in table 1.1 both gross, that is, total payments of debt interest by the public sector, and net, that is, only those interest payments which have to be financed from taxation or further Government borrowing. Both interest rates and borrowing have been higher in 1980-81 than was assumed in Cmnd 7841, so that the projections, both gross and net, for the later years are also higher than in Cmnd 7841.

Special sales of assets

28. The Government's target of a £1 billion contribution to reducing the PSBR in 1979-80 from special sales of public sector assets (line 5 of table 1.1) was almost exactly fulfilled. Details of sales in 1979-80 are given in table 4.11. Proceeds from asset sales in 1980-81 are expected to amount to about £325 million (1980 survey prices) against the announced target of £½ billion. The shortfall is mainly in receipts from sales of commercial and industrial property owned by new towns where negotiations and completions of sales are taking longer than had been expected. The total includes receipts from sales of NEB shareholdings eg in Ferranti and Fairey (£80 million cash), the sale of shares in British Aerospace (£45 million), the sale of long leases of motorway service areas, sales of property owned by new towns, by the Government and by the Covent Garden Market Authority, and the sale of North Sea oil licences, partially offset by a reduction in receipts for advance payments for oil.

29. Sales planned for 1981-82 are expected to yield some £500 million in outturn prices, although the timing of individual sales is uncertain. There will be further sales in later years. The net benefit to the PSBR from the asset disposals programme is shown in table 1.1. These figures include the proceeds of the sales themselves; second, the consequent reduction in total borrowing by public corporations in future; and, third, partially offsetting these benefits, the reduction in public sector receipts from the asset sales which have taken place.

Analyses by economic category and by spending authority

30. Tables 1.8, 1.9 and 1.10 analyse programmes by economic category and by spending authority up to 1981-82. It is not possible to extend these analyses into the later years, because it is the Government's policy not to take decisions at this stage about the allocation of expenditure in great detail within the various programmes in those years. Therefore the information necessary to give the analyses is not available.

Economic category

31. Current expenditure in 1981-82 is planned to increase by nearly £0.3 billion (1980 survey prices) compared with 1980-81. A major decline in expenditure on subsidies is offset by a rather larger increase in current grants to persons, notably social security benefits. Other current expenditure shows little change. Capital expenditure is planned to decline by over £1 billion (taking account of nationalised industries' net overseas and market borrowing). Most of the decline is in fixed capital formation, and is reflected in a fall of over £½ billion in capital expenditure on construction between the two years. Past capital spending on housing and roads has reduced the urgency of further investment in these fields, as has the decline in numbers of school children, and progress on the Thames Barrier.

32. These figures exclude shortfall, the contingency reserve and special sales of public sector assets, because they are not allocated between economic categories. The outturn of both capital (including construction) and current expenditure will be affected by the eventual outturn of all these items.

Spending authority

Central government and nationalised industries

33. Central government expenditure accounts for over 70 per cent of total programmes. The figures are summarised in table 1.3. About 45 per cent of central government expenditure is on goods and services, mainly for defence and

CENTRAL GOVERNMENT EXPENDITURE

Table 1.3

£ million at 1980 survey prices

	1980-81 estimated	1981-82
Defence	9746	9750
Overseas aid and other overseas services	1625	1574
Agriculture, fisheries, food and forestry	943	812
Industry, energy, trade and employment	3782	3899
Transport	1186	1208
Housing	2242	1598
Education and science, arts and libraries	1516	1451
Health and personal social services	7794	7970
Social Security	19775	21161
Other programmes including Scotland, Wales and Northern Ireland	7776	7834
Government lending to nationalised Industries	2050	1400
Total excluding adjustments (see table 1.1)	58435	58655

Nationalised Industries' External Financing

Table 1.4

£ million at 1980 survey prices

	1980-81 estimated	1981-82	1982-83	1983-84
Net government lending	2050	1400	350	-150
Net market and overseas borrowing	-500	-600	-400	-550
Grants	950	950	800	750
Total external finance	2,500	1,750	750	50

the national health service. Some 35 per cent represents social security benefits. Other transfer payments, such as housing subsidies, industrial support, and lending to the nationalised industries, account for the remainder. After 1981-82 central government expenditure excluding housing (where the breakdown of the programme has not been decided beyond 1981-82), together with overseas and market borrowing of nationalised industries, declines by 1¼ per cent in 1982-83 and 1½ per cent in 1983-84.

34. Table 1.4 shows the nationalised industries' total external financing, which is included in the public expenditure planning total, broken down into net government lending, net market and overseas borrowing (including short-term borrowing and the capital value of leased assets) and grants. Because of uncertainties about timing, no allowance is made in these figures for the effects of the programme of asset sales.

35. These figures need to be seen in the context of the industries' total capital expenditure, which is expected to be financed mainly from internal resources as illustrated in table 3.2. The industries are now expected to need more external financing than in earlier forecasts, because the recession will reduce their projected revenues (see Part 3). The figures are uncertain, and depend significantly on general trading conditions, but show a reduction over the planning years in the total financing requirements for the industries. The estimates assume continued economic pricing and success in reducing current losses, for example in coal, steel and shipbuilding, and in containing costs.

36. Part 3 gives the external financing limits for the individual industries for 1981-82. As in previous White Papers, no comparable breakdown of the financing figures for subsequent years is given. The uncertainties applying to trading bodies over such a long period mean that there may be large swings in either direction for individual industries.

Local authorities

37. The Rate Support Grant (RSG) settlements for 1981-82, announced by the Secretaries of State for the Environment for Scotland and for Wales in December 1980, were based on the plans for local authority expenditure contained in Cmnd 7841, modified by the statement by the Chancellor of the Exchequer on 24 November. An outline analysis of the current expenditure assumed for the purposes of distributing grant is given in table 1.5. While the breakdown between services broadly reflects the Government's view on national priorities, these

Table 1.5.

PUBLIC EXPENDITURE BY LOCAL AUTHORITIES IN GREAT BRITAIN

£ million at 1980 survey prices

Current Expenditure	1979-80	1980-81 (estimated)(a)	1981-82 (plans)
Education and Science, arts and libraries	8629	8285	8004
Local Environmental Services (b)	2020	1827	1739
Law, Order and protective services	2200	2273	2291
Personal Social Services	1564	1448	1441
Transport	1336	1280	1202
Housing	580	622	466
Other programmes	351	384	383
Total (Current)	16680	16119	155267
Capital Expenditure			
Education and Science, arts and libraries	477	414	357
Local Environmental Services (b)	521	532	440
Law, Order and protective services	61	76	87
Personal Social Services	75	86	84
Transport	726	704	652
Housing	2374	1516	1259
Other programmes	185	164	173
Total (capital)	4419	3494	3052
Total (capital and current)	21099	19613	18578

(a) But see paragraph

(b) Included in programme 8 (other environmental services) for England, 15.6 for Scotland and 16.6 for Wales. 17

figures are necessarily tentative since it is for individual local authorities to decide the actual distribution in the light of local needs and conditions.

38. The Government's public expenditure plans in Cmnd 7746 and Cmnd 7841, on which the 1980-81 RSG settlements were based, were that local authority current expenditure should be 2 per cent below the outturn for 1978-79. Local authorities original budgets for 1980-81 indicated plans to spend some 5 per cent more than this level, roughly twice the average difference between budget and outturn in recent years. In response to a call to revise their budgets, the local authorities moderated their plans to imply spending less than 3 per cent above the Cmnd 7841 level. In view of the continuing risk of some overspending, the Government decided to withhold £200 million of RSG, which may be restored in 1981-82 when the outturn for local authority expenditure in 1980-81 is known. Because of the uncertainty, revalued Cmnd 7841 figures, with slight adjustments where there is firm information, are used in table 1.5 and elsewhere for local authority expenditure in 1980-81.

39. The definition of local authority current expenditure in this White Paper differs in certain respects from "relevant expenditure" on which the level of Government grant to local authorities is based. (The two definitions are reconciled in table 4.3.) For 1981-82 total relevant current expenditure in Great Britain is planned to fall by some 3 per cent from the planned level for 1980-81, and aggregate Exchequer grant has been determined at one percentage point lower than in 1980-81: that is, the equivalent of 60 per cent for England and Wales together and 66.7 per cent for Scotland.

40. 1981-82 will be the first year when RSG in England and in Wales is distributed using the block grant system provided for in the Local Government, Planning and Land Act 1980. Also for the first time, the Rate Support Grants for England and for Wales have been determined separately, resulting in RSG percentages of 59.1 and 73.4 respectively. The introduction of block grant has required that RSG be paid at estimated outturn prices, and it is in this form that cash limits have been placed on the Government's financial contribution to local authorities through the Rate Support Grant and supplementary grants.

41. The new system for control of local authority capital expenditure in England and Wales, again authorised by the Local Government Planning and Land Act 1980, will operate from 1981-82. Separate controls will apply in England and in Wales with a cash limit on aggregate local authority capital expenditure in each case. Except for expenditure on police, probation and magistrates courts, and certain

projects of national or regional importance, local authorities will be able to decide their own priorities for expenditure within the cash limits.

42. In Scotland the formal grant distribution arrangements remain unchanged and the control of local authority capital expenditure under the financial planning system will continue.

43. The introduction of block grant and the new capital control scheme will not restrict the freedom of individual local authorities to determine their own current spending and the service distribution of their current and capital expenditure. However, block grant will be a strong influence against excessive current spending and the new capital control scheme represents a substantial improvement in central control over the aggregate of capital spending by local authorities in England and Wales.

44. In the course of the next public expenditure survey, the Government will be discussing the implications of the plans in this White Paper for local government expenditure in the years after 1981-82 with the local authority associations in the Consultative Councils on Local Government Finance in England and in Wales, and with the Convention of Scottish Local Authorities. The plans assume that local authorities collectively will continue to make reductions in both their capital and current expenditure during the period covered by the survey. Relevant current expenditure in Great Britain is expected to fall by a further 1 per cent in 1982-83 and ½-1 per cent in 1983-84. Excluding housing (for which, as explained in Chapter 2.7, decisions have not been taken about the breakdown of the programme after 1981-82), total local authority capital expenditure is expected to fall by a further 3 per cent in 1982-83 and 4 per cent in 1983-84.

Public Expenditure in 1979-80

45. The volume of expenditure in 1979-80 (line 8 of table 1.1) is now estimated to have been some 3 per cent less than envisaged in the previous Government's January 1979 White Paper (Cmnd 7439) and around ¾ per cent less than in Cmnd 7841, which took account of the present Government's policy changes. Revised estimates of outturn since Cmnd 7841 have resulted in changes to most programmes (see table 1.11), but the greatest changes have occurred on the industry, energy, trade and employment programme, on housing, and on social security. The figures for industry, energy, trade and employment now take account of an advance repayment of loans by the National Enterprise Board (£153 million) and more up-to-date estimates for the rest of the programme. The volume of expenditure on both housing and social security has changed as a result

of revised information about the state of the economy. Interest rates in 1979-80 were higher than estimated at the time of Cmnd 7841, which resulted in higher housing subsidies. Inflation also turned out to be higher, which reduces the volume of social security benefits measured at constant (late 1979) prices.

Public expenditure in 1980-81

46. The planning total for 1980-81 is now expected to be some 2 per cent higher in volume terms than at the time of the last White Paper (Cmnd 7841). In part this results from the effect of the recession. Spending on programmes generally has been closer to plan than expected, so that the original provision for shortfall is now thought to have been over-estimated; such shortfall as is now expected is reflected in the programme figures. Expenditure on special employment measures and unemployment benefit has been higher than planned. Defence expenditure is expected to exceed the cash limit as revised during the year (see Part 2, Chapter 1). The announced increases in the external financing limits of certain nationalised industries (see Part 3) reflected trading conditions more adverse than expected; these increases were met from the contingency reserve, and so were within the planning total. It is expected that the outturn for local authorities' current expenditure will be slightly more than planned, but less than their revised budgets (see paragraph 38). See tables 1.11 and 1.12.

Table 1.6.

CASH LIMITS 1981-82

1) VOTED EXPENDITURE

Class & Vote(1)	Accounting Department	Description of Expenditure	Cash Limit £ thousand
Defence			
I, 1	Ministry of Defence	Pay etc of the armed forces & civilians, stores, supplies and miscellaneous services	4,907,084
I, 2	Ministry of Defence	Procurement	5,506,310
I, 4	Property Services Agency	Defence accommodation services	677,729
I, 5	Ministry of Defence	Dockyard services	445,780
Overseas Aid and Other Overseas Services			
II, 1	Foreign & Commonwealth Office	Overseas representation : diplomatic and consular services	206,972
II, 2	Property Services Agency	Overseas representation : accommodation services etc	36,123
II, 3	Foreign & Commonwealth Office	BBC : external services	61,898
II, 4	Foreign & Commonwealth Office	British Council	34,226
II, 5	Foreign & Commonwealth Office	Foreign & commonwealth services	26,183
II, 8	Cabinet Office	Secret service	61,000
II, 10	FCO : Overseas Development Administration	Overseas aid	967,600
II, 11	FCO : Overseas Development Administration	Overseas aid administration	20,800

Class & Vote	Accounting Department	Description of Expenditure	Cash Limit £ thousand
<u>Agriculture Fisheries & Forestry</u>			
III, 3	Ministry of Agriculture Fisheries & Food	Other agricultural and food services	78,607
III, 4	Intervention Board for Agricultural Produce	Central administration	15,624
III, 5	Ministry of Agriculture Fisheries and Food	Support for the fishing industry	29,712
III, 6	Forestry Commission	Forestry	59,195
III, 7	Ministry of Agriculture Fisheries & Food	Departmental administration	144,887
<u>Industry, Energy, Trade & Employment</u>			
IV, 2	Department of Industry	Miscellaneous support services	60,230
IV, 4	Department of Trade	Pay and general administrative expenses, export promotion, shipping and civil aviation services etc	
IV, 5	Department of Energy	Operational grants to the NCB, research and development and miscellaneous services	242,485
IV, 6	Department of Industry	Scientific & technological assistance	234,810
IV, 7	Department of Energy	Scientific & technological assistance : nuclear energy	225,975
IV, 9	Export Credits Guarantee Department	Central services	18,835
IV, 11	Registry of Friendly Societies	Pay and general administrative expenses	1,012

Class & Vote	Accounting Department	Description of Expenditure	Cash Limit £ thousand
IV, 12	Office of Fair Trading	Pay and general administrative expenses	4,457
IV, 13	Department of Employment	Labour market services	189,212
IV, 15	Department of Employment	Advisory, conciliation & arbitration service	12,738
IV, 16	Department of Employment	Manpower Services Commission	734,077(2)
IV, 17	Department of Employment	Administration	123,475
IV, 18	Department of Industry	Central & miscellaneous services	48,667
IV, 19	Department of Energy	Administrative & miscellaneous services	15,993
IV, 20	Department of Employment	Health & Safety Commission	80,816
Roads & Transport			
VI, 1	Department of Transport	Roads etc England	691,242
VI, 2	Department of Transport	Transport services	85,611
VI, 4	Department of Transport	Central & miscellaneous services	54,376
VI, 5	Department of Transport	Driver and vehicle licensing	73,410
Other Environmental Services			
VIII, 2	Department of the Environment	Central environmental services etc	85,035
VIII, 4	Department of the Environment	Royal palaces, royal parks, historic buildings, ancient monuments and the national heritage	47,396

Class & Vote	Accounting Department	Description of Expenditure	Cash Limit £ thousand
Other Environmental Services (contd)			
VIII, 5	Department of the Environment	Central administration & environmental research	
VIII, 7	Department of the Environment	Urban Development Corporations	70,255
Law, Order & Protective Services			
IX, 1	Lord Chancellor's Department	Administration of justice, England & Wales	54,946
IX, 2	Northern Ireland Court Service	Administration of justice, Northern Ireland	7,319
IX, 7	Home Office	Services related to crime, treatment of offenders, community & miscellaneous services	40,596
IX, 8	Home Office	Prisons, England & Wales	
IX, 9	Home Office	General protective services & civil defence, England & Wales	
IX, 11	Home Office	Central & administrative services	118,056
IX, 12	Treasury Solicitor	Pay and general administrative expenses	8,871
IX, 13	Crown Office	Pay and general administrative expenses	8,907
Education & Libraries			
Science & Arts			
X, 2	Department of Education & Science	Universities etc	1,166,681

Class & Vote		Accounting Department	Description of Expenditure	Cash Limit £ thousand
X,	4	Department of Education & Science	Educational services	
X,	5	Department of Education & Science	Central administration	31,924
X,	6	Department of Education & Science	Agricultural Research Council	42,134
X,	7	Department of Education & Science	Medical Research Council	101,739
X,	8	Department of Education & Science	Natural Environment Research Council	52,641
X,	9	Department of Education & Science	Science Research Council	217,190
X,	10	Department of Education & Science	Social Science Research Council	20,956
X,	11	Trustees of the British Museum (Natural History)	British Museum (Natural History)	8,512
X,	12	Department of Education & Science	Other science	4,206
X,	13	Trustees of the British Museum	British Museum	11,116
X,	14	Department of Education & Science	Science Museum	6,448
X,	15	Department of Education & Science	Victoria & Albert Museum	8,850

Class & Vote	Accounting Department	Description of Expenditure	Cash Limit £ thousand
X, 16	Trustees of the Imperial War Museum	Imperial War Museum	3,844
X, 17	Trustees of the National Gallery	National Gallery	5,697
X, 18	Trustees of the National Maritime Museum	National Maritime Museum	3,622
X, 19	Trustees of the National Portait Gallery	National Portrait Gallery	1,606
X, 20	Trustees of the Tate Gallery	Tate Gallery	4,708
X, 21	Trustees of the Wallace Collection	Wallace Collection	671
X, 22	Department of Education & Science	Arts, Arts Council etc	95,221
X, 23	Department of Education & Science	Libraries, England	38,948
Health & Personal Social Services			
XI, 1	Department of Health & Social Security	Health & personal social services England	7,618,881
Social Security			
XII, 4	Department of Health & Social Security	Administration & miscellaneous services	

Class & Vote	Accounting Department	Description of Expenditure	Cash Limit £ thousand
<u>Other Public Services</u>			
XIII, 3	Privy Council Office	Pay and general administrative expenses	668
XIII, 4	Treasury	Pay and general administrative expenses	21,455
XIII, 5	Customs & Excise Department	Pay, general administrative and capital expenditure	260,396
XIII, 6	Inland Revenue	Pay, and general administrative expenses	587,969
XIII, 8	Exchequer & Audit Department	Economic and financial administration	8,382
XIII, 9	National Investment and Loans Office	Pay and general administrative expenses	1
XIII, 10	Department for National Savings	Pay and general administrative expenses	79,179
XIII, 12	Civil Service Department	Central management of the Civil Service	37,640
XIII, 13	Civil Service Department	Computers and telecommunications	8,914
XIII, 14	Civil Service Department	Civil Service catering services	1
XIII, 15	Public Record Office	Pay and general administrative expenses	3,563
XIII, 16	Office of Population Censuses & Surveys	Pay and general administrative expenses	49,626
XIII, 17	Land Registry	Pay, general administrative and capital expenditure	48,329
XIII, 18	Charity Commission	Pay and general administrative expenses	3,319

Class & Vote	Accounting Department	Description of Expenditure	Cash Limit £ thousand
XIII, 19	Ordnance Survey	Pay and general administrative expenses on mapping services	18,590
XIII, 20	Cabinet Office	Pay and general administrative expenses	10,284
XIII, 21	Parliamentary Commissioner & Health Service Commissioners	Pay and general administrative expenses	1,222
XIII, 22	Public Trustee	Pay and general administrative expenses	1
XIII, 24	Her Majesty's Stationery Office	Payments to the trading fund	5,954
<u>Common Services</u>			
XIV, 1	Property Services Agency	Office and general accommodation services	
XIV, 2	Property Services Agency	Administration & miscellaneous services	249,908
XIV, 3	Central Office of Information	Publicity and departmental administration	41,653
XIV, 6	Government Actuary's Department	Pay and general administrative expenses	583
XIV, 7	Paymaster General's Office	Pay and general administrative expenses	10,048
<u>Scotland</u>			
XV, 2	Department of Agriculture & Fisheries for Scotland	Agricultural services & fisheries & herring industry	57,181
XV, 3	Scottish Economic Planning Department	Regional & general industrial support, Scotland	117,627
XV, 4	Scottish Economic Planning Department	Manpower Services Commission	96,963

Class & Vote	Accounting Department	Description of Expenditure	Cash Limit £ thousand
XV, 6	Scottish Development Department	Roads, transport & environmental services, Scotland	142,345
XV, 11	Scottish Courts Administration	Administration of justice, Scotland	967
XV, 14	Scottish Home & Health Department	Prisons, hospitals & community health services etc., Scotland	1,187,429
XV, 15	Scottish Education Department	Education, libraries, arts and social work (Scotland)	99,071
XV, 17	Trustees of the National Library of Scotland	National Library of Scotland	2,710
XV, 18	Board of Trustees for the National Galleries of Scotland	National Galleries of Scotland	2,263
XV, 19	Board of Trustees for the National Museum of Antiquities of Scotland	National Museum of Antiquities of Scotland	728
XV, 21	Scottish Record Office	Pay and general administrative expenses	875
XV, 22	Registrar General's Office, Scotland	Pay and general administrative expenses	6,472
XV, 23	Department of the Registers of Scotland	Pay and general administrative expenses	1
XV, 24	Scottish Office	Pay and general administrative expenses	71,983
Wales			
XVI, 1	Welsh Office	Tourism, roads and transport services, housing, other environmental services, education, libraries, arts, health & personal social services (Wales)	

Class & Vote	Accounting Department	Description of Expenditure	Cash Limit £ thousand
XVI, 4	Welsh Office	Manpower Services Commission	52,031
XVI, 5	Welsh Office	Agricultural services, support for the fishing industry, regional and industrial development (Wales)	81,017
XVI, 7	Welsh Office	Pay and general administrative expenses	23,880
<u>Northern Ireland</u>			
XVII, 1	Northern Ireland Office	Law, order and protective services	
XVII 2	Northern Ireland Office	Central & miscellaneous services	7,329
<u>Rate Support Grant, Financial Transactions etc.</u>			
XVIII, 1	Department of the Environment	Rate Support Grants (1981-82) to Local Revenues, England	9,027,000
XVIII, 2	Welsh Office	Rate Support Grants (1981-82) to Local Revenues, Wales	744,500
XVIII, 3	Department of the Environment	National Parks Supplementary Grants (1981-82) England	4,500
XVIII, 4	Welsh Office	National Parks Supplementary Grants (1981-82) Wales	1,360
XVIII, 5	Scottish Office	Rate Support Grants (1981-82) to local Revenues, Scotland	1,597,100
XVIII,15	Crown Estate Office	Pay and general administrative expenses	1,174
XVIII,19	Department of Transport	Transport Supplementary Grants (1981-82) England	416,500
XVIII,20	Welsh Office	Transport Supplementary Grants (1981-82) Wales	40,000

(1) Those Votes not listed represent Estimates which are not subject to cash limits.

(2) This amount is net of contributions from the Scottish and Welsh Offices and payments from the National Insurance Fund.

CASH LIMITS 1981-82

2) NON-VOTED EXPENDITURE

Cashblock	Accounting Department	Description of Expenditure	Cash Limit £ million
DOE/LA1	Department of the Environment	Capital expenditure in England by local authorities on roads and transport, housing, schools, further education and teacher training, personal social services, the urban programme and other environmental services.	3129.4
DOE/NT1	Department of the Environment	Capital expenditure in England by new towns on housing and roads	140.3
DOE/NT2	Department of the Environment	Capital expenditure by new towns in England on commercial and industrial investment.	39.1
DOE/HC1	Department of the Environment	Capital expenditure in England on housing financed by the Housing Corporation.	491.0
HO/LA1	Home Office	Capital expenditure by local authorities on police, courts and probation.	44.2
SO/LA1	Scottish Office	Capital expenditure in Scotland by local authorities on roads and transport, water and sewerage, general services, urban programme, police and social work, schools, further education and teacher training.	416.5
SO/LA2	Scottish Office	Capital expenditure in Scotland on housing by local authorities, new towns, the Scottish Special Housing Association and on schemes financed by the Housing Corporation, and industrial and commercial investment by new towns.	496.8
WO/LA1	Welsh Office	Capital expenditure in Wales by local authorities, new towns and the Housing Corporation on roads and transport, housing, schools, further education and teacher training, personal social services, and other environmental services, and by the Land Authority for Wales.	259.8

Cashblock	Accounting Department	Description of Expenditure	Cash Limit £ million
BOE 1	H.M. Treasury	Bank of England administration costs in respect of note issue, exchange equalisation account and debt management.	76.3
RWA 1	Department of the Environment and Welsh Office	External financing requirements of Regional Water Authorities in England and Wales.	453.0
UDC 1	Department of the Environment	External financing requirements of Urban Development Corporations.	82.2
CAA 1	Department of Trade	External financing requirements of the Civil Aviation Authority.	46·7
NID 1	Northern Ireland Departments	Services analogous to Great Britain services covered by cash limits.	

TOTAL PUBLIC EXPENDITURE BY PROGRAMME

TABLE 1.7

	1981-82	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81 estimated	1981-82	1982-83	1983-84
	£ billion Projected cash spend (1)	£ million					£ million, 1980 survey prices			
Defence	12.3	9,436	9,287	9,082	9,026	9,294	9,746	9,750	10,050	10,350
Overseas aid and other overseas services										
Overseas aid	1.0	707	680	720	805	788	803	741	680	680
EEC contributions	0.5	16	281	632	774	826	380	392	390	390
Other overseas services	0.6	453	445	552	442	455	465	459	460	460
Agriculture, fisheries, food and forestry	1.3	2,369	1,433	1,133	971	1,010	1,150	1,005	980	920
Industry, energy, trade and employment	5.7	4,850	4,328	2,854	3,530	2,929	3,899	4,023	3,080	2,460
Transport	3.6	3,953	3,531	2,983	2,915	2,967	2,824	2,736	2,670	2,670
Housing	4.2	6,072	5,880	5,093	4,728	4,928	4,256	3,143	2,720	2,230
Other environmental services	4.0	3,729	3,425	3,308	3,351	3,210	3,064	2,976	2,880	2,860
Law, order and protective services	3.6	2,572	2,629	2,571	2,596	2,698	2,833	2,886	2,960	3,000
Education and science, arts and libraries	11.7	9,421	9,393	9,011	9,171	9,236	8,909	8,544	8,360	8,190
Health and personal social services ...	12.5	8,618	8,700	8,746	8,973	9,003	9,067	9,234	9,400	9,480
Social security	27.4	15,737	16,246	17,093	18,644	19,106	19,775	21,161	21,300	21,400
Other public services	1.3	1,023	954	919	914	931	941	973	930	920
Common services	1.5	1,088	1,108	1,079	1,068	1,103	1,106	1,183	1,180	1,230
Scotland	5.7	4,589	4,518	4,368	4,462	4,530	4,399	4,271	4,170	4,100
Wales	2.2	1,795	1,803	1,744	1,766	1,788	1,737	1,676	1,630	1,600
Northern Ireland	3.2	2,300	2,294	2,278	2,466	2,437	2,472	2,436	2,410	2,410
Government lending to nationalised industries	1.8	1,694	415	-281	812	1,857	2,050	1,400	350	-150
ADJUSTMENTS										
Nationalised industries net overseas and market borrowing	- 0.8	861	1,853	1,187	537	-32[illegible]	-500	-585	-400	-550
Special sales of assets	- 0.2	-	-	-697	-	-999	-325	-175	-125	-125
Contingency Reserve	2.0	-	-	-	-	-	193	1,500	2,000	2,000
General allowance for shortfall	- 0.7	-	-	-	-	-	-	-500	-500	-500
PLANNING TOTAL	104.0	81,283	79.202	74,375	77,951	77.776	79,245	79,225	77,600	76,000

(1) See paragraph 9

(2) Including Civil Aviation Authority

TABLE 1.8

TOTAL PUBLIC EXPENDITURE BY ECONOMIC CATEGORY

£ million at 1980 survey prices

	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81 estimated	1981-82
Current expenditure							
Wages and salaries	24,153	24,395	24,442	24,811	25,091	25,002	25,140
Other current expenditure on goods and services	14,488	14,102	13,856	14,162	14,518	14,705	14,656
Subsidies	6,045	5,318	4,345	4,581	4,911	5,263	4,081
Current grants to persons	16,829	17,412	18,489	20,168	20,855	21,901	23,353
Current grants to private bodies	1,341	1,346	1,194	1,228	1,216	1,285	1,255
Current grants abroad	692	1,043	1,408	1,693	1,663	1,250	1,200
Total excluding debt interest and other adjustments	63,548	63,616	63,735	66,643	68,254	69,405	69,685
Capital expenditure							
Gross domestic fixed capital formation	10,406	9,583	7,816	6,964	6,425	5,392	4,637
Increase in value of stocks	25	12	76	65	-11	92	57
Capital grants	1,804	2,040	2,122	2,078	1,857	1,844	1,592
Net lending to the private sector	1,127	473	-46	189	569	770	1,162
Net lending to nationalised industries and some other public corporations (1)	1,808	717	235	1,106	2,156	2,442	1,962
Net lending to overseas governments	76	44	5	39	32	25	-13
Drawings from United Kingdom subscriptions to international lending bodies ...	185	138	205	149	190	207	233
Other net lending and investment abroad	858	694	-282	176	-376	-298	-326
Cash expenditure on company securities (net) (2)	584	32	19	4	-	-	-
Total excluding adjustments	16,874	13,733	10,150	10,771	10,842	10,470	9,305
ADJUSTMENTS							
Nationalised industries' net overseas and market borrowing	861	1,853	1,187	537	-322	-500	-585
Special sales of assets	-	-	-697	-	-999	-325	-175
Contingency reserve	-	-	-	-	-	193	1,500
General allowance for shortfall	-	-	-	-	-	-	-500
PLANNING TOTAL	81,283	79,202	74,375	77,951	77,776	79,245	79,225

(1) The principal corporations other than nationalised industries are the National Enterprise Board and the Scottish and Welsh Development Agencies. A list is given in Part 5

(2) Excludes sales of British Petroleum shares in 1977-78 and 1979-80 which are included under "special sales of assets".

TABLE 1.9

TOTAL PUBLIC EXPENDITURE BY SPENDING AUTHORITY AND PROGRAMME

£million at 1980 survey prices

	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81 estimated	1981-82
Central government							
Defence and overseas services	10,575	10,668	10,964	11,026	11,333	11,372	11,324
Agriculture, fisheries, food and forestry	2,226	1,281	959	791	790	943	812
Industry, energy, trade and employment	4,757	4,232	2,759	3,435	2,818	3,782	3,899
Transport	1,792	1,512	1,253	1,202	1,273	1,186	1,208
Housing	1,377	2,104	2,138	2,216	2,192	2,242	1,598
Education and science, arts and libraries	1,701	1,688	1,477	1,496	1,490	1,516	1,451
Health and personal social services	7,334	7,415	7,478	7,658	7,631	7,794	7,970
Social security	15,737	16,246	17,093	18,644	19,106	19,775	21,161
Other programmes including Scotland, Wales and Northern Ireland	7,184	7,275	7,154	7,456	7,620	7,776	7,834
Government lending to nationalised industries	1,694	415	-281	812	1,857	2,050	1,400
Total central government excluding adjustments	54,377	52,837	50,994	54,737	56,109	58,435	58,655
Local Authorities							
Transport	2,078	1,906	1,624	1,627	1,606	1,558	1,447
Housing	4,308	3,476	2,783	2,385	2,533	1,777	1,348
Other environmental services	2,693	2,478	2,467	2,513	2,464	2,379	2,219
Law, order and protective services	1,981	2,046	1,999	1,998	2,065	2,148	2,181
Education and science, arts and libraries	7,721	7,704	7,535	7,675	7,747	7,393	7,093
Personal social services	1,284	1,285	1,268	1,315	1,372	1,273	1,264
Other programmes (Great Britain)	3,886	3,686	3,524	3,564	3,623	3,377	3,304
Local authorities in Northern Ireland	318	314	341	349	352	347	346
Total local authorities excluding adjustments	24,268	22,896	21,541	21,426	21,762	20,250	19,200
Certain public corporations' capital expenditure (1) (excluding adjustments)	1,777	1,616	1,350	1,251	1,225	1,190	1,130
ADJUSTMENTS							
Nationalised industries' net overseas and market borrowing	861	1,853	1,187	537	-322	-500	-585
Special sales of assets	-	-	-697	-	-999	-325	-175
Contingency reserve	-	-	-	-	-	193	1,500
General allowance for shortfall	-	-	-	-	-	-	-500
PLANNING TOTAL	81,283	79,202	74,375	77,951	77,776	79,245	79,225

(1) Corporations whose capital expenditure is included in public expenditure; mainly the water authorities and new town devebpment and housing corporations. These corporations do not include the nationalised industries. A list is given in Part 5.

TABLE 1.10

TOTAL PUBLIC EXPENDITURE BY SPENDING AUTHORITY AND ECONOMIC CATEGORY

£million at 1980 survey prices

	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81 estimated	1981-82
Central Government							
Current:							
Goods and services	23,584	23,472	23,421	23,640	23,991	24,677	25,183
Subsidies and grants	23,363	23,659	23,887	26,092	26,963	28,010	28,389
Capital:							
Goods and services	2,188	2,002	1,670	1,638	1,522	1,656	1,710
Grants	1,650	1,899	1,986	1,890	1,653	1,654	1,422
Net lending to nationalised industries and some other public corporations(1)	1,808	717	235	1,106	2,156	2,442	1,962
Other net lending and capital transactions	1,784	1,088	-205	371	-175	-4	-9
Total excluding debt interest and other adjustments	54,377	52,837	50,994	54,737	56,109	58,435	58,655
Local Authorities							
Current:							
Goods and services	15,058	15,024	14,877	15,333	15,619	15,029	14,612
Subsidies and grants	1,543	1,460	1,550	1,578	1,682	1,689	1,500
Capital:							
Goods and services	6,677	6,094	4,919	4,201	3,830	2,889	2,093
Grants	152	137	127	173	181	161	169
Net lending and other capital transactions	838	181	68	141	450	483	827
Total excluding debt interest and other adjustments	24,268	22,896	21,541	21,426	21,762	20,250	19,200
Certain public corporations(2)							
Capital:							
Goods and services	1,566	1,500	1,303	1,190	1,062	938	891
Grants	2	4	10	15	23	29	1
Net lending and other capital transactions	209	112	37	46	140	224	238
Total excluding adjustments	1,777	1,616	1,350	1,251	1,225	1,190	1,130
ADJUSTMENTS							
Nationalised industries' net overseas and market borrowing	861	1,853	1,187	537	-322	-500	-585
Special sales of assets	-	-	-697	-	-999	-325	-175
Contingency reserve	-	-	-	-	-	193	1,500
General allowance for shortfall	-	-	-	-	-	-	-500
PLANNING TOTAL	81,283	79,202	74,375	77,951	77,776	79,245	79,225

(1) See Note (1) to Table 1.8
(2) See Note (1) to Table 1.9

TABLE 1.11

SUMMARY OF DIFFERENCES FROM CMND 7841(1) BY PROGRAMME

£ million at 1980 survey prices

	1979-80	1980-81 estimated	1981-82	1982-83	1983-84
Defence	+ 5	+ 130	- 193	- 190	- 190
Overseas aid and other overseas services:					
Overseas aid	- 6	- 1	- 7	- 10	- 10
EEC contributions	- 93	- 644	- 747	- 930	- 1,140
Other overseas services	- 31	+ 1	- 3	-	-
Agriculture, fisheries, food and forestry	- 15	+ 144	+ 12	+ 30	+ 20
Industry, energy, trade and employment	- 334	+ 599	+ 1,276	+ 900	+ 490
Transport	- 87	- 53	- 58	- 30	- 30
Housing	+ 162	+ 181	+ 8	+ 20	- 70
Other environmental services	+ 21	- 53	- 75	- 80	- 80
Law, order and protective services	- 49	- 18	- 49	- 40	- 40
Education and science, arts and libraries	- 83	-	- 151	- 180	- 150
Health and personal social services	- 12	- 87	+ 67	+ 70	+ 70
Social security	- 166	+ 44	+ 884	+ 1,400	+ 1,400
Other public services	- 29	- 28	- 6	- 10	- 20
Common services	+ 1	+ 6	+ 42	+ 30	+ 30
Scotland	- 60	- 12	- 23	- 30	- 40
Wales	- 28	-	+ 2	-	-
Northern Ireland	- 25	+ 72	+ 62	+ 80	+ 90
Government lending to nationalised industries	- 361	+ 1,194	+ 1,213	+ 580	+ 510
ADJUSTMENTS					
Nationalised industries' net overseas and market borrowing	+ 371	- 378	- 227	- 50	+ 50
Special sales of assets	+ 51	+ 175	- 125	- 75	- 75
Contingency reserves	- 93	- 967	+ 100	+ 250	- 300
General allowance for shortfall	+ 280	+ 1,120	+ 340	+ 340	+ 340
PLANNING TOTAL	- 580	+ 1,425	+ 2,340	+ 2,100	+ 900
Debt interest - gross	+ 236	+ 500	+ 800	+ 700	+ 700
- net	+ 536	+ 600	+ 900	+ 1,200	+ 1,500
Nationalised industries' total net borrowing	+ 10	+ 815	+ 985	+ 550	+ 560

(1) The Government's Expenditure Plans, 1980-81 to 1983-84, March 1980

TABLE 1.12

SUMMARY OF DIFFERENCES FROM CMND 7841 IN EXPENDITURE PROGRAMMES, BY ECONOMIC CATEGORY

£m at 1980 survey prices

	1979-80	1980-81 estimated	1981-82
Current:			
Goods and services	- 60	- 19	- 161
Subsidies and grants	- 290	+ 497	+ 1,109
Capital:			
Goods and services	- 171	- 467	- 241
Grants	- 111	- 71	- 52
Government lending to nationalised industries	- 361	+ 1,194	+ 1,213
Net lending to some other public corporations	- 160	+ 17	+ 434
Other net lending and capital transactions	- 37	+ 324	- 48
ADJUSTMENTS			
Nationalised industries' net overseas and market borrowing	+ 371	- 378	- 227
Special sales of assets	+ 52	+ 175	- 125
Contingency reserve	- 93	- 967	+ 100
General allowance for shortfall	+ 280	+ 1,120	+ 340
PLANNING TOTAL	- 580	+ 1,425	+ 2,340

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PART TWO

THE INDIVIDUAL PROGRAMMES

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2.11 Health and personal social services:
Hospital and community health services; Family practitioner services; Central health services; Personal social services --------------------------- 000

2.12 Social security ------------------------------------ 000

2.13 Other public services ------------------------------ 000

2.14 Common services ------------------------------------ 000

2.15 Scotland --- 000

2.16 Wales -- 000

2.17 Northern Ireland ----------------------------------- 000

RESTRICTED

2.1 DEFENCE

Table 2. 1

£ million at 1980 survey prices

	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81.	1981-82	1982-83	1983-84
Ministry of Defence									
(-) Defence Budget	9,451	9,293	9,087	9,038	9,298	9,750.	9,753		
Royal Ordnance Factories	-15	-6	-5	-11	-4	-3.	-3	–	
Total	9,436	9,287	9,082	9,026	9,294	9,746.	9,750	10,050	10,350

2.1 DEFENCE

1. The approximate cash equivalent of the total expenditure in 1981-82 ia £12,275 million, over 9/10ths of which will be subject to cash controls in 1981-82. The relevant cash limits are listed in Tables with the prefix I, and cover all Defence expenditure except that on Service pensions.

MINISTRY OF DEFENCE

Defence Budget

2. The Government's defence policy objectives and programme plans will be described in the 1981 Statement on the Defence Estimates to be published shortly.

3. The figures in Table 2.1 for the period from 1979-80 are in line with the Government's NATO undertaking to aim for real increases in defence spending in the region of 3% a year, economic circumstances permitting. The figures for 1981-82, and for the later years, take account of the announced reduction of £200m in each of these years.

4. The figure for 1980-81 is the latest forecast of outturn. It is still subject to uncertainty, and implies a volume overspend of £130 million by comparison with the original plan as set out in Cmnd 7841. A major reason for overspend in 1980-81 is that, in contrast to consistent volume shortfalls over many years, in current economic circumstances defence contractors are progressing faster than expected on the defence programme. Recruitment to the Armed Forces and rates of retention have also been higher than forecast. A large number of measures has been taken to restrain overspending in the course of the year, including a moratorium on new defence contracts from August to November 1980. It is the general practice that an overspend on a cash limit is offset by a corresponding deduction in the following year. When the outturn in 1980-81 is known the position in 1981-82 will be reviewed.

1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
9037	9297	9750	9747	10045	1034
-12	-4	-4	-3	-3	-
9025	9293	9746	9744	10042	1034

5. Because of the faster progress in 1980-81, which on the basis of the forecast would mean volume growth of about 5% over 1979-80, expenditure in volume terms in 1980-81 is now expected to be similar to the level planned for 1981-82. Thereafter the plans allow for resumption of 3% growth.

Royal Ordnance Factories

6. The Defence Programme includes net repayment to borrowing from the National Loans Fund by the Royal Ordnance Factories Trading Fund. The future of this organisation is being reviewed by a study group under the chairmanship of the Minister of State for Defence.

RESTRICTED

2.2 OVERSEAS AID AND OTHER OVERSEAS SERVICES

£ million at 1980 survey prices

Table 2. 2

	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81.	1981-82	1982-83	1983-84
Foreign and Commonwealth Office -ODA									
2·5 Overseas aid	707	680	720	805	788	803.	741	680	680
2·6 Overseas aid administration	14	13	14	13	14	18.	17	60	60
2·3 Other external relations	31	30	46	44	52	48.	48		
Total	752	723	779	862	854	868.	805	740	740
2·9 Special assistance to Crown Agents			116						
Total FCO (ODA)	752	723	895	862	854	868.	805	740	740
Foreign and Commonwealth Office - other									
2·1 Overseas representation	245	235	213	211	204	210.	212		
2·2 Overseas information	81	80	77	77	74	79.	80		
2·3 Other external relations	73	76	77	82	98	95.	89		
2·4 Military aid	2	2	3	8	6	8.	7		
Total FCO (other)	401	394	370	377	382	392.	388	390	390
Total FCO	1,153	1,117	1,265	1,240	1,236	1,261.	1,193	1,130	1,130
2·3 Commonwealth War Graves Commission	7	7	7	7	7	7.	7	10	10
2·7 Net contributions to the European Community institutions	16	281	632	774	826	380.	392	390	390
Total programme	1,176	1,406	1,904	2,021	2,069	1,648.	1,592	1,530	1,530

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2.2 OVERSEAS AID AND OTHER OVERSEAS SERVICES

Foreign and Commonwealth Office (ODA)

1. The approximate cash equivalent of the total expenditure in Table 2.2 in 1981-82 is /£ _7. Almost 70% of the expenditure will be subject to cash limits in 1981-82. These cover the Overseas Development Administration's expenditure on Overseas Aid and Overseas Aid Administration and the Foreign and Commonwealth Office expenditure on overseas representation, official information services, military aid, various grants and services and grants in aid to the BBC external services and the British Council. The relevant cash limits are shown (with the prefix II) in the list of votes in table 1.00 of this White Paper.

FOREIGN AND COMMONWEALTH OFFICE (ODA)

OVERSEAS AID

2. The figures for overseas aid set out in Table 2.2 are net of repayments of capital on earlier aid loans. The definition of survey price figures has been changed in this White Paper (see paragraph 31 of Part 5), as has the method of revaluing the aid programme, to bring it into line with other public expenditure programmes. The total cash available for overseas aid in 1981-82 will be £1,037 million composed of £972 million (which is the net aid figure of £741 million shown above revalued to take account of inflation) plus capital repayments of £64 million in respect of past aid loans. The total cash available in 1981-82 is £961 million. . The cash outturn for 1979-80 (£834 million) was £6m below the level planned in Cmnd 7841 A corresponding increase has been made in the provision for 1981-82.

Overseas Aid Administration

3. The provision covers the administrative expenses of the Overseas Development Administration (ODA) wing of the Foreign and Commonwealth Office. As well as the cost of headquarters in London and of Development Divisions overseas, the figures include the cost of dispersal of part of the ODA to East Kilbride, commencing in early 1981.

Superannuation

4. This provision covers the cost of pensions and supplements in respect of service in former colonies, Governors' pensions, and related payments.

FOREIGN AND COMMONWEALTH OFFICE (OTHER)

Overseas Representation

5. This expenditure covers the cost of the Foreign and Commonwealth Office (FCO); British diplomatic and consular represenation in 130 countries; delegations to international organisations and conferences; and the passport offices in the UK.

6. The economies mentioned in Cmnd 7841 involving reductions in the size of some overseas posts and staff economies at home are being achieved as planned. The Government's intention to reduce further Civil Service manpower announced by the Prime Minister in May 1980 will result in further reductions in 1981-82 and future years in the size of the Diplomatic Service. Reductions in expenditure on official and residential accommodation abroad will be continued.

Overseas Information

7. The main purposes of economic and commercial information work are to support the promotion of exports; to encourage inward investment; and generally to promote British policies overseas.

8. The overseas information programme comprises:

(a) The costs of the BBC external services. The expenditure covers staff and operating expenses and capital expenditure on relay stations to improve audibility. Some relay stations are operated and financed directly by the FCO. Much of the cost of the BBC monitoring service is also included;

(b) the FCO share of British Council expenditure incurred to promote wider knowledge abroad of the UK and of the English language, and to foster cultural relations with other countries. The Council is at present represented in eighty one countries overseas;

(c) FCO operational expenditure at home and by posts overseas.

Other External Relations

9. Much of this expenditure is on various international commitments and subscriptions. These include UK contributions to the UN, OECD, the Council of Europe, and NATO; grants to various organisations, eg the Commonwealth Institutes, and support for conferences, scholarships etc. These international subscriptions are not subject to cash limits.

Military Aid

10. This programme consists of courses in Britain for overseas service personnel from forty nine developing countries, and the loan of British service personnel to developing countries for training purposes.

11. Military aid expenditure has been increased from 1980-81 onwards and will continue the level of training of 1979-80.

COMMONWEALTH WAR GRAVES COMMISSION

12. The UK Government contributes nearly 78 per cent towards the expenditure incurred by the Commonwealth War Graves Commission (CWGC) whose purpose it is to maintain the graves of, and Memorials to, the Commonwealth dead of the two World Wars. Since Cmnd 7841 the CWGC have identified areas where their work can be carried out more efficiently and consequently have made appropriate savings. The UK grant to the CWGC for 1981-82 in cash terms is £7,902,000, and is not subject to cash limits.

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NET CONTRIBUTIONS TO EUROPEAN COMMUNITY INSTITUTIONS

13. Since publication of the last public expenditure White Paper (Cmnd 7841), the Government has succeeded in negotiating large reductions in the United Kingdom's net contributions to the European Community budget by means of special refunds. The net contributions figures from 1980-81 onwards in this White Paper are consequently much lower than those in the previous White Paper.

14. The figures for net United Kingdom contributions to European Community institutions in table 2.2 are made up of three components: net contributions to the European Community budget (excluding the United Kingdom share of the cost of overseas aid expenditure by the Community, which is included within the aid programme); contributions to the capital and reserves of the European Investment Bank (EIB); and receipts from the European Coal and Steel Community (ECSC). Figures for net contributions to the Community budget (including our contribution to the Community's overseas aid) are shown separately in table 2.2.1. Also included in that table are figures for our gross budget contributions, receipts other than negotiated refunds, and the negotiated refunds mentioned in the previous paragraph.

15. The Community budget finances all the Community institutions - the Council of Ministers, the Court of Justice, the Commission and the European Parliament - and also the Court of Auditors. The main Community policies, including the common agricultural policy, the Social Fund, the Regional Development Fund, aid and research, are financed from the Commission's sections of the budget, which accounts for some 98 per cent of the total.

UK PAYMENTS TO AND RECEIPTS FROM THE COMMUNITY BUDGET
BY UK FINANCIAL YEARS

Table 2.2.1

£ million[1]

	Gross Payments	Gross receipts other than negotiated refunds	Negotiated refunds (gross)	Net contributions
1975-76	370	354	-	16
1976-77	544	320	-	244
1977-78	941	387	-	554
1978-79	1323	569	-	754
1979-80	1665	781	-	884
1980-81	1801	808	566[2]	427
1981-82	2066	807	809[2]	450[3]
1982-83	2200	1750		450
1983-84	2200	1750		450

(1) 1975-76 to 1979-80 at outturn prices; 1980-81 to 1983-84 at 1980 survey prices

(2) Gross figures. The net negotiated refunds after taking account of UK contributions are estimated at £515 million in 1980-81 and £677 million in 1981-82 (both figures at 1980 survey prices).

(3) The corresponding cash figure for estimated net contributions in 1981-82 is some £530 million.

16. The United Kingdom's gross contributions to the Community budget are made under the 'own resources' system, established by a Council Decision of 21 April 1970. Under this system, which has applied in full to the six original member states since 1978 and to the United Kingdom, Denmark and Ireland since 1980, member states pay over monthly to the Community agricultural levies, customs duties and the yield of a value added tax not exceeding 1 per cent of the value of transactions included in a harmonised spending base agreed in 1977. The budget is financed almost entirely from these own resources. The projections in table 2.2.1 assume that the existing basis of 'own resources' will be maintained, and in particular the 1 per cent limit on VAT own resources. The rate of VAT own resources provided for in the 1981 Community budget as adopted is just under 0.9 per cent. Gross contributions by the United Kingdom under 'own resources' are estimated to amount to about 21 per cent of total Community revenue in 1980 and 1981.

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17. Gross receipts from the budget by UK public sector bodies (other than negotiated refunds) are listed in column 2 of table 2.2.1 and in the upper part of table 2.2.3. The main sources of these receipts are the agricultural Guidance and Guarantee Fund, the Social and Regional Funds, and refunds of 'own resources' collection costs. The expenditure by the Intervention Board for Agricultural Produce and other public authorities in the United Kingdom which gives rise to these receipts scores as public expenditure in the programmes concerned. Gross receipts by the United Kingdom (other than negotiated refunds) are estimated to amount to about 9 per cent of total Community expenditure over the two years 1980 and 1981 taken together.

18. With our share of gross contributions running at about 21 per cent, and our share of gross receipts at about 9 per cent, the excess of contributions over receipts would have amounted to some 12 per cent of the total budget over the two years 1980 and 1981. Yet the United Kingdom is less prosperous than the Community average, and we incur further resource costs outside the budget as a result of the CAP. Hence the Government regarded a prospective net budget contribution on the scale described as unacceptable and initiated a protracted negotiation with our Community partners to have it reduced. Agreement was finally reached at the Foreign Affairs Council of 29/30 May 1980.

19. The 30 May agreement provides for a reduction of about 60 per cent in our net contribution to the Community budgets for 1980 and 1981, by means of special refunds to the United Kingdom. As shown in table 2.2.2, we expect to receive net refunds of some £700 million in respect of the 1980 budget and some £800 million in respect of the 1981 budget (both figures at estimated outturn prices). The precise amounts will depend on the level of our net contributions before these refunds and on the exchange rate between the £ and the unit of account.

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UK CONTRIBUTIONS AND RECEIPTS ARISING OUT OF SUCCESSIVE COMMUNITY BUDGETS (1)

Table 2.2.2

£ million cash

	1979	1980	1981
Gross contribution (2)	1625	1972	2220
Receipts other than negotiated refunds	661	784	928
Unadjusted net contribution	964	1188	1292
Negotiated refunds (net)	-	703	792
Adjusted net contribution	964	485	500

(1) The 1980 figures are calculated on the basis of the average exchange rate over the year of 1.67 units of account to the £. The 1981 figures assume an exchange rate of 1.78, the average rate for the last quarter of 1980.

(2) Excluding UK contribution to negotiated refunds.

20. The presentation in table 2.2.2 is a new one, which the Treasury undertook to provide in its reply to the Public Accounts Committee's Twenty-Eighth Report, 1979-80 Session. It is intended to indicate the net financial obligations on the United Kingdom which result from successive Community budgets. It differs from the calendar year presentation in earlier White Papers (and from the other tables in this chapter) by bringing together as far as possible all the transactions in respect of successive annual Community budgets, irrespective of when the actual receipts and payments take place, and by showing the negotiated refunds against the annual budget in respect of which they are paid. It reflects the Community's budgetary system, under which the financial year corresponds to the calendar year and expenditure from each budget occurs partly in the following year. This was also the basis on which the reduction in our net contributions was negotiated. The new presentation makes use, as far as possible, of Commission figures.

21. The negotiated refunds in respect of each calendar year's budget will mostly be paid to us in the folowing calendar year. We are due, however, to receive the bulk of them before the end of March, and thus before the end of the United Kingdom financial year. Mainly as a result of the refunds, the United Kingdom's estimated net budget contribution on a cash-flow basis in the financial year 1981-82 is now reduced to some £450 million in 1980 survey prices (some £530 million in cash terms) - a reduction of £750 million compared with the previous White Paper. Table 2.2.1 gives the latest figures.

22. The 30 May agreement and the subsequent enacting Regulations provide for reduction of the United Kingdom's net budget contribution by two routes - (a) partial refunds of gross contributions under an amended version of the Financial Mechanism originally negotiated in 1975, and (b) Community contributions in respect of certain United Kingdom public investment programmes, principally in the regions, under a new scheme of 'supplementary measures' for the United Kingdom. The precise distribution of the refunds between the two channels depends on movements in the economic variables which determine our Financial Mechanism entitlement, but our total refund entitlement is fixed by the 30 May formula. The United Kingdom has to contribute to the financing of these refunds, as to other Community expenditure. Hence the gross payments to the United Kingdom will exceed the agreed net refunds and will be calculated to produce the correct net amounts. The gross payments which we expect to receive in 1980-81 are shown in the lower part of table 2.2.3.

23. Community contributions under the supplementary measures scheme during 1980-81 are expected to relate principally to certain investment programmes of the central government and public corporations in the North, the North-West, Yorkshire and Humberside and South West regions of England, and in Scotland, Wales and Northern Ireland. The Community is expected to contribute also to certain trunk roads schemes outside these regions. The main categories of investment expected to receive Community support are listed below.

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GROSS RECEIPTS FROM THE COMMUNITY BUDGET

Table 2.2.3

£ million at outturn prices

	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81 (estimated)
Receipts other than negotiated refunds						
EAGGF Guarantee Fund	284	182	180	325	380	500
EAGGF Guidance Fund	7	13	32	24	38	40
Social Fund	14	28	44	65	117	110
Regional Development Fund	9	40	47	46	116	110
Refund of own resources collection costs	36	53	79	100	112	115
Other receipts	4	4	5	9	18	35
Total of above	354	320	387	569	781	910
Negotiated refunds						
Financial Mechanism	-	-	-	-	-	211
Supplementary measures	-	-	-	-	-	442
Total negotiated refunds	-	-	-	-	-	653

CONTRIBUTION TO TABLE 2.2	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
Net contributions to European Community institutions	16	281	632	774	826	380	392	392	393

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2.2 OVERSEAS AID AND OTHER OVERSEAS SERVICES

	£ million (cash)
Roads	
Rail	
Water and sewerage	
Advance factories	
Telecommunications	
Housing in Northern Ireland	
[TOTAL]	

24. For the years after 1981, the Community is committed by the 30 May agreement to seek to avoid the recurrence of unacceptable budgetary situations for any member state by means of structural changes. The Commission is to produce a report by the end of June 1981, and negotiations between member states are expected to follow thereafter. If agreement on other means of reducing our net contribution has not been reached in time, the Commission is committed to making proposals for special refunds to the United Kingdom in respect of the 1982 budget on the lines of those for the 1980 and 1981 budgets.

25. The tables in this White Paper assume that our net contributions in 1982-83 and 1983-84 will remain at the same level as in 1981-82. This is no more, however, than a stylised assumption. As stated in Part 1, the Government will naturally do its utmost to achieve a fully satisfactory outcome in the forthcoming negotiations with other member states.

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Table 2. 3

£ million at 1980 survey prices

	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
Ministry of Agriculture Fisheries and Food									
3.1 Price guarantees on products not supported by CAP, production grants and subsidies	127	60	56	47	29	66	36		
3.2 Support for capital and other improvements	96	69	87	99	117	103	88	130	120
3.3 Support for agriculture in special areas	30	44	23	19	42	36 (2)	25		
3.4 Other assistance to agricultural production food processing and marketing	287	88	77	69	77	71	72		
3.10 Central and miscellaneous services	123	119	118	108	110	106	107	180	180
3.9 Food subsidies	459	332	212	11	—	—	—	—	—
3.7 Support for the fishing industry	30	15	10	9	13	28	24	20	20
3.5 Land drainage and urban and rural flood protection	85	85	112	97	109	102	98	100	100
3.5 Thames tidal defences	48	64	61	91	115	107	96	70	20
Total MAFF(1)	1,286	877	755	550	614	619	546	510	450
Intervention Board for Agricultural Produce									
3.1 Market support under Common Agricultural Policy (CAP) of the EC	554	254	316	379	343	484	402	410	410
3.6 Central and miscellaneous services	7	8	7	8	8	9	12	10	10
Total IBAP	560	262	323	386	351	493	414	430	420
Forestry Commission									
3.8 Forestry	39	37	32	35	46	38	45	40	40
--									
Department of Trade									
3.9 Food subsidies	483	257	23	—	—	—	—	—	—
Total. programme	2,369	1,433	1,133	971	1,010	1,150	1,005	980	920

(1) Excludes expenditure by MAFF on civil defence (see table 2.9)

(2) Includes payments deferred from 1978-79 due to industrial action.

2.3 AGRICULTURE, FISHERIES, FOOD AND FORESTRY

1. The approximate cash equivalent of the total of expenditure in table 2.3 in 1981-82 is £ million. Of this about per cent is governed by cash limits or is taken into account in the assessment of rate support grant, the main exceptions being expenditure on market regulation, agricultural support and control of animal diseases. The relevant cash limits are shown (with the prefix III) in the list of votes in Table 1.00 of this White Paper.

2. The programme covers expenditure by the Ministry of Agriculture, Fisheries and Food (MAFF), mainly in England and Northern Ireland but in some cases extending to Great Britain or the United Kingdom, and expenditure by the Intervention Board (IBAP) and the Forestry Commission in the United Kingdom. The remaining expenditure in Scotland and Wales is included in tables 2.15 and 2.16 respectively.

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD INTERVENTION BOARD FOR AGRICULTURAL PRODUCE

AGRICULTURE AND FOOD

3. The arrangements for the main agricultural commodities and grants are fully subject to the rules of the Common Agricultural Policy (CAP), except for wool, which is outside the scope of the CAP, and potatoes for which there is no community regime. There are two main mechanisms which affect support levels under the CAP: the common prices which are fixed in European Currency Units by the Council of Ministers, and the 'representative rate' or rate of exchange by which these common prices are converted into national currencies. Expenditure on market regulation and agricultural support depends largely on decisions on support levels which are taken mainly in the context of the national and Community annual reviews of agriculture and on market developments.

4. Apart from a small amount of capital expenditure by local authorities on smallholdings, all expenditure is by central government. Four-fifths of the central government spending is current expenditure, of which 68 per cent is on grant and subsidies, with the balance on goods and services. The capital expenditure by central government is mainly grants to farmers and

growers for investment together with net expenditure by IBAP on intervention stocks. Cash limits apply to about (one-fifth) of the central government spending and to the whole of the capital expenditure by local authorities.

5. Most of the expenditure incurred by IBAP on market support under the CAP together with part of the expenditure by MAFF on production grants and subsidies, capital grants and support in special areas, is met by receipts from the Community budget which are taken into account in programme 2 (overseas aid and other overseas services).

Recent developments

6. For 1979-80 the outturn of total expenditure as forecast in last year's White Paper (Cmnd 7841) was lower than that in the earlier White Paper (Cmnd 7439) by about £150 million (16 per cent). Of this about £200 million was accounted for mainly on market regulation under the CAP, implementarion of price guarantee arrangements for potatoes, and reduced capital investment by farmers, partly offset by policy increases in premium schemes for the non-marketing of milk and conversion of dairy herds and increased rates of hill livestock compensatory allowances in 1980-81 - and payments deferred from 1978-79 as a result of industrial action by computer staff. The actual expenditure was virtually unchanged from Cmnd 7841.

7. For 1980-81 the forecast outturn is about £80 million above the planned expenditure in Cmnd 7841, mainly due to the introduction of premium schemes under the CAP for sheep and suckler cows, further increases in the rates of hill livestock compensatory allowances in 1981 and increased expenditure under price guarantee arrangements for potatoes, wool and sheep (the latter superseded in October 1980 by an EC regime for sheepmeat).

2.3 AGRICULTURE, FISHERIES, FOOD AND FORESTRY

8. The volume of net product of the agricultural industry, which provides an indication of the industry's contribution to the volume of national product, continues to be substantially higher than in the early 1970's, despite fluctuations like those arising from the droughts of 1975 and 1976. Partly as a result of the growth of agricultural output, the volume of food and feedingstuffs imports has been declining on average by about 1 per cent a year, whilst the volume of corresponding exports has been rising by about 10 per cent a year. The effect of these trends has been a significant decline in the United Kingdom's net import requirements of food and feedingstuffs.

Future Developments

9. The economic condition and prospects of agriculture in the United Kingdom are reviewed each year and the conclusions are published annually. The latest White Paper in the series "Annual Review of Agriculture" contains a great deal of supporting information about the industry. In view of the various unpredictable factors affecting agricultural output and world market prices, the annual review White Paper does not attempt to make precise forecasts.

Price guarantees, production grants and subsidies, capital grants and support in special areas.

10. The provision for 1981-82 and later years is on average about £20 million above the Cmnd 7841 plans, due mainly to the introduction of premium schemes under the CAP for sheep and suckler cows. The other principal grants and subsidies are those under the CAP for compensatory allowances in less-favoured areas and to promote the production of beef and sheepmeat and encourage farmers to move out of milk production, and capital grants under both EC and national schemes.

11. The figures for production grants and subsidies and the hill livestock compensatory allowances, which are part of the support in special areas, are deflated to take account of future price movements.

Other assistance to agricultural production, central and miscellaneous services

12. The main services included in these programmes are expenditure by the Ministry on agricultural and food research, advisory services, the eradication and control of animal diseases, a grant in aid to the Agricultural Training Board, and staff costs and administration of MAFF and IBAP. The provision for 1981-82 and later years is on average about £10 million below the Cmnd 7841 plans, mainly due to savings in staff costs and administration certain cash payments, and continuing sales of land.

Market Support under the CAP

13. The net cost of most of these measures is covered by advances from the Guarantee Section of the Community budget. These receipts are credited to programme 2 and are expected to amount to £464 million in 1980-81. The main exception is expenditure on the purchase and storage of intervention stocks, where the Community budget meets only the loss on disposal plus a flat rate allowance per tonne of stocks held in respect of storage, handling and financing charges.

14. The forecast for 1981-82, which reflects the latest view on market and production trends, is about £20 million higher than Cmnd 7841. The figures for later years are estimated on a conventional basis as in previous White Papers.

FISHERIES

15. Central government is responsible for capital expenditure on assistance to fisherman and current expenditure on research and development and sea fisheries protection. Most of the capital expenditure is in the form of grants and loans. All expenditure by central government is subject to cash limits as is a small amount of capital expenditure by local authorities for the improvement of fishing facilities at harbours.

2.3 AGRICULTURE, FISHERIES, FOOD AND FORESTRY

16. Expenditure in 1979-80 was virtually unchanged from previous plans. The outturn forecast for 1980-81 is about £5 million more than previous plans due to temporary support measures announced in August 1980 partly offset by reduced expenditure on grants and loans for fishing vessels.

17. Expenditure in Scotland and Wales is included in tables 2.15 and 2.16 respectively. The combined programmes of the three fisheries departments have the general objective of making economic use of our available fisheries resources to help assure a regular supply of fish to consumers. Landings by United Kingdom vessels of fresh and frozen fish (including shell fish) in 1978 and 1979 were around 960,000 tonnes and 840,000 tonnes respectively and they accounted for about 74 per cent of total supplies, excluding canned fish. The fishing fleet provide direct employment for about 16,500 full time and over 5,000 part time workers. About one half of the regularly employed, and nearly two-thirds of those employed part time, are in England and most of the remainder are in Scotland.

18. The conditions in which the industry will be operating in the future will be heavily influenced by the outcome of discussions still in progress in the EC. These discussions cover future fishing opportunities within waters falling under the jurisdiction of EC member states and in waters of third countries, together with developments in the EC's common fisheries policy, including conservation measures and measures for restructuring the fishing fleets of member states. Once these issues have been resolved, the expenditure programme will be reviewed in the light of the new circumstances and opportunities.

LAND DRAINAGE AND FLOOD PROTECTION, THAMES TIDAL DEFENCES

19. Responsibility for these programmes is divided between regional water authorities, internal drainage boards and local authorities which benefit from specific grants from central government. The average rate of grant paid in respect of arterial schemes is between 50 and 55 per cent while sea defence schemes attract a supplement of 15 per cent. The regional water authorities finance

the balance of their expenditure on this service by means of precepts on local authorities.

20. Expenditure in 1979-80 was virtually unchanged from Cmnd 7439 and in 1980-81 is expected to be about £43 million less than in Cmnd 7841. The underspend in 1980-81 results mainly from reductions in the real cost of bank raising under the Thames Tidal Flood Defence Scheme together with slower than anticipated progress on some contracts. Expenditure on the Thames Barrier itself has conformed largely to the programme established early in 1979 and linked to the target completion date of December 1982.

21. Apart from the Thames Tidal Defences, about 59 per cent of the expenditure relates to the protection of urban areas (including protection from tidal flooding of the kind which occurred in 1953 and to a lesser extent in January 1978) and 41 per cent to the improvement of drainage affecting agricultural land.

2.3 AGRICULTURE, FISHERIES, FOOD AND FORESTRY

FORESTRY COMMISSION

22. The objectives of the Forestry Commission are to promote the interests of forestry, the establishment and maintenance of adequate reserves of growing trees, the production and supply of timber and the development of the recreational potential of the forests they manage. The provision set out in table 2.3 covers the activities of Forestry Enterprise (a Government trading service) and the Forestry Authority. Forestry Commission expenditure is presented on a new basis (see Part 6) with Government finance to Forestry Enterprise included instead of capital expenditure by the Enterprise. This does not imply any change in the volume of activity by the Forestry Commission. The line shows an increase in Government support between 1980/81 and 1981/82; this reflects the effect on the trading activities of Forestry Enterprise of the recent significant decline in timber prices.

23. On 10 December 1980 the Secretary of State for Scotland made a statement setting out the Government's policy towards forestry. This made clear the Government's view that a continuing expansion of forestry was in the national interest, both to reduce dependency on imported wood in the long term and to provide continued employment in forestry and associated industries. It also announced that better use would be made of the capital invested in existing assets to reduce the net call the Forestry Enterprise makes on the Exchequer by providing opportunities for private intestment in these assets through sale and sale and leaseback of a proportion of the Commission's woodlands and land awaiting planting.

24. The receipts from this source are included in the special sale of assets line and the total call by the Forestry Commission on the Exchequer is set out in the table below:-

£ million

	1980-81	1981-82	1982-83	1983-84
Forestry Authority	9	10	10	10
Forestry Enterprise	29	35	35	34
Less receipts included in the special sale of assets line	-	11	16	14
Forestry Enterprise net	-	24	19	20
Total Net call on Exchequer funds	38	34	29	30

2.3 AGRICULTURE, FISHERIES, FOOD AND FORESTRY

25. The Forestry Authority programme comprises provision for the cost of research, the control of felling in private woodlands, technical advice and the payment of grants for planting timber-producing species.

26. The Forestry Enterprise programme provides for new planting of some 47,000 hectares and the harvesting of some 10 million cubic metres of timber over the survey period together with the maintenance of the existing plantations and recreation facilities, including annual expenditure of some £3.5 million on forestry recreation.

2.3 AGRICULTURE, FISHERIES, FOOD AND FORESTRY

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RESTRICTED

2.4 INDUSTRY, ENERGY, TRADE AND EMPLOYMENT

Table 2. 4

£ million at 1980 survey pri[ces]

	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
Department of Industry									
4.1 Regional and general industrial support									
Regional development grants	530	565	477	469	318	390	351		
Provision of land and buildings	24	25	25	30	24	31	32		
Selective assistance to industry in assisted areas.	76	33	28	78	51	27	42		
Other regional support					1				
Residual expenditure under repealed sections of the Local Employment Act 1972	2	-6	-5	-5	-7	-2	-1		
Selective assistance to individual industries, firms and undertakings	522	75	58	107	87	91	47		
National Enterprise Board	8	33	46	55	63	56	37		
Investment grants	94	31	7	3	2	1			
National research and development corporation		-7	-7	-6					
Other support services				1	1	2	3		
Future industrial support						3	5		
Total	1,258	747	628	733	540	600	516	470	440
4.2 Scientific and technological assistance									
General industrial research and development	64	63	59	66	82	108	124		
Aircraft and aero-engine general research and development programme	33	30	25	18	20	20	20		
Space	40	46	40	36	37	36	39		
Total	138	139	125	120	140	164	183	170	180
4.3 Support for aerospace shipbuilding steel and vehicle manufacture									
Concorde development and production	146	80	65	50	24	27	23		
Finance for Rolls Royce Ltd	11	109	6	18	108	102	153		
Other aircraft and aero-engine projects and assistance	90	-3	4	55	-4	-4	-2		
Refinancing of home shipbuilding lending	173	104	-118	-21	-29	-16	-11		
Interest support costs	49	64	29	45	59	59	68		
Assistance to the shipbuilding industry	50	18	46	23	48	61	58		
Assistance to the steel industry	3	3	3	9	22	32	62		
Finance for BL Ltd.		145	405	196	150	263	490		
Total	522	520	439	374	377	523	820	390	30
4.8 Other central and miscellaneous services	41	35	36	38	36	37	34	30	30
Total Department of Industry	1,958	1,441	1,228	1,265	1,093	1,324	1,554	1,070	690
Department of Energy									
4.1 Regional and general industrial support									
Selective assistance to individual industries, firms and undertakings	3	7	13	15	20	21	20		
Other support services	14	3	9	3	2	2	3		
Total	17	10	22	18	22	24	23	20	20
4.2 Scientific and technological assistance									
Non-nuclear research and development	11	16	23	19	28	32	34		
Nuclear	185	205	159	160	146	158	164		
Total	196	221	182	178	174	190	198	200	200
4.4 Support for other nationalised industries(- other than transport industries)									
Coal industry Acts social grants	72	86	83	81	77	94	96		
Coal industry acts-operational grants	2	17	31	133	181	162	131		
Pneumoconiosis scheme	40	—	—	—	—	1	3		
Other compensation	17	14	10	6	6	5	9		
Total	132	116	124	220	264	262	239	140	110
Other central and miscellaneous services	10	19	32	34	-17	18	18	20	20
Total Department of Energy	355	366	360	450	441	473	479	380	340

RESTRICTED

2.4 INDUSTRY, ENERGY, TRADE AND EMPLOYMENT

2.4 (CONTINUED) — £ million at 1980 survey prices

	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
Department of Trade									
2 Regional and general industrial support									
Promotion of tourism	21	19	19	19	23	22	21		
Other support services	—	1	—	1	—	1	—		
Total	21	20	19	20	23	23	21	20	20
5 Export promotion and trade co-operation	22	21	20	20	24	26	25		
4 Regulation of domestic trade and industry and consumer protection	44	39	45	48	48	50	46	70	70
11 Shipping	14	12	16	15	19	25	21	10	10
9 Civil aviation authority	102	60	36	26	29	32	13		
10 Capital investment by local authorities at airports	4	3	2	7	16	12	23	40	30
9 Other civil aviation services	32	31	28	10	7	3	3		
8 Other central and miscellaneous services	40	39	38	38	38	42	40	40	40
Total Department of Trade	278	225	206	185	204	212	190	180	170
Credit Guarantee Department									
5 International trade									
Refinancing of fixed rate export credits	818	644	-308	153	-407	-322	-346		
Cost escalation guarantees	—	—	2	-1	—	3	31		
Interest support costs	221	290	136	240	352	450	313		
Mixed credit matching facility	—	—	—	—	—	—	2		
Total Export Credit Guarantee Department	1,038	953	-170	392	-54	131	—	70	-30
Friendly Societies Registry and Office of Fair Trading									
Regulation of domestic trade and industry and consumer protection	3	1	2	2	2	3	2	—	—
Department of Employment									
General labour market services	42	49	51	67	111	108	150		
Services for the seriously disabled	50	52	49	48	50	58	58		
Redundancy and maternity fund payments	194	163	160	153	160	319	341		
Special employment measures	13	187	339	296	209	302	453		
Central services	16	28	32	28	21	26	29		
Advisory conciliation and arbitration service	5	9	10	10	10	10	10		
Health and safety at work	40	52	53	54	56	57	62		
Manpower services commission	394	484	532	580	625	670	695		
Total Department of Employment	754	1,025	1,225	1,237	1,243	1,750	1,797	1,390	1,290
Department of Health and Social Security									
4 Regional and general industrial support									
Selective assistance to industries, firms and undertakings	—	—	—	—	—	6	1	—	—
1 Regional employment premium	356	317	4	—	—	—	—	—	—
4 Compensation for price restraint to nationalised industries	108	—	—	—	—	—	—	—	—
Total programme	4,850	4,328	2,854	3,530	2,929	3,899	4,023	3,080	2,460

6

2.4 INDUSTRY, ENERGY, TRADE AND EMPLOYMENT

1. The cash equivalent of the total of expenditure in 1981-82 in table 2.4 above is approximately £ billion. The programme provides mainly for industrial support and employment services, though it covers a wide variety of expenditure. It is nearly all expenditure by central government including grant-aided bodies such as the Manpower Services Commission. About half the total is subject to cash limits which are shown (with the prefix IV) in the list of votes in Part 1 of this White Paper. In addition, the provisions in this programme for support and assistance for nationalised industries are covered by the external financing limits for each of the industries concerned, which are shown in Part 3.

DEPARTMENT OF INDUSTRY

Regional and General Industrial Support

2. This expenditure is aimed at promoting regional development and employment and at enhancing the international competitiveness of UK industry. It includes regional development grants, selective assistance in the form of grants or loans to investment projects, and the provision of factories. The programme also covers expenditure by the National Enterprise Board.

3. Following the 1979 review of regional industrial policy, including the extent and grading of the assisted areas, certain changes took place on 1 August 1980 and more will be implemented on 1 August 1982, which will reduce the coverage of the assisted areas. As a consequence of the substantial manpower reductions in the steel industry the gradings of certain areas have been increased.

4. The bulk of regional policy expenditure is under the regional development grant scheme, aimed at encouraging investment by manufacturing industry in the Development Areas. Grants remain at 22% of qualifying investment in Special Development Areas, but they have been reduced from 20% to 15% in Development Areas and are no longer available in Intermediate Areas. Capital investment in new plant, machinery, buildings and works qualifies for grants, but payments continue to be subject to a four month moratorium.

2.4 INDUSTRY, ENERGY, TRADE AND EMPLOYMENT

5. Expenditure on the provision of land and buildings by the English Industrial Estates Corporation continues in the English assisted areas, and includes the special £19 million programme announced on 19 June 1980 for the Consett and Scunthorpe areas. The Industry Act 1980 introduced the possibility of the Corporation undertaking developments with private sector financial participation and a programme involving £30m of private funding is already underway. In addition, the Corporation is endeavouring to reduce calls on public sector funds by disposal of assets.

6. Selective assistance to industry in assisted areas may be provided for projects which create or safeguard employment. It is available in all assisted areas in addition to regional development grants in Development Areas. Assistance is limited to the minimum necessary to secure a project for the assisted areas.

7. Following the 1979 review of selective assistance, new support under Section 8 of the Industry Act 1972 is being offered under stricter criteria. Most of the provision under selective assistance to individual industries, firms and undertakings is for payments by the Department of Industry under the previous Government's sectoral schemes, and the Accelerated Projects, Selective Investment and Energy Conservation Schemes. All these schemes have now closed to applications with the exception of Microelectronics Industry Support Programme. It was also decided in 1979 that savings in public expenditure should be achieved through the disposal of loans under the Industry Act 1972, and disposals of loans for some £50m should be made over the years 1980/81 and 1981/82.

8. Under the Industry Act 1980, the NEB's functions have been substantially modified, as foreshadowed in the Government's announcement on 19 July 1979. In particular, the Act removes the Board's function of extending public ownership into profitable areas of manufacturing industry and adds a new function of promoting private ownership of interests in industrial undertakings by disposal of securities and other property. Within this framework new guidelines were issued in August 1980 giving the NEB a catalytic investment

role especially in connection with companies involved in the development of advanced technologies, companies wholly or mainly in the English assisted areas, and small firms by providing loans of up to £50,000. In all these cases the NEB are expected to look for as much private investment as possible and to sell their own holdings as soon as practicable. Since May 1979 the proceeds of sales of NEB's holdings have been about £120m. Provision for the NEB is restricted to the funding needed to fulfill the limited tasks specified in their guidelines.

9. Provision for other support services covers the Small Firms Service and miscellaneous grants.

10. A modest provision has been made for future industrial support thus giving some flexibility to cover the uncertain timing of expenditure under various measures and to enter into future commitments. There is no provision for the introduction of major support measures.

Scientific and Technological Assistance

11. The Department of Industry's Scientific and Technological assistance budget covers the net costs of the Department's research establishments, industrial R&D and other support, aircraft and aeroengine general R&D, and the space technology programme. Following a reappraisal of the level and disposition of UK R&D support additional funds have been allocated to the Department's budget. These will enable more support to be provided for the development and application of new technologies, including information technology, robotics and computer-aided design and manufacture, in addition to that already earmarked for application of microprocessors. The extra support should also facilitate the development of products to meet public purchasing needs, and increased UK involvement in space projects. The allocation of the total funds within the budget will be kept under review and adapted to cover emerging priorities.

12. Support for industrial R&D is made through the Department's Requirements Boards and through the Product and Process Development Scheme. Most of the expenditure on space technology takes the form of contributions to the European Space Agency covering the UK share in the Agency's application programmes, (meterological, telecommunications and maritime satellite and space laboratory), together with a contribution to the Agency's overheads and the Ariane launcher technology. The remaining support is for a modest national space programme which helps UK companies to remain competitive in space techologies. The support for UK space applications will help UK firms to benefit from the potentially substantial orders for space equipment for associated ground stations and their equipment.

Support for aerospace, shipbulding, steel and vehicle manufacture

13. The provision for Concorde relates mainly to the UK share of the declining cost of supporting the aircraft and engines in airline service, including in-service development costs. The expenditure is net of forecast receipts from the sales to airline operators of spares and modifications. Seven of the sixteen aircraft produced have been sold to British Airways and seven to Air France; two are retained for development flying.

14. Finance for Rolls Royce Limited includes the provision of equity (£94m in 1980/1 and £130m in 1981/82 both figures at outturn prices) from the Secretary of State for Industry, following the transfer of the NEB's holding to the Secretary of State in August 1980. Provision is also made to cover the launch aid assistance announced in April 1979, supporting the development of the RR211-535 engine and further versions of the -524 engine. The Government is entitled to receive levies on future sales of these engines as under past launch aid contracts. Arrangements have been announced for waiving immediate payment of levies on orders on hand at the end of 1979 for engines which received past launch aid assistance.

15. The net provision in the other aircraft and aeroengine projects and assistance programme includes payments by way of interest rate support for the purchase of Airbus aircraft by UK airlines and receipts of levies on sales of civil aircraft and engines (other than Concorde and RB211) which were developed with Government aid.

16. The programme for refinancing and interest support of home shipbuilding lending is designed to ensure that guaranteed fixed-rate credit facilities are available to finance domestic orders for building ships in UK yards; it operates in parallel with a similar scheme for export credit. The programme covers the refinancing of bank loans and the cost of supporting the subsidised fixed rate of interest. New commitments to refinance ended on 31 March 1980, but commitments to provide interest support on previous refinancing and on bank lending will continue for several years. An experimental scheme was introduced on 30 October 1980 designed to encourage the premature repayment of loans by offering the immediate benefits of future interest subsidies on discounted basis.

17. The main element in the provision for assistance to shipbuilding is for the merchant shipbuilding intervention fund. Up to 31 March 1980 the Fund has helped obtain orders totalling over 830,000 gross registered tons and has provided over 37,000 man years of work for the yards concerned, as well as a substantial amount of additional employment in support industries. A £120 million fund covers the period up to 15 July 1981, and an additional tranche of £45m has been announced to cover the period to 15 July 1982 both figures at outturn prices. Provision has been included to meet the costs of additional redundancies and the cost of extending the shipbuilding redundancy scheme by a further two years (until June 1983) to help with the restructuring of the industry. Finally, the shipbuilding cost escalation scheme is also covered in this provision. The scheme was effectively closed to application in June 1980, and expenditure under commitments should fall sharply from 1981/82.

18. Under support for steel the Department of Industry makes payments under the readaptation scheme to assist steel workers made redundant by closures meeting Treaty of Paris conditions. Up to half the cost will be reimbursed from the Budget of the European Community, with receipts being credited to contributions to the European Community etc (net) under programme 2. The provision has been increased to cover the additional redundancy costs now expected.

19. As announced on 26 January 1981 shares in BL Limited are to be transferred from the NEB to the Secretary of State. Provision has been made for financial assistance on the basis of BL's corporate plan in 1981-82 and 1982-83.

DEPARTMENT OF ENERGY

REGIONAL AND GENERAL INDUSTRIAL SUPPORT

Selective Assistance to Individual Firms and Undertakings

20. The expenditure on selective assistance is to meet continuing commitments under the now terminated Offshore Supplies Interest Relief Grant Scheme. Payments are expected to remain at about £20 million until 1982-83 but will then decline. The expenditure is not subject to cash limits.

Other support services

21. Provision is made for expenditure on the protection of offshore oil and gas installations, which is undertaken by the Ministry of Defence. The expenditure is subject to cash limits.

SCIENTIFIC AND TECHNOLOGICAL ASSISTANCE

Non-nuclear research and development

22. This expenditure relates to offshore oil and gas operations, including work in support of the Department's statutory responsibilities for the safety of offshore installations; offshore geological studies; research into and development of new energy sources, coal utilisation and energy

conservation. It is subject to cash limits. Expenditure in 1980-81 is expected to be about £32 million (some £2 million more than in 1979-80) and to rise by a further £2 million in 1981-82. On present plans, some reduction in expenditure is forecast thereafter.

Nuclear research and development.

23. Most of this expenditure, all of which is cash limited, is for research and development work by the United Kingdom Atomic Energy Authority (UKAEA) in support of the nuclear power programme. A major item in the R & D programme continues to be expenditure on the fast reactor, which is forecast to continue at a similar level to 1979-80. The actual level of expenditure on the fast reactor over the survey period will depend on decisions to be taken by the Government. Provision is also made for work on plasma physics and fusion research; and for non-nuclear repayment work which is self-financing and therefore results in no net increase in expenditure.

SUPPORT FOR OTHER NATIONALISED INDUSTRIES (OTHER THAN TRANSPORT INDUSTRIES)

Assistance to the Coal Industry

24. Since Cmnd 7841, the Coal Industry Act 1980 has extended the period during which grants may be paid to the NCB.

Social Grants

25. Provision is made for the continued operation of the

Redundant Mineworkers' Payments Scheme (RMPS), for grants to the National Coal Board (NCB) to assist with the social costs of pit closures and for assistance in meeting the deficiency in the Mineworkers' Pension Scheme. Since Cmnd 7841, payments under the RMPS have been enhanced and the scheme has been extended to cover redundant coke workers. The resulting increase in expenditure on programme 4 is being offset by a reduction in the NCB's net borrowing from the Government and thus entails no increase in total public expenditure. The provision for these measures from 1980-81 onwards is about £100 million a year. The expenditure is not subject to cash limits.

26. In addition, provision is made for the payment of grants to the NCB to allow them to raise the minimum level of compensation to certain beneficiaries under the coal industry pneumoconiosis scheme. It is subject to cash limits.

Operational grants

27. The provision for operational and deficit grants, which is subject to cash limits, is on a declining scale consistent with the financial strategy for the industry under which the NCB have been set a target of eliminating their group deficit after interest and social grants from 1983-84.

Compensation for accelerating Capital Investment

28. The Department pays compensation to the Central Electricity Generating Board for accelerating capital investment to

maintain employment. The expenditure is subject to cash limits. From 1981-82 payments in respect of Ince B power station will cease and the expenditure will be entirely in respect of Drax B. This is forecast to be £9 million a year throughout the survey period.

CENTRAL AND MISCELLANEOUS SERVICES

29. Provision is made for the Department salaries and general administrative expenses. From 1980-81 it includes the transfer of provisions from the Central Computer and Telecommunications Agency and HMSO whose services are now to be provided on a repayment basis.

30. Other expenditure, subject to cash limits, includes provision for information and advice on energy conservation. Expenditure by the Department in 1979-80 was £1.5 million but it is expected to increase to £7 million a year by the end of the survey period as expenditure on energy conservation demonstration projects and combined heat and power schemes increases. No provision is made for net expenditure on the Department of Energy's oil storage and pipelines system as it is intended that costs will be exactly offset by charges to users and sales of stocks of oil. Exceptional sales of surplus oil held in Government storages account for the exceptionally high receipts in 1979.

31. Provision of about £1 million a year, which is not subject to cash limits, is made for fees payable to the British National Oil Corporation for handling oil taken in

lieu of royalty from offshore licencees. In 1979-80 sales of such oil realised £244 million. The proceeds are paid into the National Oil Account under Section 40 of the Petroleum and Submarine pipe-lines Act 1975.

2.4 INDUSTRY, ENERGY, TRADE AND EMPLOYMENT

DEPARTMENT OF TRADE

Export Promotion

32. Expenditure on export promotion covers net expenditure managed by the British Overseas Trade Board (BOTB) on export promotion, and subscriptions to international trade organisations. The main items of export promotion expenditure are assistance to British firms participating in overseas trade fairs and missions, and expenditure on the Overseas Project Fund, the Market Entry Guarantee Scheme, and the British Export Marketing Centre in Tokyo. The programme also includes British Standards technical help to exporters, assistance with market research and training in the interests of exports, and selective grants to non-official trade organisations.

33. In 1979-80 7785 British firms participated in 324 overseas trade fairs; 2370 firms took part in 213 overseas missions; and the British Export Marketing Centre, Tokyo, held 12 exhibitions attracting 196 British firms. During the year more than 90 firms received payments totalling £4.4 million from the Overseas Projects Fund.

Tourism

34. Expenditure to promote tourism covers grants-in-aid to the British Tourist Authority and the English Tourist Board, together with grants and loans for tourist projects in the assisted areas.

Regulation of domestic trade and industry and consumer protection

35. Provision is made for expenditure by the Department of Trade for the Patent Office, associated international subscriptions, and the Department's Insurance and Companies Divisions and the Insolvency Service. The figures are net of fees levied by the Patent Office, Companies Registration Office and Insolvency Service.

36. Provision is also made for expenditure on the Monopolies and Mergers Commission, the British Standards Institution, Nationalised Industry Consumer Councils, and for local authority expenditure on trading standards and consumer protection. The figures reflect the

abolition of the Metrication Board.

Expenditure by the Office of Fair Trading shown separately, that on the administration of the Consumer Credit Act is covered by fees.

Shipping

37. This covers expenditure on the Coastguard, the inspection and surveying of ships and equipment, the examination and licensing of seafarers, search and rescue, research, and the UK subscription to the Intergovernmental Maritime Consultative Organisation (IMCO). Routine expenditure on measures to combat oil and other chemical pollution at sea is covered, but no provision is made for the direct operational costs incurred in dealing with oil or other spill emergencies, the incidence of which cannot be predicted. The construction cost of a new building for the IMCO headquarters is also included. This building will be let to IMCO at a subsidised rent when completed.

CIVIL AVIATION SERVICES

38. This sub-programme includes support for the Civil Aviation Authority (CAA), capital expenditure by local authorities on aerodromes and other civil aviation services. Over the past four years the number of terminal passengers at UK airports has increased by 35 per cent and the number of air transport movements by 29 per cent. This increased demand has put pressure on navigation services and other facilities.

39. The CAA which is the main provider of air traffic control and en-route navigation services also has licensing and regulatory functions. It has achieved full cost recovery on its functions except for the Highlands and Islands aerodromes and on en-route navigation services in the UK's airspace. A grant in aid is paid by the Department of Trade to cover the Authority's revenue account deficit in respect of the latter where the rates of charge are determined by Eurocontrol. As charges for en-route services are increased by international agreement to recover full current estimated costs, the grant-in-aid will be phased out. Losses on

the Highlands and Islands aerodromes will be met from 1/4/80 by the Scottish Economic Development Department. Provision is also made for loans to help finance capital investment. With effect from 1981-82 the Authority's foreign borrowing will be included in the public expenditure planning total.

40. The major projects at local authority airports are a new terminal at Birmingham, improvements at Manchester and terminal extensions at Luton and Newcastle. The development of regional airports is expected to involve a somewhat higher level of spending on the part of local authorities than has been the case in recent years. The actual level and distribution of this expenditure will depend partly on local authorities' decisions.

41. The sub-programme also includes the UK subscriptions to Eurocontrol and the International Civil Aviation Organisation, research on aircraft noise, airport planning and some royal flights in civil aircraft.

EXPORT CREDITS GUARANTEE DEPARTMENT

Assistance to exports

42. Apart from its insurance activities which aims to operate at no net cost to public funds, ECGD is responsible for four public expenditure programmes. Two of these, the provisions of loans and interest support in connection with (fixed rate export finance), arise from matching our principal trading competitors who offer fixed rate extended credit terms. The former involves ECGD in making loans to banks to refinance a proportion of their fixed rate sterling export lending, whilst under the latter the banks are assured of a commercial rate of return on their unrefinanced fixed rate export lending.

2.4 INDUSTRY, ENERGY, TRADE AND EMPLOYMENT

43. A net repayment of (refinance) to the Government is expected in each of the next few years. This arises from the policy of the present and previous Government of reducing the provision of refinance for sterling credits, culminating in the withdrawal of the facility from 1 April 1980. Repayments in 1980-81 and 1981-82 are particularly large because of the once-for-all reductions in expenditure achieved as a result of the Trustee Savings Banks' agreement to take a further £200 million of outstanding refinance in each of those years (182 million and £171 million at 1980 Survey Prices). The estimates of future net repayments may be subject to substantial fluctuations and revision because of the nature of the underlying assumptions.

44. (Interest support) comprises the net cost of providing banks with the commercial rate of return on their own sterling and foreign currency lending together with the net cost of interest on the Government borrowing needed to refinance sterling export credit. The forecast for years after 1981-82 shows a significant fall in expenditure but this may be subject to substantial review depending primarily on the future level of market interest rates.

45. The third ECGD facility involving public expenditure is the (cost escalation scheme.) This provides some protection against increases in certain costs of completing export contracts for large capital goods. The Department's present authority to provide cost escalation cover has recently been extended for a further year to expire on 26 March 1982. The higher expenditure expected from 1981-82 onwards is attributable largely to commitments under which the greater part of the premium will be received by the end of 1980-81 and the greater part of claims payments will be spread over the ensuing three years. The forecast is subject to considerable uncertainty since it is based on assumptions about future levels of cost increase and the extent of demand for protection under the Scheme.

2.4 INDUSTRY, ENERGY, TRADE AND EMPLOYMENT

46. The fourth ECGD facility involving public expenditure is the (mixed credits matching facility). The activation of ECGD's existing powers to match foreign soft credits in certain circumstances is designed to provide more effective support to British exporters' sales efforts where they are competing with foreign offers on concessionary terms arising from the mixing of aid and trade credits. The United Kingdom remains an active supporter of international efforts to restrict and eventually to ban the use of unusually soft export credits which distort normal patterns of commercial trading. This limited facility is therefore defensive in purpose and will be kept under review in the light of progress in international talks to control the use of mixed credits.

DEPARTMENT OF EMPLOYMENT

Employment and training

47. This heading covers expenditure throughout Great Britain by the Department of Employment, the Manpower Services Commission, the Advisory, Conciliation and Arbitration Service and the Health and Safety Commission on services and measures to improve the functioning of the labour market, alleviate the effects of high unemployment and improve the health and safety of people at work. It also includes expenditure by local authorities on sheltered employment throughout Great Britain and on the careers service in England. It does not cover expenditure on the unemployment benefit service which appears in the social security chapter. The only expenditure not subject to cash limits is that included in the sub-programmes for special employment measures and payments from the Redundancy and Maternity Pay Funds.

48. Expenditure in 1980-81 is expected to be some £500m higher than planned in Cmnd 7841 primarily because of the effects of the recession on the number of redundancy payments and on the demand-determined Temporary Short-Time Working Compensation Scheme. As was announced in November 1980, this scheme and the Job Release Scheme are to continue, the Youth Opportunities Programme is to be greatly expanded, and the Special Temporary Employment Programme is to be replaced by a larger Community Enterprise Programme in 1981-82. The extra cost of these measures will be offset in part by savings elsewhere in the programme; but, overall, it is forecast that expenditure

in 1981-82 will be some £50 million higher than in 1980-81. The fall in the later years reflects mainly the forecast reduction in expenditure on redundancy payments and on the Temporary Short-Time Working Compensation Scheme.

49. The European Social Fund reimburses the Government for part of the cost of a number of employment and training measures in Great Britain run by the Department of Employment and the Manpower Services Commission (MSC). In 1979-80 these receipts totalled £103 million including £60 million for retraining of adults in areas of high unemployment, £25 million for provision of training and work experience for young people, £8 million for the special training measures run through Industrial Training Boards and £7 million for grants to small firms creating new jobs. In addition to these receipts, which are paid into the Consolidated Fund, the Social Fund makes payments through the Department of Employment to certain Industrial Training Boards, nationalised industries, local authorities and other organisations to cover part of the costs of training projects. In 1979-80 these payments amounted to £3 million. All of these receipts are included in the net contribution to the European Communities in programme 2.

General Labour Market Services

50. The main items of expenditure are the careers service in England, Community Industry (CI) and Special Temporary Employment Programme (STEP). The careers service is run by local authorities; and their expenditure, which ranks for assistance from the rate support grant, is included. In addition, as part of the special employment measures, specific grants are made by central government for specialist careers officer posts in areas of high unemployment. CI and STEP are run by the MSC on behalf of the Department of Employment and provide temporary employment for disadvantaged young people and long-term unemployed adults. Following the review of special employment measures in the autumn of 1980, additional funds were made available for Community Industry and for a Community Enterprise Programme (CEP) which will replace STEP. 7,000 places are planned for CI in 1981-82 and CEP is intended to provide 25,000 filled places by March 1982. CEP will operate on a nationwide basis but with priority given to projects in areas of high unemployment. Private sector and voluntary body sponsorship of projects involving community benefit will be encouraged. Provision has been made for the schemes to continue at this expanded level in later years subject to review.

51. Expenditure under services for seriously disabled people is on the provision of sheltered employment. The MSC acts as agent of the Department in the payment of grants to Remploy and those local authorities and voluntary bodies which provide the employment. The figures include capital expenditure for re-equipping some workshops to enable them to undertake long-term priority suppliers' contracts in the public service field and the cost of the sheltered employment procurement and consultancy service which has been set up within the MSC to assist workshops to obtain and retain such contracts. The average number of workers in sheltered employment in 1980-81 is estimated to have been 13,700 including 8,200 in Remploy.

52. Redundancy and Maternity Pay Fund payments. The demands on the Redundancy Fund rose rapidly in 1980-81, and the number of payment is likely to be 710,000 (including 65,000 for insolvencies). This is more than double the 1979-80 figure of 315,000. Payments are expected to fall off during 1981-82 when expenditure at only a slightly higher level than in 1980-81 is predicted. The plans assume a fall in requirements in the later years. Provision has been made for an increase in the number of payments from the Maternity Pay Fund to 130,000 in 1981-82 and 135,000 thereafter.

53. Since 1975-76, the Department of Employment has operated some special employment measures to mitigate the worst effects of high unemployment. Following the review of existing schemes in the autumn of 1980, provision was made for the continuation of the Temporary Short Time Working Compensation Scheme (TSTWCS) and the Job Release Scheme (JRS). TSTWCS encourages employers to adopt short-time working as an alternative to redundancy. The scheme was modified in November 1980 so that employers receive 50 per cent of normal wages paid to staff working short-time, rather than 75%, but support is given for 9 months instead of 6 months. The number of people covered by the scheme rose rapidly during 1980 to 600,000 in December. It is expected to continue to rise in early 1981 but to decline thereafter. Expenditure in 1981-82 is forecast to be at the 1980-81 level of £350 million. JRS enables employees approaching statutory pensionable age to make way for unemployed people in return for a weekly allowance. 63,000 people were receiving assistance under the scheme in December 1980 (including 6,000 disable people). The numbers

are expected to fall to 47,000 by the end of 1981-82. Both TSTWCS and JRS are subject to annual review but the expenditure plans assume that they will continue in their present forms. This sub-programme includes also grants to trade unions towards the cost of holding postal ballots, payments under the Pneumoconiosis etc (Workers' Compensation) Act 1979, and loans to the National Dock Labour Board to help meet the cost of severance payments to registered dockworkers.

54. Central services covers salaries and general administrative expenses of the Department of Employment; the provisions reflect a reduction in staff numbers to 1983-84. Provision is also made for the cost of industrial tribunals, the Employment Appeal Tribunal and the Office of Manpower Economics.

55. The provision for the Advisory, Conciliation and Arbitration Service takes account of reductions in staff levels to 1983-84. These arise mainly from the extension of the qualifying period of employment in cases of unfair dismissal.

56. The Health and Safety Commission and Executive were established to help improve the health, safety and welfare of persons at work, and to protect the public against risks arising from the activities of persons at work. The Commission's grant-in-aid is largely required for salaries and related administrative costs and the plans take account of a reduction in staff levels of some 6 per cent by 1983-84. Provision has been made over the years 1981-82 to 1983-84 towards the cost of dispersing staff to Merseyside. Expenditure in 1979-80 was at the planned level and in 1980-81 expenditure is expected to reach the planned level.

57. The Manpower Service Commission (MSC) is financed by a grant-in-aid which is borne on a Vote of the Department of Employment but funded in part by the Scottish Economic Planning Department and by the Welsh Office. The Scottish and Welsh contributions reflect that part of the cost of the MSC's plans and programmes for Scotland and Wales which can be identified separately. In 1980-81 these contributions were £67 million for Scotland and £37 million for Wales.

58. The MSC's services fall into the three main operational areas of (a) Employment Service and employment rehabilitation; (b) industrial training and (c) Youth Opportunities Programme. Across the MSC a progressive scaling down of the staffing level by some 14% between 1 April 1980 and the end of 1983-84 is reflected in planned expenditure.

59. The main expenditure in the Employment Service is on the placing service. Traditional employment exchanges are being replaced by jobcentres which are more cost effective and achieve better results than the older offices. By the end of 1981-82, over 700 jobcentres will be operational. The cost of the service is planned to fall as a result of reduction in staff; savings will also result from the decision to replace the experimental computer-aided matching system in London by the less expensive job bank. Facilities for some 14,500 persons a year are available in various types of employment rehabilitation centres, mainly in MSC's own centres. A review of employment rehabilitation is currently being undertaken.

60. Following a review in 1980 to consider the practical implications of merging the fee-earning service provided by the professional and executive recruitment service (PER) with the general employment service, the operations of PER were restyled with the replacement of its computer matching system by self-selection through a weekly job magazine. The re-styled service was introduced progressively during 1980 and a futher review is planned for 1981.

61. The figures in the following table show the development of the employment services and MSC's forecasts for 1981-82.

Employment vacancies, registrations and placings.
Table 2.4.2. thousands

	Employment service other than PER			Professional and executive recruitment		
	Vacancies notified	Registrations	Placings	Vacancies notified	Registrations	Placings
Actual						
1975-76	1,900	5,300	1,300	30	171	7
1976-77	2,130	5,510	1,480	28	197	9
1977-78	2,360	5,810	1,610	24	199	9
1978-79	2,670	5,980	1,805	18	174	7
1979-80	2,720	6,388	1,904	17	171	7
Estimated						
1980-81	2,000	6,960	1,500	16	240	6
1981-82	2,250	6,700	1,600	18	240	7

2.4 INDUSTRY, ENERGY, TRADE AND EMPLOYMENT

62. In the last two years a number of changes have been introduced to simplify the administration and improve the effectiveness of the employment transfer scheme which provides financial assistance to people who have to move to a different area to secure employment. Partly as a result, the number of workers transferred under the scheme fell from 23,000 in 1979-80 to an estimated 6,000 in 1980-81.

63. Industrial training expenditure includes grants by the MSC to industrial training boards (ITBs) and to other bodies to promote training in industry and also payments to individuals attending approved training courses under the Training Opportunities Scheme (TOPS). It has included also the MSC's grants to meet the operating expenses of ITBs. Following a review of the Employment and Training Act 1973, the Secretary of State for Employment announced on 26 November 1980, that it was the Government's intention that Exchequer funding of the operating costs should be reduced in 1981-82 and should cease in 1982-83. He has asked the MSC to review the need for statutory boards sector by sector.

64. The future scale and pattern of TOPS will continue to be subject to an annual review in the light of labour market conditions and availability of resources. Under this scheme training is provided in skillcentres, colleges of further eduction, employers' establishments, residential colleges for the disabled and other institutions. The courses vary in length; but the average both in skillcentres and in colleges of further education is about 29 weeks and in employers' establishments about 16 weeks. Reductions in the cost of the programme in 1980-81 and throughout the later years will be achieved through a combination of measures including the rationalisation of the skillcentre system, the closure of some skillcentre classes and reductions in other courses particularly in the clerical and commercial field.

65. Details of the numbers of trained and expected to be trained are given in the table below.

TOPS training: numbers trained (1)

Table 2.4.3

thousands

	Total	Skillcentres	Colleges of further education	Employers establishments
1975-76	65.8	19.8	36.9	9.1
1976-77	91.4	23.1	53.3	15.0
1977-78	98.9	24.6	57.1	17.2
1978-79	69.4	22.7	37.1	9.6
1979-80	74.5	21.9	41.6	11.0
Estimated				
1980-81	67.3	23.5	33.7	10.1
1981-82	61.0	22.7	30.7	7.6

Footnote

(1) Figures from 1978-79 do not include young people for whom financial provision is made in the Youth Opportunities Programme.

66. The MSC also provides certain direct training services to employers at a charge. In 1980-81 these have provided training for about 25,000 people in the commissions centres and within industry. The present economic situation and a move towards full cost recovery fees have reduced demand for these services. However, greater use of direct training services by employers is expected from 1982-83 onwards.

67. Expenditure on the Youth Opportunities Programme (YOP) continues to provide young people with skills, knowledge and work experience. There were 216,000 entrants to the programme in 1979-80 and this entry has risen to an estimated 324,000 in 1980-81. On 21 November 1980, the Secretary of State for Employment announced as part of

the programme of special employment measures that he was requesting the MSC to undertake in 1981 to offer a suitable opportunity to all unemployed school leavers by Christmas rather than by the following Easter. He also requested the MSC to try to offer a suitable opportunity, within 3 months, to any 16-17 year old who had been unemployed for 3 months. The expanded programme will provide 440,000 opportunities in 1981-82 and, subject to annual review, the plans provide for the programme to be maintained at that level in the following two years.

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2.5 GOVERNMENT LENDING TO NATIONALISED INDUSTRIES

1. Discussion of this programme is included in Part 3.

RESTRICTED   2.6 TRANSPORT

Table 2.6   £ million at 1980 survey prices

	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
Department of Transport									
(i) Motorways and trunk roads									
New construction and improvement	635	514	341	342	352	320	342)		
Maintenance	93	93	89	104	114	102	118)		
Total	728	607	431	446	467	422	460	460	460
(ii) Local transport									
Capital									
Roads - new construction and improvement.	540	514	319	307	342)				
Car parks	32	25	15	16	13)	544	511	500	500
Public transport investment	255	235	235	210	188)				
Current									
Roads-maintenance	623	576	554	593	558	547	517)		
Car parks	—	-5	-7	-11	-9	-18	-21)		
Road safety etc	9	8	8	7	8	8	10)		
Local authority administration	206	180	177	176	184	170	155)	940	940
Passenger transport subsidies							)		
British Rail	28	26	34	34	32)		)		
Bus, underground and ferry services	288	262	203	200	197)	225	206)		
Concessionary fares	113	113	107	114	118	110	104)		
Total	2,092	1,934	1,644	1,646	1,632	1,585	1,480	1,440	1,440
(iii) Central Government subsidies to transport industries									
British rail									

Table 2.6 (CONTINUED)

£ million at 1980 survey prices

	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
Passenger subsidies	496	455	445	409	449	454	474)		
Level crossing grant	17	14	15	13	13	14	15)		
Replacement allowance	-	-	16	61	61	64	64)		
Pensions	170	161	143	103	126	42	34)		
Other subsidies	149	47	7	2	1	-	-)		
National freight company	13	44	40	16	12	8	6)		
New bus grants to nationalised industries and private operators	37	32	32	34	34	34	22)		
Other central government support	1	1	2	2	4	5	5)		
Total	883	754	700	641	700	621	620	590	590
6.6 Ports	77	89	90	73	67	84	59	60	60
Total	77	89	90	73	67	84	59	60	60
6.7 Other transport services									
Roads and transport administration	30	30	27	27	26	26	28)		
Transport research and other services	43	21	13	10	12	13	17)		
Total	73	51	40	38	38	39	46	40	40
6.8 Driver and vehicle licensing*	83	80	63	58	51	57	54	50	50
Total Department of Transport	3,937	3,516	2,969	2,901	2,954	2,808	2,719	2,650	2,650

Table 2.6 (CONTINUED)

£ million at 1980 survey prices

	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
Department of the Environment									
.7 Other transport services									
Roads and transport administration	7	6	6	8	7	10	10)		
Transport research and other services	10	9	8	7	6	6	6)		
Total Department of the Environment	17	15	14	14	13	16	17	20	20
Total programme	3,953	3,531	2,983	2,915	2,967	2,824	2,736	2,670	2,670
--									
*Driver and vehicle licensing and registration and collection of related fees and duty									

2.6 TRANSPORT

1. The cash equivalent of the total expenditure in 1981-82 in table 2.6 is approximately £ billion. About half the expenditure on this programme is incurred by local authorities. Of this roughly one third is capital expenditure, covered by the cash limit on local authority capital expenditure shown in table 1.00 of this White Paper. Local authority current expenditure (which is mainly on road maintenance, subsidies for public transport, concessionary fares and administration) is eligible for rate support and transport supplementary grants, which are subject to cash limits. The remaining expenditure is incurred by central government. Of this expenditure, a little under half is for motorway and trunk road construction and maintenance and is directly cash-limited, as is expenditure on roads and transport administration, research and driver and vehicle licensing. Most of the remainder of the central government expenditure is for support to transport industries, chiefly British Rail, and either directly subject to a cash limit or covered by the external financing limits of the industries concerned. In the case of subsidies to British Rail there is a cash ceiling on grant related to the calendar year within the external financing limits related to financial years. The direct cash limits on central government expenditure in the programme are shown (with the prefix VI) in the list of Votes in table 1.00 of this White Paper; the External Financing Limit is shown in table 3.5.

DEPARTMENT OF TRANSPORT

2. The responsibilities of the Secretary of State for Transport are mainly restricted to England except for driver and vehicle licensing (UK), ports and British Rail (GB) and the National Bus Company (England and Wales). Transport expenditures by the Secretaries of State for Scotland and Wales which were formerly included in table 2.6 are now in tables 2.15 and 2.16 respectively, while expenditure on civil aviation and shipping is now in table 2.4. The programme includes expenditure on driver and vehicle licensing which is primarily a tax collection function.

3. Overall, the Department's expenditure is planned to fall by £107 million (3.9 per cent) between 1980-81 and 1983-84. For 1981-82 and subsequent years this involves additional savings

averaging 1.6 per cent below the levels envisaged in Cmnd 7841. The expenditure figures take no account of the report by Sir Arthur Armitage on Lorries, People and the Environment, published in December 1980. The manpower targets set for the Department in November 1980 entail a reduction by 1 April 1984 of about 3,200 (23 per cent) in civil service staff in post at April 1979. A further saving of 1,600 staff seconded from local government to the Department is planned by the phasing out of the Road Construction Unit sub-units announced in March 1980.

4. In 1979-80 projects in the English assisted areas, mainly local road and port schemes, received grants totalling some £0.0 million from the European Regional Development Fund. In addition, there will be receipts from the Community Budget under the "supplementary measures" scheme described in the text relating to programme 2.7.

Motorways and trunk roads

5. The Government's policies for trunk roads in England were set out in the White Paper "Policy for Roads: England 1980" (Cmnd 7908). The three main priorities are to assist economic recovery and development, to improve the environment and to preserve the investment already made in the network by adequate levels of maintenance.

6. Expenditure on motorway and trunk road construction in 1979-80 was £353 million. This was about £25 million (6 per cent) lower than the level planned after the June 1979 budget, but the cash limit, against which construction and maintenance expenditure together are controlled, was overspent by £3.85 million (about 0.8 per cent). Although expenditure in 1980-81 is expected to be close to the cash limit, the volume of construction work will again be lower than planned, largely as a result of considerably higher levels of increases in construction prices than were allowed for in setting the cash limit. The final figure is uncertain but seems likely to be about £320 million, a shortfall of about 14 per cent.

7. For 1981-82 the planned level is about £26 million (7 per cent) lower than previously envisaged. Of this, some £18 million is accounted for by transfers to other sub-programmes, including £7 million to maintenance to provide for more major renewal work on motorways (see para 8 below). For 1982-83 and 1983-84 reductions of about 2½ per cent below the Cmnd 7841 levels have been made. Despite these reductions, planned expenditure in 1982-83 and 1983-84 is higher than the actual level of expenditure in any of the years between 1977-78 and 1980-81. The planned programme will permit the completion of about 350 miles of new motorways and trunk roads in the period 1980-81 to 1983-84, including nearly 50 miles of the M25 London orbital route. Among other benefits, the roads expected to be opened in the next three years will save an estimated 2000 accidents a year.

8. Expenditure on motorway and trunk road maintenance in 1979-80 was £114 million, about 4 per cent above the planned level. Expenditure is likely to be slightly lower than this in 1980-81 but is planned to be about £118 million in 1981-82. This represents about 25 per cent of the Department's total spending on motorways and trunk roads, compared to 13 per cent in 1975-76. The increase reflects the need for a substantial programme of renewal of the older motorways as they reach the end of their design lives. Their use continues to increase: between 1975 and 1979 traffic on motorways grew by 32 per cent, including a 26 per cent increase in heavy goods vehicles. At least 50 miles of motorway will need rebuilding every year for the foreseeable future. The balance between spending on maintenance and construction in 1981-82 and subsequent years will be kept under review and further increases in maintenance will be made if this should prove necessary to preserve the capacity of the network.

9. The sale of long leases on motorway service areas proceeded during 1980-81: this reduced the public sector borrowing requirement in that year by about £42 million. It is expected to contribute similarly in 1981-82 between £6 million and £8 million. Some Road Construction Unit expenditure previously included

in motorway and trunk road construction costs has been reclassified as central government administration.

Local Transport

10. Local transport spending in 1979-80 was planned by the previous Administration to be £1734 million, of which £1086 million was current expenditure. The Government asked local authorities to make reductions of 3 per cent across all services on the planned amounts of current expenditure. The outturn of local transport spending was £1632 million, nearly 6 per cent below the level originally set. However, this saving was made entirely from the capital programme; current expenditure was very close to the planned figure. For 1980-81 latest estimates suggest that both capital and current expenditure may be at, or slightly above, the planned level. Between 1980-81 and 1983-84, the Government envisage a reduction of about 9 per cent in total, mainly in current expenditure. This is about 1½ per cent more than envisaged in Cmnd 7841.

Current Expenditure

11. The plans provide for a reduction of £99 million (9.5 per cent) in local transport current expenditure by 1983-84. Although it is for local authorities to determine their priorities within the total level of resources available to them, the figures for 1981-82, on which the Transport Supplementary Grant was based, reflect the Government's view that a substantial part of the savings should be found from administration and, / particularly in urban areas, public transport subsidies. While some reduction in road maintenance spending is also inevitable if local authorities are to make savings on the scale indicated, the Government believe that such savings can be made without prejudicing the structural integrity of the local road network.

Capital Expenditure

12. A smaller reduction (£39 million, about 7 per cent, by 1983-84) is proposed for capital expenditure than is envisaged for current spending. This reflects the Government's desire to maintain the transport capital programme as far as possible. The

provision covers both local roads and public transport. For 1981-82 the allocation, as well as enabling all committed expenditure, totalling nearly £300 million, to be met, enables new starts to be made on over 40 major road schemes costing more than £1 million and over £50 million of smaller schemes. For public transport it allows for further work on the Tyne and Wear Metro, a start on the new rail link to Birmingham Airport, renewal of rolling stock and new equipment for the London Underground, and purchases of new buses by London Transport, the Passenger Transport Executives (PTEs) and the municipal bus undertakings.

Central government support to transport industries

13. Under European Community regulations the Government must compensate the British Railways Board (BRB) for the costs which they incur in fulfilling obligations imposed on them by the Government to provide passenger services and to maintain and operate certain level crossings. Compensation for the costs of providing passenger services - including the costs of replacing assets used in the passenger business - is the largest item in this context. A deterioration in the trading results of the passenger services has meant that, although in 1979-80 actual support to BRB was lower than envisaged at the time of the June 1979 Budget, in 1980-81 it is likely to be close to the full provision contained in Cmnd 7841 and in 1981-82 the provision has been increased, for that year alone, by £18 million. This increase is matched by a reduction in **net borrowing within the agreed/ external Finance Limit.** Grants from the Government and from PTEs, the latter being part of the local transport provision, are included in the Board's external financing limit.

14. In addition, Government support is provided towards BRB's historic pension liabilities. The figures are provisional pending precise valuation of these liabilities, but the small reduction in the provision between 1980-81 and 1981-82 reflects projected fluctuations in the requirement from year to year.

15. Provision is also made for grants to the National Freight Company Limited (which replaced the National Freight Corporation under the provisions of the Transport Act 1980) to meet the cost of rail travel concessions extended to employees and pensioners formerly employed by BRB; to reimburse certain capital expenditure by National Carriers Limited up to the end of 1981; and to support certain pension obligations relating to the part of the business originally managed by BRB. As in the case with support to BRB, the pension figures are provisional pending precise valuation: a small increase in the provision between 1980-81 and 1981-82 reflects projected fluctuations in the requirement.

16. The provision for new bus grants (towards the cost of buses

for use on stage services) reflects the Government's decision to phase out the grant by 1984. In order to avoid double counting, expenditure is shown here only for grants to Nationalised Industries and to the private sector: investment in new buses by the local authority sector appears under local transport.

17. Other central government support consists of the grant payable under the Railways Act 1974 towards the costs of providing rail freight handling facilities and wagons in cases where a transfer of traffic from road to rail will produce worthwhile environmental benefits. In 1980 grants worth about £6 million have been approved, affecting almost three million tonnes of traffic. No provision is included with regard to the recommendations for extending the scope of the grant in the Report of the Inquiry into Lorries, People and the Environment published in December 1980.

Ports

18. The provision covers investment by the public trust ports and by local authority harbours and loans to ports in the private sector. It mainly comprises capital expenditure on port facilities, partly financed by loans from the National Loans Fund. Local authority ports account for about a third of the expenditure. The expenditure reflects the continuing requirement for the development of adequate port facilities. Provision is also made for grant assistance from central government to the Port of London Authority under the terms of the PLA (Financial Assistance) Act 1980. The overall outturn for 1979-80 was slightly lower than the provision envisaged in the June 1979 Budget, while that for 1980-81 is expected to be rather higher than provided in Cmnd 7841. These variations are largely due to the PLA staff severance programme, which took longer than expected to get under way in 1979-80 but which accelerated in 1980-81.

Other transport services

19. This sub-programme includes expenditure on central government

administration, transport research and certain minor items. Provision has also been made for receipts of fees for services such as driving and vehicle tests, which are expected to amount to some £35 million in 1980-81. The Government's proposal to transfer the testing of heavy goods and public service vehicles out of the public sector will affect this provision in later years, but it is not possible at this stage to quantify the changes.

Driver and vehicle licensing

20. This sub-programme covers expenditure on driver and vehicle licensing and registration and the collection of driver licence fees and motor vehicle excise duty; expenditure of some £54 million enables the collection of about £1,400 million in fees and duty. In addition to salaries and associated costs - which are expected to decline gradually from over 50 per cent of total expenditure in recent years to about 40 per cent by 1983-84 - provision is made for payments to the Post Office, who act as the Department's agents in certain vehicle licensing transactions, and for replacement of the mainframe computer at Swansea, which reaches the end of its design life in 1984.

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RESTRICTED

2.7 HOUSING

Table 2.7

£ million at 1980 survey pri[ces]

	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
Department of the Environment									
Current expenditure									
7·1 General subsidies:									
Central government subsidies to local authority housing	969	1,115	1,052	1,149	1,274	1,268	896		
Rate fund contributions to local authority housing	269	208	183	237	330	358			
Subsidies to new towns	82	87	96	100	101	101	94		
Housing association revenue Deficit grants	18	20	20	22	19	22	21		
Total general subsidies	1,338	1,430	1,351	1,508	1,723	1,749	1,011		
7·1 Rent rebates:									
Central government	115	105	98	88	92	174			
Rate fund contributions	89	98	102	100	100	61			
7·1 Rent allowances:									
Central government	38	36	46	40	36	59			
Rate fund contributions									
Total income related Subsidies	241	238	245	228	227	294	336		
7·2 Option mortgage scheme	171	191	182	164	186	200	210		
7·6 Administration									
Central government	14	15	16	18	18	21	92		
Local authorities	49	74	49	85	78	70			
Total current expenditure	1,813	1,948	1,843	2,003	2,233	2,333	1,650		
Capital expenditure									
Local authority gross expenditure									
7·4 Land	264	194	108	75	45	30			
7·4 New dwellings	1,850	1,944	1,734	1,359	1,091	808			
7·4 Acquisitions	291	180	103	90	62	25			
7·3 Improvement investment	509	497	504	600	761	576			
7·4 Other	148	126	102	81	71	57			
7·3 Improvement grants	118	99	88	120	138	117			
7·5 Gross lending to private persons for house purchase and improvements	798	320	197	230	272	120			
7·8 Loans and grants to the housing associations	317	330	322	236	195	159			
Total local authority gross expenditure	4,296	3,690	3,159	2,791	2,635	1,893	1,683		
New towns gross investment									
7·4 Land	36	24	6	10	8	4			
7·4 New dwellings	225	241	191	148	154	121			
7·3 Improvements	3	4	5	3	4	4			
Total new towns Gross investment	264	268	202	162	166	129	89		
Sales and repayments									
7·4 Land and dwellings local authorities	-108	-125	-268	-500	-577	-504			
7·4 New towns	-22	-23	-20	-29	-34	-42			
7·5 Associated lending-gross	58	80	148	277	406	572			
7·7 Repayments	-31	-41	-41	-46	-44	-49			
7·7 Repayments of loans to private persons for house purchase and improvements	-298	-297	-335	-334	-258	-190			
7·7 Repayment of loans to housing associations	-1	-4	-3	-7	-4	-8			
Total sales and repayments	-404	-412	-521	-640	-512	-521	-654		
7·8 Housing corporation schemes net loans and grants to housing associations	307	390	415	417	411	421	367		
7·5 Savings bonus and loans scheme for first time purchasers(net) and other lending(net)	-204	-4	-4	-4	-3	2	8		
Total capital expenditure	4,259	3,932	3,250	2,725	2,696	1,923	1,493		
Total programme	6,072	5,880	5,093	4,728	4,928	4,256	3,143	2,720	2,230

2.7. HOUSING

1. The approximate cash equivalent of the total of expenditure in table 2.7 in 1981-82 is £ million. Expenditure on the capital programme is subject to cash control. 1981-82 will see the introduction of new arrangements for the control of local authority capital investment under the Local Government Planning and Land Act 1980, which will give local authorities freedom to vire resources between programmes within overall allocations (see paragraph). These arrangements do not cover new town housing investment and receipts, which will however, continue to be cash controlled. There will be a net cash limit on Housing Corporation expenditure and receipts, which will replace the present cash limit on the value of approved schemes ranking for Housing Association Grant. The revelent cash controls are shown in table 1.00 of this White Paper.

DEPARTMENT OF THE ENVIRONMENT

2. Public expenditure on housing includes two main elements - capital investment by local authorities, new town development corporations, and the Housing Corporation, which at present makes up 45 per cent of the total; and revenue subsidies to public sector housing (including rent rebates and allowances) from central and local government, which account for 55 per cent. The capital programme includes expenditure on new dwellings and improvements, and loans and grants to private individuals for house purchase and improvements, less sales and certain repayments of loans. Central government assist home buyers through the option mortgage and first time purchasers schemes.

Policies

3. Important new developments in housing policy foreshadowed in Cmnd 7841 have taken place following the passage of the Housing Act 1980: particularly significant are the right to buy for public sector tenants; the Tenant's Charter to give new rights to those who choose not to exercise their option to buy; and the introduction of shorthold tenure and other measures to encourage the provision of rented accommodation in the private sector. Ministers have laid particular stress on the need to further low cost homeownership, through council house sales, releasing land to private builders, encouragement of starter homes and of shared ownership schemes, building for sale, improvement of existing property for sale (for which an Exchequer contribution is now available), and through the

use of the new local authority mortgage guarantee powers in the Housing Act 1980. The scope of both home improvement and home insulation grants has been significantly widened.

4. In harmony with the general aim of increasing local authorities' freedom to spend available resources as they think fit on the basis of local priorities, the arrangements for the approval of individual housing projects have also been revised. The new system will greatly reduce the degree of central government appraisal and control over the details of individual projects, while providing for increased local accountability on the part of housing authorities. The arrangements for control of housing association projects are also being revised and simplied.

5. The Housing Act 1980 provides for a new housing subsidy system to be introduced in 1981-82. The new system relates subsidy more directly to need. The Government reaffirm their commitment to reduce the overall level of housing subsidies over a period of years so as to enable a greater proportion of the resources available for public expenditure on housing to be devoted to capital rather than current expenditure.

Outturn for 1979-80

6. In volume terms (1980 Survey Prices) outturn for the programme as a whole was some £200m below provision in 1979-80. Within the total, outturn for current expenditure was £140m above provision because of the high level of Exchequer subsidy and rate fund contributions to housing revenue accounts. The capital outturn, however, was substantially below the provision on which the revised capital allocations to local authorities, which were made in August 1979, were based. The pattern of expenditure within the capital programme changed substantially. Local authorities radically increased expenditure on repair and improvement of their own stock, and hence started fewer new homes. There was considerable demand from the private sector for local authority mortgages.

Housing Expenditure in recent years

7. The following tables analyse some of the main effects of public expenditure on housing in recent years.

Permanent new dwellings started : Public Sector : England

Table 2.7.1 number of dwellings

	Local authorities	New towns	Housing associations	Total Public(1)
1975	110,300	15,000	18,800	144,700
1976	107,600	11,900	27,500	148,800
1977	81,100	8,600	26,300	117,100
1978	67,600	7,000	17,900	93,100
1979	46,600	7,500	13,900	68,500

(1) including Government Departments

Permanent new dwellings completed : Public Sector : England

Table 2.7.2 number of dwellings

	Local authorities	New towns	Housing associations	Total Public(1)
1975	103,400	11,500	13,700	130,000
1976	105,200	11,600	14,400	132,500
1977	101,900	12,400	24,200	140,000
1978	83,700	8,600	20,600	113,900
1979	64,800	6,900	15,800	88,400

(1) including Government Departments

Public sector improvements - work approved : England

Table 2.7.3 number of dwellings

	Local authorities(1)	Housing associations	Total
1975	36,200	4,600	40,800
1976	39,000	13,400	52,400
1977	37,600	18,800	56,300
1978	60,900	14,000	74,900
1979	76,000	18,200	94,100

(1) local authority figures from 1978 relate to work completed

Private sector improvement grants paid : England.

Table 2.7.4 number of dwellings

	Private owners
1975	85,400
1976	68,700
1977	57,000
1978	57,600
1979	65,400

Local authorities' loans to private persons for house purchase: England

Table 2.7.5 number of dwellings

	New dwellings	Other dwellings	All dwellings
1975	6,000	90,500	96,500
1976	800	21,600	22,400
1977	300	20,500	20,800
1978	100	23,000	23,100
1979	100	31,400	31,500

Housing association investment(1) (including private finance): England

Table 2.7.6 £m at 1980 survey prices

	1977-78	1978-79	1979-80	1980-81
New housebuilding	523	404	327	300
Rehabilitation	265	265	282	280
Total	789	669	609	580
of which privately financed	49	21	-	-

(1) figures exclude capitalised interest

Recipients of rent rebates and allowances : England and Wales

Table 2.7.7 Thousands

	Rent rebates	Rent allowances	Total
1975-76	1,900	400	2,200
1976-77	2,000	600	2,600
1977-78	2,100	600	2,700
1978-79	2,100	600	2,600
1979-80	2,100	500	2,600
1980-81 (provisional)	2,200	500	2,700

Gross unrebated rents(1) : England and Wales

Table 2.7.8 £ at outturn prices

	Average amount per dwelling per week	As a percentage of average weekly earnings(2)
1975-76	4.28	7.0
1976-77	4.91	6.8
1977-78	5.58	7.1
1978-79	5.90	6.6
1979-80	6.48	6.4
1980-81 (provisional)	8.10	6.5

(1) Rents are averages for the financial year. They are unrebated rents and exclude rates.

(2) Average weekly earnings (April) for full-time men (21 years and over) in all industries and services in Great Britain (excluding those whose pay was affected by absence).

Prospects for 1980-81

8. Some overspend on current expenditure seems likely, largely as a result of high interest rates. A threatened overspend of the local authority housing capital cash limit required the introduction of a moratorium on new commitments in order to prevent it being breached. The trend towards a high level of investment in improvement and repair of local authorities' own stock continues. This results in less available for new building and a curtailment of improvement grants for the private sector. So as to try to avoid exceeding their cash allocation the Housing Corporation have had to restrict the flow of new schemes and tender approvals.

Progress and plans

9. The total provision for the English housing programme in 1981-82 is £3144m of which £1492m is for capital expenditure. Given this reduced programme, it will be particularly important for spending authorities to make careful assessments of priorities in committing funds, over which they will have very wide discretion, and to take full advantage of initiatives of the kind outlined in paragraph 4 above. The levels of Exchequer and local subsidies achieved will depend upon the level of interest rates, the rents which local authorities charge and expenditure on management and maintenance. In determining reckonable income for 1981-82 for the purposes of the new subsidy system the Government set the expected increase in the local contribution to housing costs at £2.95 per dwelling per week; in addition local authorities will have to meet housing costs that fall outside the subsidy system, which on average may require rent income of a further 30p per dwelling per week.

10. The provision for housing in the years 1982-83 to 1984-85 reflects the Government's judgement of what the nation can afford in a situation where there will be a continuing need to keep public expenditure under firm control. The division of the programme for those later years has yet to be determined. The size of the capital programme that can be afforded will depend, as was indicated in Cmnd 7841, on the level of housing subsidies and of capital receipts.

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   (ii) Credit balances arising at the Housing Revenue Account (April 1980)

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   (iv) Proposals for reckonable expenditure and rechorable income (July 1980)

   (v) Proposals for reckonable expenditure in management and maintenance (September 1980)

   (vi) Determination of reckonable expenditure in management and maintenance for 1981/82 (November 1980)

   (vii) Determination of reckonable income for 1980/81 and 1981/82 (November 1980)

   (viii) Matters outstanding from Consultations to date: Response by the Secretary of State for the Environment (January 1981)

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2.8 OTHER ENVIRONMENTAL SERVICES

Table 2. 8

£ million at 1980 survey prices

	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
Department of the Environment									
8.1 Water services (other than land drainage and flood protection)	783	722	605	576	496	465	485	500	500
9.1 British Waterways Board	14	15	17	20	23	22	22		
8.2 Local environmental services									
Capital	771	587	536	520	398	416	311		
Current	1,522	1,463	1,535	1,546	1,622	1,466	1,388		
8.2 Local authority rate collection	92	88	93	90	96	96	94		
8.2 Records and registration of births, deaths and marriages	13	11	10	8	12	10	10	1900	1880
8.8 Urban programme	7	8	10	59	84	91	111		
8.8 Urban development corporations	—	—	—	—	—	—	66		..
8.7 Community ownership of development land	—	33	20	26	-2	—	—		
8.3 Royal palaces and royal parks	12	11	11	11	13	12	13		
8.4 Historic buildings and ancient monuments	16	15	14	16	18	20	21	160	160
3.4 The Heritage	1	2	2	2	3	6	2		
9.5 Regional and general industrial support	8	9	9	14	16	12	15		
8.6 Central and miscellaneous services	130	121	117	124	114	122	118		
Total DOE	3,367	3,086	2,980	3,012	2,890	2,740	2,655	2,560	2,550
8.99 VAT paid by local authorities	[illegible]	338	328	339	320	324	320	320	310
Total programme	3,721	3,425	3,308	3,351	3,210	3,064	2,976	2,880	2860

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2.8 OTHER ENVIRONMENTAL SERVICES

1. The cash equivalent of the total of expenditure in 1981-82 in table 2.8 above is approximately £ billion. Capital expenditure by local authorities is subject to the cash limit shown in table 1.00. of this White Paper: external financing limits apply to public expenditure on Urban Development Corporations and the British Waterways Board and influence the capital expenditure of the regional water authorities: these external financing limits are also shown in table 1.00. Together, these elements comprise about one third of the programme. Much of the remainder is current expenditure by local authorities, eligible for rate support grant (RSG) and national parks supplementary grant which are themselves subject to cash limits. Central government expenditure in this programme is comparatively small and most of it is subject to cash limits shown (with the prefix VIII) in the list of votes in table 1.00 of this White Paper.

DEPARTMENT OF THE ENVIRONMENT

REGIONAL WATER AUTHORITIES (ENGLAND)

2. The expenditure shown consists of capital expenditure by the 9 regional water authorities in England. Each water authority is allocated a share of the total provision for capital expenditure.

3. The Government's priorities for this programme are to meet urgent public health needs, new industrial development and new housing while maintaining the general standards of service.

4. The main services, with the percentage of capital expenditure on them in 1979-80 in brackets are: water conservation and supply (40 per cent); sewerage and sewage disposal (57 per cent). Other services include fisheries, amenity and recreation (3 per cent).

5. Public water supply in England averages about 14,900 megalitres a day, of which 11,400 is supplied by the regional

water authorities. 99 per cent of dwellings receive a piped supply. Of the total put into public supply approximately 40 per cent is used in the home, 30 per cent is metered and used by industry, commerce and agriculture; and the remaining 30 per cent is accounted for by unmetered supplies to commercial properties, fire-fighting and leakages in the system. In addition direct use of raw water under licence from rivers and boreholes for agriculture, industrial and other purposes, especially for cooling, amounts to some 13,200 megalitres per day,

6. Demand for piped water supply is expected to increase at the rate of about 1½ per cent per annum over the next five years and the demand for sewerage and sewage treatment services is expected to rise broadly in line with the demand for water. Over the next five years a rising proportion of total investment is planned for waste water disposal and the repair and renewal of underground services.

7. There will be receipts from the Community budget in respect of this expenditure under the supplementary measures arrangements described in the text relating to programme 2.7.

BRITISH WATERWAYS BOARD

8. The expenditure shown consists of grants paid to the British Waterways Board to cover operating losses which arise because the costs of essential maintenance of their waterways exceed the revenue that can be generated.

LOCAL ENVIRONMENTAL SERVICES

9. This group of mainly local authority services comprises refuse collection and disposal, provision of parks and recreational facilities, administration offices and services, environmental health, activities carried out under town and country planning powers (including assistance to industry), coast protection and the reclamation of derelict land, as well as other smaller services such as private street works, civic theatres, retail markets and cemeteries and crematoria. Capital expenditure by new town development corporations is also included.

10. From 1981-82 onwards all capital expenditure by local authorities on local environmental services will be covered by the new capital expenditure control system referred to in /Part I_7, although special approvals will be given for large coast protection schemes. The distribution of current and capital expenditure on particular local environmental services is primarily a matter for each local authority's discretion. /Tables 2.8.1 and 2.8.2 below show the distribution of current and capital expenditure on local environmental services in recent years_7.

11. Local authority income charges for building regulations and planning applications has been taken into account in the planned figures for expenditure on these services in future years.

URBAN PROGRAMME

12. The Urban Programme consists of a special allocation of resources set aside for the inner cities from the normal resources available in main expenditure programmes. Local authority expenditure on the programme is grant-aided at a rate of 75% by central government. The bulk of the Urban Programme expenditure is included in the figures in tables 2.8, above, though there are significant additional contributions on other programmes.

13. The Government's general objectives for the Urban Programme are to make the inner cities places where people want to live and work, and where the private investor and institutions are prepared to put their money. The partnership and programme authority arrangements in England are being streamlined, and will continue to provide the means for a co-ordinated attack on the problems of inner areas.

URBAN DEVELOPMENT CORPORATIONS

14. Under the provisions of the Local Government, Planning and Land Act 1980, two Urban Development Corporations are being set up, with the object of regenerating dockland areas of Merseyside and in London. The Corporations will undertake investment in co-operation as appropriate with the private sector and public authorities.

Current expenditure on local environmental services

Table 2.8.1 £ million

	1976-77	1977-78	1978-79	1979-80	1980-81
Town & country planning					
Recreation					
Administration					
Refuse collection/ disposal					
Other local services					
Total					

Capital expenditure on local environmental services

Table 2.8.2 £ million

	1976-77	1977-78	1978-79	1979-80	1980-81
Town & country planning					
Recreation					
Administration					
Refuse collection/disposal					
Derelict land reclamation					
Coast protection					
Other local services					
Total					

COMMUNITY OWNERSHIP OF DEVELOPMENT LAND

15. The community land scheme has now been abolished.

ROYAL PALACES AND ROYAL PARKS; HISTORIC BUILDINGS AND ANCIENT MONUMENTS

16. This covers the maintenance, etc, of royal palaces and royal parks in England; a grant to the National Heritage Memorial Fund; grants for the repair and maintenance of historic buildings and churches, and for schemes of architectural conservation and environmental improvement; expenditure on the purchase, maintenance and display of ancient monuments and emergency excavations, and payments to the Inland Revenue for assets accepted in lieu of capital transfer tax. All these elements form part of the Government's policy of preserving and maintaining the national heritage both directly and by encouraging owners to keep buildings in good repair.

CENTRAL AND MISCELLANEOUS ENVIRONMENTAL SERVICES

17. The major part of this expenditure is om departmental administration and in environmental research. Most of the remainder is on environmental bodies (the Sports Council, the Nature Conservancy Council and the Countryside Commission) and also includes expenditure from the Development Fund on advance factory building, assistance to small firms and social measures in rural areas. Within the research programme the emphasis on radioactive waste management research is to be maintained in order to provide a sound basis for unavoidable decisions in the nuclear energy programme. The Government are seeking means to achieve greater participation by private industry in the formulation and conduct of research programmes.

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RESTRICTED

Table 2. 9 (CONTINUED)

£ million at 1980 survey prices

	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
Treasury Solicitor's office									
9.1 Crown prosecutions	3	4	3	3	3	4	3		
9.1 Other legal services	1	1		1	1	2	1		
9.6 Central and miscellaneous services	6	6	6	6	6	7	6		
Total Treasury Solicitors office	10	10	9	10	10	12	11	10	10
Queens and Lord Treasurer's Remembrancer									
9.1 Crown prosecutions and other legal services	2	2	2	2	2	2	2		
9.6 Central and miscellaneous services	4	4	5	5	5	6	6		
Total Queen's and Lord Treasurer's Remembrancer	6	6	6	7	7	8	8	10	10
Home Office, Ministry of Agriculture Fisheries and Food, Department of Health and Social Security, Department of the Environment, Department of Transport and Department of Industry									
9.4 Civil defence									
Capital	13	7	1	1	17	3	6		
Current	16	16	14	14	15	17	23		
Total civil defence	30	23	15	15	32	20	29	40	40
Total programme	2,572	2,629	2,571	2,596	2,698	2,833	2,886	2,960	3,000

RESTRICTED

Table 2.9

£ million at 1980 survey prices

	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
Home Office									
9.1 Administration of justice									
Court services etc									
Capital	19	16	13	8	6	8	10		
Current	82	84	85	91	98	104	113		
Sub Total	100	100	98	99	104	112	123		
Revenue from fees and fines in magistrates courts	-62	-69	-78	-68	-79	-90	-93		
Total	38	30	20	30	25	22	29	40	50
9.2 Treatment of offenders									
Prisons									
Capital	50	46	39	32	24	30	29		
Current	243	244	249	263	276	286	286	320	330
Probation and after-care									
Capital	5	6	4	2	1	2	2		
Current	72	78	80	83	86	90	93	100	100
Total	370	374	372	380	388	408	411	420	430
9.3 General protective services									
Police									
Capital	78	66	53	47	43	64	72		
Current	1,394	1,460	1,451	1,430	1,496	1,559	1,569		
Fire									
Capital	17	14	13	12	10	10	9		
Current	363	376	348	377	376	382	378		
Other									
Current	2	2	2	2	2	2	2		
Total	1,852	1,919	1,867	1,867	1,926	2,017	2,030	2,070	2,080
9.5 Community services									
Current	12	13	14	15	19	23	19		
9.6 Central and miscellaneous services									
Current	68	66	68	66	62	72	73	90	90
Capital	5	2	2	2	1	1	4		
Total Home Office-excluding civil defence	2,346	2,404	2,342	2,361	2,421	2,543	2,566	2,620	2,640
Lord Chancellor's Department									
9.1 Administration of justice									
Court services etc									
Capital	6	5	6	8	21	26	27		
Current	53	53	59	64	68	70	73		
Legal aid	109	115	119	115	121	134	150		
Other legal services	9	10	11	13	13	15	16		
Total Lord Chancellor's Department	177	183	194	200	224	245	267	290	300
Northern Ireland court service									
9.1 Court services									
Capital	—	—	—	—	—	1	2		
Current	3	3	3	3	4	4	4		
Total Northern Ireland court service	4	3	3	3	4	5	6	10	10

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LAW, ORDER AND PROTECTIVE SERVICES

1. The cash equivalent of the total of expenditure in 1981-82 in Table 2.9 above is approximately £ [ ] billion. About a fifth is directly subject to cash limits. About three-quarters of the expenditure is incurred initially by local authorities, mainly on the police. Virtually all the small element of capital expenditure is subject to cash limit controls. Current expenditure is eligible for specific grants and rate support grant, the latter being subject to a cash limit. Almost all central government expenditure in the programme is subject to cash limits. The main areas are the administration of justice, prisons, the control of immigration and the development of good community relations, including grants towards certain voluntary services. The main areas of central government expenditure not subject to cash limits are legal aid, costs in criminal cases and criminal injury compensation. The cash limits are shown (with the prefix IX) in the list of Votes in table 1.00 of this White Paper.

HOME OFFICE

2. This chapter deals with expenditure on three main law, order and protective services: first, the administration of justice; second, the treatment of offenders within, or outside, penal institutions; and third, general protective services, mainly police and fire. It also includes expenditure on civil defence, the control of immigration, advancement of equal opportunities and the promotion of community relations, including grants towards certain voluntary services, and central administration.

Recent developments

3. Expenditure on the total programme for both 1979-80 and 1980-81 is virtually as forecast.

4. In the changed economic circumstances it has no longer proved possible to exempt law and order from the general search for savings. Nevertheless it has been possible to make provision for continued growth over the survey period.

2.9 LAW, ORDER AND PROTECTIVE SERVICES

Administration of Justice

Court services

5. In 1979 the number of defendants proceeded against for indictable offences (including those triable either summarily or at the Crown Court) in magistrates' courts was 460,000 - almost the same as in the previous year - and the number proceeded against for summary offences (1,588,000) rose by about 2 per cent. The decline in 1977 and 1978 was not sustained; the total number of all defendants proceeded against in 1979 was 1½ per cent higher than in 1978.

Total Number of People proceeded against at Magistrates' Courts

thousands

1969	1976	1977	1978	1979
1,702	2,210	2,093	2,019	2,049

Although there are signs that the upward trend evident until 1976 has been moderating slightly in more recent years, this change is not yet sufficiently established to justify revising previous assessments of a need for current expenditure on magistrates' courts to increase by about 2-3 per cent a year. The forecast figures for this expenditure rise from about £80 million in 1981-82 to about £85 million in 1983-84. These figures take account of £2.5 million a year over the same period in payments to the Metropolitan Police for the services of police officers and civilians in the magistrates' courts. The running costs are, in any case, more than offset by receipts from fines and fees in magistrates' courts.

6. There have been some reductions in the capital programme for magistrates' courts, but provision remains for approved major schemes and for some additional starts in the later years.

Higher Courts

7. Current expenditure on the higher courts is substantially related to the volume of criminal cases coming before the Crown Court and the cost of the services needed to deal with the case load. The running costs on civil business are largely offset by court fees.

8. Provision is included in the programme to cover the continuing increase in the volume of criminal business forecast to rise by 3 per cent each year from the current level of 56,000 committals in 1980-81 to some 61,000 in 1983-84. Against this cases disposed of in 1980-81, for the first time in recent years, will exceed committals by about 5% reflecting the increasing number of additional courtrooms being brought into operation under the court building programme and some increases in the number of Circuit Judges. Further information on the work of the courts is published annually in Judicial Statistics.

Costs from Central Funds

9. Responsibility for expenditue on costs from central funds was transferred from the Home Secretary to the Lord Chancellor on 1 July 1980. Expenditure on costs from central funds consists mainly of prosecution costs for indictable cases tried in the Crown Court and magistrates' courts. The provision, some £28m in 1980-81 rising to £33.4m in 1983-84, allows for some growth in expenditure in line with the expected increase in the number of cases. No allowance has been made for the possible expenditure implications of the Report of the Royal Commission on Criminal Procedure.

Capital Expenditure

10. On the capital side 44 courtrooms under the higher court building programme were brought into operation during 1979-80 and 1980-81, with about 50 more scheduled to come into use by 1983-84. Starts are planned for schemes involving a further 40 courtrooms.

Legal Aid

11. Responsibility for criminal legal aid policy was also transferred from the Home Secretary to the Lord Chancellor on 1 July 1980 together with responsibility for expenditure on legal aid in the higher criminal courts. Accordingly, the Lord Chancellor is now responsible for all legal aid expenditure in England and Wales. The provision for legal aid covers expenditure on criminal legal aid in the Crown Court, Court of Appeal and House of Lords and on the legal aid scheme, administered by the Law Society, which covers civil legal aid, advice and assistance and criminal legal aid in the magistrates' courts. The forecasts assume some growth in

expenditure during the relevant period, reflecting an increase in the number of criminal and civil legal aid cases. The forecasts do not take account of the recommendations of the Royal Commission on Legal Services for improvements in the financial conditions for legal aid. Further details about the civil legal aid and advice and assistance schemes are contained in the Legal Aid Annual Reports which are laid before Parliament by the Lord Chancellor.

Northern Ireland court service

12. Current expenditure on courts in Northern Ireland is forecast to remain stable at £4m per annum over the period to 1983-84. The current expenditure on civil business is largely offset by court fees. Capital expenditure plan on courts in Northern Ireland provide for 5 new courtrooms to be built up to 1983-84, 4 of these are additional courtrooms. It is intended to make starts on 6 courtrooms by 1983-84.

Criminal Injuries Compensation

13. The criminal injuries compensation scheme enables claims for personal injuries attributable to crimes of violence to be dealt with broadly on the same basis as civil law damages. In 1979-80 the Criminal Injuries Compensation Board settled, for England and Wales, and Scotland, about 21,000 applications for compensation and made about 17,000 awards at a total cost of £15 million. The forecasts allow for some modest increase in expenditure, at about £20 m a year. An agreed proportion of the expenditure (at present 20%) is recovered from the Scottish Office (and is met from programme 15.7).

Treatment of Offenders

Prisons

14. The daily average inmate population in 1979-80 was about 42,220; the forecast for 1983-84 is about 43,500. On any one day the population may vary from these figures by 1,000 or more. The provision will allow for completion of building schemes already in progress to provide 2,600 new or refurbished places

England and Wales

TABLE 2.9.1

PRISON SERVICE

Expenditure in £ million at 1980 survey prices

		1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
1. a. Total net expenditure		294.0	286.4	286.0	295.5	304.4	320.3	317.9	322.1	328.0
b. Index of total expenditure (1979-80 = 100)		91.78	89.41	89.29	92.25	95.03	100	99.25	100.56	102.40
2. a. Daily average inmate population		40,343	41,548	41,697	41,801	42,570	42,760	42,630	42,790	43,450
b. Index of population (1979-80 = 100)		94.34	97.16	97.51	97.75	99.55	100	99.69	100.07	101.61
3. a. Total average numbers of outstations non-industrial staff in post		18,481	19,294	19,693	20,032	20,612	20,885	21,827	21,827	21,827
b. Index of total outstations non-industrial staff in post (1979-80 = 100)		88.48	92.38	94.29	95.91	98.72	100	104.51	104.51	104.51
4. Staff/Inmate Ratio line 3a to line 2a		1:2.2	1:2.1	1:2.1	1:2.1	1:2.1	1:2.1	1:2.0	1:2.0	1:2.0
5. a. Total number of inmate places available at end of financial year		36,727	36,956	37,773	37,890	39,323	40,288	41,745	42,020	42,686
b. Index of total number of inmate places (1979-80 = 100)		91.16	91.72	93.75	94.04	97.60	100	103.61	104.29	105.95

and for the continuance of a programme of new starts. The provision will also allow for some progress in the implementation of the recommendations in the 1979 report of the inquiry under Mr Justice May into the United Kingdom prison services. The forecasts of current expenditure are net of expected revenue from prison industries and farms.

15. Table 2.9.1 provides a simple framework within which the allocation of resources may be related to their planned use and projected outputs.

Probation and after-care

16. There is provision for the number of probation officers (excluding about 600 officers working in prisons and other establishments and about 900 officers under training) to rise from 4,900 in 1980-81 to about 5,100 by March 1984; and for an increase from 1,463 to 1,654 places in adult probation and bail hostels, and for some expansion in other non-custodial forms of treatment. There is a small programme of new probation offices.

General Protective Services

Police

17. The recruitment of police officers remains high and wastage relatively low. As a result there were 116,036 police officers in post on 30 September 1980 or 1,536 above the figure for England and Wales implied in Cmnd 7841 (which included Scotland). The forecast number of policemen in England and Wales at 31 March 1981 is 116,900. Growth within establishment is expected to continue and provision is made accordingly. The forecast for 1983-84 is 119,000. If the forecast for any year is exceeded, further provision will be made both for the cost of additional manpower within individual establishments and for the essential associated expenditure on equipment, training and other support services.

18. By September 1980 most forces were within 3 per cent of establishment, and only the Metropolitan Police and the City of London Police had deficiencies greater than 5 per cent. Thus 77 per cent of the 4,690 vacancies were in London.

19. There is provision for the number of civilian staff giving operational support to the police to increase from about 43,000 on 31 March 1980 to 45,600 by 31 March 1984.

20. The programme for capital expenditure on police buildings allows for existing major schemes approved for starts in the earlier years and for a few new starts at the end of the period.

Fire Services

21. The programme assumes that fire authorities will reduce their expenditure compared with 1980-81 and earlier years but that fire cover will continue to be provided in accordance with recommended minimum standards. . Green Paper on future fire policy was published in June 1980. Its proposals were based on the need for an adequate level of fire protection to be provided as economically as possible. Allowance is made for a modest building programme and for the essential replacement of old appliances.

Civil defence

22. There is increased provision for improvements in the level of United Kingdom preparedness for civil defence, within the limits announced by the Home Secretary on 7 August 1980.

Community services

23. The programme allows for the Commission for Racial Equality and the Equal Opportunities Commission to continue at broadly their present levels of activity. It enables grants to voluntary organisations to continue at present levels, and for the programme promoted by the Voluntary Services Unit for the stimulation of local voluntary activity.

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2.9 LAW, ORDER AND PROTECTIVE SERVICES

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RESTRICTED

2.10 EDUCATION AND SCIENCE, ARTS AND LIBRARIES

Table 2.10

£ million at 1980 survey prices

	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
Department of Education and Science.									
Education and science.									
10.1 Schools									
Under fives									
Capital	46	8	9	16	10	11	7	10	10
Current	156	168	202	164	174	176	167	160	160
Primary, secondary and other									
Capital	538	519	404	329	314	256	215	180	160
Primary									
Current	1,661	1,679	1,604	1,679	1,680	1,633	1,554	1,490	1,440
133 Secondary									
Current	2,120	2,189	2,202	2,294	2,322	2,349	2,291	2,290	2,270
Special schools									
Current	210	224	232	242	246	248	247	250	240
Other (supporting services and fees at non-maintained schools)									
Current	161	161	149	135	131	114	116	110	110
Transport	129	132	128	134	140	113	137)		
Meals	507	491	432	427	403	202	194)	330	320
Milk	16	14	10	11	11	8	8)		
10.2 Higher and further education (including teacher training)									
Universities									
Capital	174	149	97	104	107	112	102	110	110
Non-Universities									
Capital	111	95	78	72	77	76	67	50	50
Universities									
Current	868	820	741	760	730	752	712)		
Voluntary and direct grant							)		
Current	81	70	58	54	52	56	53)	1,030	990

Table 2.10 (continued)

£ million at 1980 survey prices

	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-8
Maintained sector									
Advanced									
Current	398	377	352	356	368	354	315)		
Non-advanced (except adult education)									
Current	586	561	536	548	576	589	538	530	530
Adult	59	56	56	59	63	47	43	40	40
Student awards (1)	442	470	600	621	644	657	652	660	650
10.4 Miscellaneous educational services, research and administration									
Youth service									
Capital	9	9	5	7	9	4	4	-	-
Current	57	58	57	64	64	64	64	60	60
Research and other services (2)	49	47	45	43	48	42	40 }	350	350
Administration	334	321	310	321	322	318	314 }		
Total education									
Capital	883	786	600	533	525	462	400	350	320
Current	7,829	7,882	7,707	7,907	7,966	7,719	7,440	7,300	7,170
	8,712	8,668	8,307	8,440	8,491	8,181	7,840	7,650	7,490
10.5 Research councils, etc	329	341	329	342	342	347	346	350	350
Total education and science									
Capital	930	839	647	592	589	512	450	400	380
Current	8,111	8,170	7,989	8,190	8,244	8,016	7,736	7,600	7,460
Total education and science	9,041	9,009	8,636	8,782	8,833	8,528	8,186	8,000	7,840
Arts and libraries									
10.6 Central government									
Capital	12	19	9	16	10	7	7)	150	150
Current	107	118	126	128	143	148	139)		
10.7 Local authorities									
Capital	31	20	14	12	16	14	13)	200	200
Current	230	227	226	234	234	212	199)		
Total arts and libraries	380	384	375	389	404	381	358	350	350
Total programme	9,421	9,393	9,011	9,171	9,236	8,909	8,544	8,360	[illegible],190

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(1)

Expenditure on student awards includes the cost of reducing the contributions from parents of students to compensate them fo the phased withdrawal of child tax allowances which began in April 1977. This is balanced by corresponding increases in tax revenue following the reductions in child tax allowances for the parents concerned. This is a corollary of the arrangements for introducing child benefit (see programme 12). In addition, expenditure on student support no longer includes the salaries of teachers of induction and in-service training courses, which have been transferred to primary and secondary schools' current expenditure.

(2)

Includes recreational, social and physical training.

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2.10 EDUCATION AND SCIENCE ARTS AND LIBRARIES

1. The approximate cash equivalent of the total of expenditure in Table 2.10 in 1981-82 is £ million. The programme covers those areas which are the responsibility of the Secretary of State for Education and Science or, in the case of arts and libraries, will become so from 1981-82. About three-quarters of the programme is expenditure by local authorities in England, principally on schools (including meals, milk and transport) but also on institutions of higher and further education and libraries, museums and art galleries. The cash available to local authorities for current expenditure will be influenced by the cash limits on the Rate Support Grant and other Government grants which are shown on table 1.00 of the White Paper. Local authority capital expenditure is included in the cash limit on local authority capital expenditure also shown in table 1.00. The remaining quarter of the programme is expenditure by central Government. The only significant part of this not subject to cash limits goes on student awards in England and Wales. Other central Government expenditure under the programme goes on the universities in Great Britain, on voluntary and direct grant colleges in England, on science in the United Kingdom, and on grants made by the Office of Arts and Libraries. All this expenditure is covered by the relevant cash limits shown (with the prefix X) in the list of Votes in table 1.00 of this White Paper.

DEPARTMENT OF EDUCATION AND SCIENCE

2. Spending by local authorities on education in 1979-80 was close to the planned level in Cmnd 7439; and in 1980-81 is expected to be close to the level planned in Cmnd 7841 (although, within the total, expenditure on school meals is likely to be over £100 million above the planned level). Central government expenditure in 1979-80 was close to the planned level in Cmnd 7439 as reduced by some £60 million through the changes announced on Budget day in June 1979; and in 1980-81 is likely to be close to the level planned in Cmnd 7841. For future years the pattern of local authority spending on education will be determined by the decision of individual authorities but Table 2.10 and the rest of this section set out the Government's national priorities for the service as a whole.

2.10 EDUCATION AND SCIENCE
ARTS AND LIBRARIES

Education

3. The Government remain committed to the objective of maintaining and improving the quality of education. In the present economic situation, it has however been necessary to restrict the aggregate level of public expenditure on all services including education to what the country can afford at the present time. The Government accept that this will have some impact on educational provision but believe that local authorities and their other partners in education will wish to secure the maximum educational value for money within the substantial resources which will continue to be at their disposal; and to ensure that the quality of education offered to all children and students reaches the best standard possible so that it can serve as the foundation for further educational developments and improvements, not all of which need more resources.

Schools

4. The following Table (2.10.1) shows the numbers of pupils in shcools participation rates for those of them outside compulsory school age, and the numbers of teachers consistent with these expenditure plans.

5. Expenditure on under fives is expected to fall by about 5 per cent between September 1979 and the end of the period. It is assumed that this will arise mainly from reduced number of under fives in reception classes in primary schools. The capital expenditure plans for under fives continue to include a small element each year mainly for converting surplus primary school accommodation to nursery use.

6. Current expenditure on primary and secondary schools is assumed to fall by some 3½ per cent between 1978-79 and 1981-82 and by 6½ per cent between 1978-79 and 1983-84 compared with a projected fall in pupil numbers of 7½ per cent and 13 per cent respectively during the same periods. However, as explained in Cmnd 7841, an important element in the resulting increase in expenditure per pupil is the higher cost of teachers' salaries as the teacher force

becomes more senior following the recruiment of large numbers of young teachers in the 1960s and early 1970s.

7. In determining the provision for teachers, the Government have had regard to the need, so far as possible, to protect the curriculum, to sustain standards of staffing, in-service training and induction, and the quality of teaching, and to ease the problems of the necessary contraction of the teacher force through a steady annual reduction in numbers. Within the resources that can be afforded, the plans allow for the overall pupil teacher ratio to remain constant throughout the period (see Table 2.10.1). This implies some tightening of staffing standards in the schools as they reduce in size and the balance of their pupil population shifts towards the older age groups. The Government recognise that the achievement of these figures may lead to some redundancy but look to local authorities in co-operation with their teachers to manage the contraction of the teacher force so as to minimise its impact on curricular opportunities, taking full advantage of natural wastage, early retirement and redeployment. Provision for the release of teachers to in-service training and induction has been held at the current level. The programme also allows for an extension of schemes for the training and retraining of teachers in certain subjects, such as mathematics and science, until 1982-83; and for the introduction on a pilot basis of a scholarship scheme to encourage able applicants to train as teachers in these subjects.

8. For costs other than teaching, the plans assume that the reduction in non-teaching staff numbers in the current year will be maintained and extended in later years; and that expenditure on repairs, maintenance and other non-teaching costs, apart from books and equipment, will continue to be restrained. For books and equipment, there is evidence that reductions in provision in 1979-80 have impaired the effectiveness of teaching in some areas. The plans allow for a 2 per cent increase each year in provision per pupil.

9. The plans assume that some 700,000 surplus places - temporary and permanent - will be taken out of use in England by 1983-84. This should bring educational as well as financial benefits.

Table 2.10.1

thousands (except as indicated)

	ACTUAL					PROJECTED			
ACADEMIC YEAR	75-76	76-77	77-78	78-79	79-80	80-81	81-82	82-83	83-84
ENGLAND									
Pupil numbers:									
Under fives	440	432	415	429	429	424	394	394	394
All other primary	4452	4387	4275	4138	3980	3808	3642	3453	3332
Secondary:									
Under school leaving age	3441	3525	3577	3589	3573	3531	3461	3410	3325
Over school leaving age	259	274	275	283	293	299	303	302	298
School participation rates %									
Under fives	32.1	33.5	34.4	37.3	39.1	39.9	36.5	34.6	33.1
Over school leaving age	18.9	19.7	19.3	19.2	19.4	19.4	19.4	19.6	19.6
Teachers: numbers employed (full time equivalents)	431	433	436	441	438	424	411	398	386
Pupil: teacher ratios overall	19.8	19.7	19.4	18.9	18.7	18.8	18.8	18.8	18.8
Special schools:									
Pupils	121	122	124	123	122	120	117	115	113
Teachers	16	16	17	17	18	17	17	17	16

NOTES

(a) The table relates to all maintained schools, and includes pupils under five supported through the Urban Programme.

(b) Pupil and teacher numbers are as at January in the relevant academic year.

(c) The under fives are numbers participating, not full-time equivalents.

(d) Participation rates for under fives express the number of children under five in nursery and primary schools, part-time or full-time, as a percentage of three and four year olds in the population.

(e) The secondary over school leaving age participation rate is expressed as a percentage of all 17 year olds together with all 16 year olds who were eligible to leave school.

(f) Teacher numbers cover all teaching staff being paid, whether in school or not (eg released for in-service training) at the relevant date. It will be for local authorities to decide how best to deploy their teachers between age groups, and for this reason no distribution is shown within schools.

(g) Pupil: teacher ratios are derived arithmetically from actual and projected populations shown in the talbe and principally for the reasons in note (f) above, are not a measure of pupil: teacher ratios within schools. Numbers of pupils under five years of age include part-time pupils who are each counted as 0.5 when deriving pupil: teacher ratios.

2.10 EDUCATION AND SCIENCE
ARTS AND LIBRARIES

10. The figures in Table 2.10. for expenditure on special schools represent only the expenditure on those schools maintained by local education authorities. The cost of educating handicapped pupils at non-maintained special schools and independent schools is included in the following line in the table - Other (supporting services and fees at non-maintained schools). The total planned expenditure on handicapped pupils in these two lines remains broadly constant up to 1983-84. The Government's proposals for reforming the legislative framework governing special education are set out in the Education Bill now before Parliament.

11. Provision for capital expenditure allows for building to meet the basic need for new places resulting from movement of population as well as for some improvements each year, particularly where these assist the removal of surplus places.

12. There is provision of £3 million in 1981-82 rising to £13 million in 1983-84 (as in Cmnd 7841) for the establishment in 1981-82 of a scheme of assisted places to enable pupils who might otherwise not be able to do so to be educated at independent schools.

School meals, milk and transport

13. Local authorities have not fully achieved the savings on school meals and milk envisaged for 1980-81 in Cmnd 7841. The Government believe that it is in the interest of the education service that these savings should be fully secured in 1981-82 and subsequent years so that more essential aspects of education can be protected. Accordingly the expenditure plans continue to allow for these savings in full. They also allow for an increase after 1980-81 in the planned expenditure in Cmnd 7841 on school transport following Parliament's decision not to give local authorities descretion to charge for such services. There is an allowance for increased transport costs per pupil as the number of schools declines.

2.10 EDUCATION AND SCIENCE
ARTS AND LIBRARIES

Higher and further education

14. The reduction in planned expenditure on overseas students will result in a fall in total net current expenditure in higher and further education. Additionally, for home students in higher education, the plans provide for a progressive reduction in expenditure so that by 1983-84 institutional expenditure (net of tuition fee income) will be rather more than 8 per cent below the level planned in Cmnd 7841. This is likely to oblige institutions to review the range and nature of their contribution to higher education. It is also likely to lead to some reduction in the number of students admitted to higher education with increased competition for places; but the Government expect institutions to admit, as they have done this year, as many students as they can consistent with their academic judgement. The detailed implications of the plans for the university and non-university sectors are under discussion with the University Grants Committee and the local authority associations. In maintained higher and further education, the plans assume that the recommendation of the Council for Local Education Authorities on catering and residence charges will be fully implemented in 1981-82, thus saving some £20 million annually and bringing the charges onto a basis more in line with that underlying charges in universities.

15. Enrolments for non-advanced further education in 1979-80 were lower than expected and the planned expansion of provision for home students in later years has been reduced to reflect this. The following table shows the assumed projected increase in enrolments compared with Cmnd 7841.

Non-advanced Further Education — Table 2.10.2

'000 Home Students (full-time equivalent)

	Actual 1978-79	Provisional Actual 1979-80	Forecast 1980-81	Planned 1981-82	Planned 1982-83	Planned 1983-84
Cmnd 7841	482	505 /planned/	520	529	530	530
These plans	482	474	483	489	492	493

16. In all sectors of higher and further education, the plans assume a significant tightening of staffing standards.

17. The capital expenditure plans include provision for the necessary additional places in non-advanced further education as well as a limited number of essential adaptations in higher education.

Science

18. The Science Budget is intended to further scientific knowledge, to maintain a fundamental capacity for research and to support higher education. Each year it is allocated between the research councils (the Agricultural Research Council, the Medical Research Council, the Natural Environment Research Council, the Science Research Council and the Social Science Research Council), the British Museum (Natural History) and the Royal Society. Major areas of expenditure are research grants and contracts in universities, polytechnics and elsewhere, research units and establishments, post-graduate support and subscriptions to international scientific organisations.

19. The Government wish to give protection to the support of basic science, an activity which underpins further development and is a particular strength of the United Kingdom. Within the declining level of the total programme for education and science, the plans allow for provision for science to be held broadly at the current level throughout the period. It should thus be possible for the research councils, along with their other activities, to maintain their selective support for research in universities and polytechnics at broadly the current level at a time when provision generally for higher education is planned to decrease.

ARTS AND LIBRARIES

20. Planned central and local government expenditure on arts and libraries provides for national museums and art galleries, the British Library and the live arts and for assistance to organisations of local museums and arts bodies. Total expenditure is planned to

remain stable in 1982-83 and the two following years at about /1.5/ per cent below the 1981-82 level. Within this total, provision has been made for a number of limited new commitments, including particularly the implementation of the Public Lending Right Act 1979 and the commencement of the new building for the British Library, and for continuing annual contributions for the National Heritage Heritage Memorial Fund.

21. Planned expenditure includes a major component broadly indicating the Government's expectations in respect of local authority expenditure on libraries, museums and art galleries; actual expenditure on these services will be determined by the decisions of local authorities as to the distribution of the total resources available to them.

22. Expenditure on arts and libraries reached the planned level in 1979-80 and is expected to do in 1980-81.

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RESTRICTED

2.11 HEALTH AND PERSONAL SOCIAL SERVICES

Table 2.11 £ million at 1980 survey price

	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
Department of Health and Social Security									
11.1 National Health Service									
Hospital and community health services									
Current	5,056	5,076	5,231	5,364	5,365	5,466	5,585	5,680	5,680
Capital	563	547	426	434	395	418	454	450	450
Family practitioner services									
Current	1,424	1,504	1,536	1,569	1,565	1,568	1,587	1,640	1,690
Capital	1	1	1	1	1	1	1		
Central health services									
11.1 Other health services									
Current	104	107	109	114	128	136	139	150	150
Capital	6	6	6	6	12	15	17		
11.3 Central and miscellaneous services									
Current	174	169	163	162	160	183	177	180	190
Capital	2	1	1	1	1	2	4		
Total N.H.S.									
Current	6,759	6,856	7,040	7,210	7,217	7,352	7,488	7,630	7,680
Capital	571	551	433	443	408	436	476	470	470
11.2 Personal social services									
Local authority services									
Current	1,157	1,188	1,208	1,256	1,311	1,200	1,192	1,220	1,250
Capital	125	95	58	57	59	70	69	70	70
Central government services									
Current	6	6	6	7	7	7	7	10	10
Capital	1	2	1		1	2	2		
Total									
Current	1,162	1,194	1,214	1,263	1,318	1,208	1,199	1,220	1,250
Capital	126	97	59	57	60	72	71	70	70
Total health and personal social services									
Current	7,921	8,049	8,254	8,473	8,535	8,559	8,687	8,860	8,940
Capital	696	651	492	500	468	507	547	540	540
Total programme	8,618	8,700	8,746	8,973	9,003	9,067	9,234	9,400	9,480

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2.11 HEALTH AND PERSONAL SOCIAL SERVICES

1. The approximate cash equivalent of the total expenditure shown above for 1981-82 which is net of income from charges is £/‾ _7. It does not take account of receipts from NHS contributions (estimated at £1180 for 1981-82), which are however included together with income from charges in the NHS cash totals for supply Estimates and cash limits where appropriate. NHS spending is entirely central government voted expenditure, and some 80 per cent is cash limited. Most of the remainder is expenditure on the demand-determined family practitioner services. Local authority personal social services expenditure and spending on port health are subject to the cash limits imposed on the totality of the Rate Support Grant (RSG) and on local authority capital expenditure, which are shown in table 1.00. The other relevant cash limits are shown (with the prefix XI) in the list of votes in table 1.00 of this White Paper.

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

2. Table 2.11 shows expenditure on the National Health Service in England net of income from patient charges and gives tentative figures for net expenditure on the personal social services (see Part I, paragraph /‾ _7). The programme covers central government expenditure on the National Health Service, mainly by health authorities and family practitioner committees and expenditure on personal social services and port health mainly by local authorities. Responsibility for the funding of the Medical Research Council which previously fell partly within this programme has now been transferred to the Department of Education and Science.

3. Table 2.11.1 below shows that gross spending on the National Health Service is planned to increase by 4.3 per cent between 1980-81 and 1982-83. This reflects the Government's commitment to maintain previously planned spending levels for the health service, subject to a requirement for the NHS to find £25 million of planned growth through savings from more effective use of resources. The plans take account of revised forecasts of expenditure on the demand-determined family practitioner services and the Government's decision not to pursue some charging measures referred to in Cmnd 7841.

HEALTH AND PERSONAL SOCIAL SERVICES GROSS EXPENDITURE

Table 2.11.1 £ million at 1980 survey prices

	1979-80	1980-81	1981-82	1982-83	1983-84
Health					
Hospital and Community health services					
Current	5407	5510	5635	5730	5730
Capital	395	418	454	452	452
Family practitioner services					
Current	1703	1743	1788	1841	1896
Capital	1	1	1	1	1
Central health services					
Other health services					
Current	131	139	142	142	141
Capital	10	14	17	13	13
Central and miscellaneous services					
Current	161	184	179	177	179
Capital	1	2	4	1	4
Total NHS					
Current	7402	7576	7745	7891	7946
Capital	407	434	475	468	470
Personal social services					
Local authority services					
Current	1486	1370	1364	1393	1424
Capital	59	70	69	71	71
Central Government services					
Current	7	7	7	6	6
Capital	1	2	2	2	2
Total					
Current	1494	1378	1371	1400	1431
Capital	60	72	71	72	72
Total health and personal social services					
Current	8896	8953	9116	9290	9377
Capital	466	506	547	540	543
TOTAL	9362	9459	9663	9830	9920

4. Details of the main services provided over the period 1977 to 1979 are below.

Table 2.11.2 HEALTH SERVICE thousands

	1977	1978	1979 (provisional)
Primary Care			
GP - average list size	2.33	2.31	2.29
Health visitor cases	3,837	3,597	3,734
Home nurse cases	2,985	3,157	3,248
Prescriptions dispensed	295,656	307,097	304,556
Courses of dental treatment	26,972	27,105	27,165
Patients supplied with lenses	4,131	4,034	4,206
Numbers of sight tests.	7,419	7,850	8,113
In-patient services			
Acute and other hospital specialties			
Available beds	153	150	
Cases	4,224	4,204	
Throughput(cases per available bed)	27.6	28.0	
Length of stay (days)	9.7	9.4	
Geriatric medicine			
Available beds	57	58	
Cases	228	241	
Throughput(cases per available bed)	4.0	4.2	
Length of stay (days)	84.8	80.5	
Obstetrics			
Available beds	20	19	
Cases	695	731	
Throughput(cases per available bed)	35.2	38.3	
Length of stay (days)	6.6	6.4	
Mentally ill			
Available beds	93	91	
Mentally handicapped			
Available beds	52	51	
Out-patient attendances			
Acute and other	28,013	28,407	
Accident and emergency	13,123	13,360	
Geriatric and younger disabled	234	240	
Obstetrics	3,377	3,622	
Mentally ill	1,640	1,661	
Mentally handicapped	18	21	
Day hospital places	24	25	
Private patients (1)			
In-patient services (2)			
Authorised pay beds (3)	3.2	2.7	
Cases	92.6	92.2	
Out-patient attendances	105.0	111.0	

(1) Refers to private patients using NHS facilities and does not include services in private hospitals and nursing homes.

(2) Also included in the relevant categories above

(3) Not reserved exclusively for private patients

PERSONAL SOCIAL SERVICES

T. .e 2.11.3

thousands

	1977	1978	1979 (provisional)
Residential accommodation (No of residents)[1]			
Elderly	117	118	117
Younger disabled	10.3	10.2	10.0
Mentally ill	4.4	4.7	4.9
Mentally handicapped	12.0	13.1	13.7
Children	36.0	34.5	32.9
Day care places[1]			
Multi-purpose centres	10.7	11.1	12.3
Elderly	15.3	17.8	18.9
Younger disabled	10.3	10.4	10.5
Mentally ill	4.3	4.7	5.3
Mentally handicapped	38.7	40.8	42.1
All-day nurseries	29.0	29.1	30.1
Local authority domiciliary services[1]			
Home helps (whole time equivalent staff)	42.1	42.9	42.6
Main meals served	41,171	41,075	40,949

(1) Includes services made available to local authorities by voluntary organisations etc.

5. Estimated current expenditure per head of population in various age groups is shown below. This table illustrates the high cost to the health and personal social services of births and of caring for the very elderly, whose numbers are still rising (see table 2.11.5).

ESTIMATED CURRENT EXPENDITURE PER HEAD 1978-79 (ENGLAND)

Table 2.11.4 £ at 1980 survey prices

	Total	All Births	0-4	5-15	16-64	65-74	75 +
Hospital and community health	115	645	125	50	65	225	545
Family practitioner services	35	40	40	25	30	40	80
Personal social services	30	15	45	35	10	35	180
Total	180	700	210	110	105	300	805

Outturn 1979-80 and 1980-81

6. The volume of expenditure in 1979-80 on the cash-limited health services was about 97 per cent of the level planned. The shortfall mainly reflects the effect of pay and price increases higher than assumed. In cash terms, spending was about 98½ per cent of the funds available, most of the under-spend being accounted for by a specific agreement to allow health authorities to carry over to 1980-81 provision for arrears of pay arising from awards agreed too late to be paid out in 1979-80; this sum together with sums available to health authorities to be carried forward under the usual arrangements, was included in 1980-81 cash limits. In 1980-81 the cash limit provision for the hospital and community health services is likely to be a little less than that required to sustain the planned volume of expenditure; most of the shortfall is accounted for by the higher than expected cost of the award to nurses and midwives arising from the recommendations of Report No 3 of the Standing Commission on Pay Comparability (Cmnd 7795). The volume of expenditure on the hospital and community health services in 1980-81 will nevertheless be some 2 per cent higher than the level achieved in 1979-80.

7. After taking account of the effect of an increase in prescription charges in July 1979, the volume of spending on the family practitioner services in 1979-80 was only 0.2 per cent less than allowed for. Increased expenditure on pharmaceutical services was offset by lower spending in the general medical services and fewer than expected courses of general dental service treatment. The volume of expenditure in 1980-81 is also expected to be less than planned. The number of charges collected was lower than expected, and there were more courses of dental treatment; on the other hand, there were higher receipts than expected from the sale of pre-payment certificates and the number of prescriptions dispensed was less than anticipated.

8. Current expenditure on personal social services in 1979-80 was some 2.2 per cent above the level planned by the previous administration and 4.4 per cent above the volume of spending in 1978-79. The outturn for 1980-81 will depend on the local authorities' response to the Government's request to reduce their planned current expenditure on services as a whole Preliminary indications are that the total PSS level of expenditure in 1980-81 will be similar to that in 1979-80 but in view of the uncertainty revalued Cmnd 7841 figures are used in table 2.11.

Future plans

9. Plans for health spending have to take account of the need to make better use of all available resources and to restrain the overall level of public expenditure. Account must also be taken of the various pressures on the health and personal social services, including the cost of treating the increasing numbers of the very elderly (illustrated in tables 2.11.4 and 2.11.5).

POPULATION STATISTICS

Table 2.11.5 Millions

	Total	All Births	0-4	5-15	16-64	65-74	75 +
1975	46.5	0.6	3.2	8.2	28.5	4.2	2.3
1979	46.4	0.6	2.8	7.9	28.9	4.3	2.6
1985(*)	46.8	0.7	3.2	6.7	29.9	4.1	2.9

(*) 1979-based forecast.

10. Cmnd 7841 anticipated that additional revenue would be found for the health service from various charging measures, such as greater recovery of the cost of treating road traffic casualties and charges for most sight tests. The Government has now decided not to pursue these proposals but has increased

net expenditure by £100 million in order to maintain the previously pledged level of development. To help finance the service, NHS contributions payable by employees will be increased from 1 April 1981. Extra income of about £5 million in a full year is expected to accrue to the health service from charges to foreign visitors from countries without a specific health agreement with the United Kingdom for treatment received here other than in accident and emergency departments:it is hoped to implement this change from October 1981.

11. The Government is concerned both to improve the effectiveness of health service provision and to maximise efficiency in the use of public resources. The NHS will therefore be expected to find some £25 million of its planned growth through savings from greater efficiency from 1981-82 onwards. £23m of this will be found by health authorities, the remainder by savings in centrally financed services. Although the main direct savings from administrative restructuring of health authorities will not be realised in full until later years, the more effective management which will result from these changes should also assist authorities to make better use of their resources. In addition the Government is considering other ways of attaining better use of resources in the NHS, including the establishment of a Management Advisory Service. The resources effectively available for patient care will be further increased by sums released through efficiency savings over and above the £25 million mentioned.

Hospital and Community Health Services

12. The increase in gross revenue spending over the planned level for 1980-81 will be about 1¼ per cent in 1981-82 and about 1.7 per cent in 1982-83. Planned net expenditure will increase by about £86 million over the levels in Cmnd 7841 because of the decision not to pursue charging options. The planned levels of gross expenditure also take account of an

estimated £34 million a year due to accrue to health authorities from private patient charges. In addition to allocations from Exchequer provision, authorities will benefit from sums raised locally under the new fund-raising powers of the Health Services Act 1980. Voluntary donations and income (including investment income) accruing to health authority non-exchequer funds amounted to some £33 million in 1979-80: authorities also benefited from gifts in kind from voluntary bodies such as Leagues of Friends.

13. The rising costs associated with demographic change (about 0.7 per cent a year on average) will be accommodated in the growth planned up to 1982-83 and there will be a small margin for improvements in medical techniques and desirable service developments. The process of resource reallocation to ensure a more equitable geographical distribution of health care facilities will continue, but progress towards remedying the many deficiencies in the service will depend crucially on health authorities' ability to make even better use of existing resources.

14. Current expenditure in 1983-84 is shown at the 1982-83 level. Spending in 1983-84 will be decided in the light of the availability of resources and the scope for improved efficiency, taking into account demographic trends, the Department's priorities, health care needs, an assessment of the effect of medical advances and the demands resulting from other departments' policies and programmes. [Meanwhile health authorities will continue to plan on the existing assumptions that over the longer term growth in health care provision can be expected to average between 1 per cent and 2 per cent a year while recognizing that plans for development may need to be revised].

GROSS AND NET CURRENT EXPENDITURE ON HOSPITAL AND COMMUNITY HEALTH SERVICES

Table 2.11.6 £m at 1980 survey prices

	1980-81	1981-82	1982-83
Gross	5510	5635	5730
Net	5466	5585	5680

Family Practitioner Services

15. Planned expenditure to 1983-84 reflects the expected changes in demand for general medical, dental, ophthalmic and pharmaceutical services. Charges in all services will increase annually in line with costs, though it is not proposed that prescription charges which were increased to £1 in December 1980 should rise again before April 1982. Charges generally in the general dental service will be further adjusted to compensate for the shortfall in expected income arising from the decision to modify the original Cmnd 7841 proposal to charge young people aged between 16 and 21 who had left school and were not otherwise exempt for their dental care; the Health Services Act 1980 provided for charges to be levied from 1 April 1981 only for those between 18 and 21 subject to similar exemptions.

16. The table below shows current expenditure and income from charges in 1979-80, with estimated figures for 1980-81 and 1981-82. Expenditure in 1983-84 will be reassessed later as forecasts of demand are revised.

GROSS AND NET CURRENT EXPENDITURE ON FAMILY PRACTITIONER SERVICES

Table 2.11.7 £ million at 1980 survey prices

	1979-80			1980-81			1981-82		
	Gross	Charges	Net	Gross	Charges	Net	Gross	Charges	Net
General medical services	467	-	467	484	-	484	495	-	495
General dental services	337	70	267	336	77	259	343	89	254
General ophthalmic services	93	29	64	100	31	69	103	33	70
Pharmaceutical services	806	39	767	823	67	756	847	79	768
Total	1703	138	1565	1743	175	1568	1788	201	1587

Central Health Services

17. Planned expenditure on these services will be reduced by £2 million a year from 1981-82 in order to contribute to the efficiency savings required of the NHS as a whole. About half the planned saving will be found through Civil Service manpower reductions.

Personal Social Services

18. The figures for both current and capital expenditure in future years reflect the Government's call for additional savings in overall local authority spending. It is, however, for local authorities themselves to determine the actual level of expenditure on individual services recognising for example the demographic pressures arising from the increasing number of elderly people in the population, and the need to protect

as far as possible services for the most vulnerable. The expenditure figures for PSS in tables 2.11 and 2.11.1 are therefore necessarily tentative.

19. Spending on the personal social services is enhanced by the use of joint finance from the health programme. The planned level of allocations to add to unspent balances from previous years is £56 million in 1981-82 and £58 million in 1982-83 with at least a similar sum in 1983-84.

20. Apart from a statutory minimum charge for the elderly and physically handicapped cared for in local authority residential accommodation, individual local authorities largely determine the charges to be made (and the exemptions to be granted) for their services. The following table shows current expenditure and charges for the last three years:

GROSS AND NET CURRENT COST OF LOCAL AUTHORITY SERVICES

Table 2.11.B

£ million at 1980 survey prices

	1977-78			1978-79			1979-80		
	Gross	Charges	Net	Gross	Charges	Net	Gross	Charges	Net
Residential Care	698.2	147.3	550.9	717.8	151.8	566.0	755.4	147.7	607.7
Day Care	169.7	8.4	161.3	174.4	8.7	165.7	206.3	8.6	197.7
Community Care	285.7	16.5	269.2	293.6	17.0	276.6	347.8	18.8	329.0
Other	226.9	0.7	226.2	233.2	0.7	232.5	186.0	0.5	185.5
Total	1380.5	172.9	1207.6	1419.0	178.2	1240.8	1495.5	175.6	1319.9

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TABLE 2.12

£ million at 1980 survey prices

	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83(1)	198[illegible](1)
DEPARTMENT OF HEALTH AND SOCIAL SECURITY									
Contributory benefits (ie those paid from National Insurance Fund)									
12·1 Retirement pensions	7,851	8,043	8,235	8,710	8,814	8,983	9,295	9,600	9,600
12·1 Invalidity benefit	735	802	877	969	995	1,034	1,041)	1,300	1,400
12·1 Industrial disablement benefit	237	237	238	249	244	240	256)		
12·1 Widows' pension and industrial death benefit, etc	612	581	552	552	531	522	522	500	500
12·2 Lump sum payment to contributory pensioners, etc (3)	–	–	–	–	96	84	76	100	100
12·5 Sickness and injury benefits and maternity allowance	836	876	900	924	780	763	730)	400(5)	400(5)
12·5 Widows' allowance, maternity/death grants	128	124	111	112	107	105	100)		
12·5 Unemployment benefit	743	794	783	729	653	1,007	1,238	1,100	1,100
Total contributory benefit expenditure	11,142	11,457	11,696	12,245	12,220	12,744	13,258	13,000	13,100
Non-contributory benefits (ie those met from Voted expenditure)									
12·2 Old persons' pensions	55	51	45	43	36	32	30)	400	400
12·2 War pensions	424	402	386	393	375	368	369)		
12·2 Attendance allowance and invalid care allowance	146	165	181	198	207	214	223)		
12·2 Non-contributory invalidity pension	19	48	55	80	85	90	95)	500	500
12·2 Mobility allowance	–	12	25	54	79	109	123)		
Lump sum payment to non-contributory pensioners etc (3)	–	–	122	117	5	4	4)		
12·3 Supplementary pensions	759	814	827	923	895	900	1,011)	3,700	3,800
12·3 Supplementary allowances	1,381	1,619	1,756	1,678	1,541	1,870	2,463)		
12·4 Child benefit (2)	870	773	1,088	2,074	2,830	2,579	2,622)	2,800	2,800
12·4 Family income supplement	19	25	32	28	27	39	46)		
Total non-contributory benefit expenditure	3,673	3,909	4,517	5,588	6,080	6,205	6,986	7,300	7,400
12·6 Administration and miscellaneous services	894	649	837	769	764	782	855	850	840
Total DHSS	15,709	16,215	17,050	18,602	19,064	19,731	21,099	21,250	21,350
DEPARTMENT OF EMPLOYMENT (4)									
12·6 Administration	29	31	43	42	42	44	63	70	70
PROGRAMME TOTAL	15,737	16,246	17,093	18,644	19,106	19,775	21,161	21,300	21,400

[Fcotnotes to Table 2.12]

(1) Benefit expenditure rounded to nearest 100 and administration costs to nearest 10.

(2) Family allowance in 1975-76 and 1976-77. Child interim benefit included in 1976-77

(3) Lump sum payments to pensioners etc are payable with the relevant qualifying benefit

(4) Cost of paying supplementary benefit to the unemployed. (The cost of paying unemployment benefit is included in DHSS administration).

(5) Includes direct reimbursement to certain employers of a proportion of the payment for which they are liable under the proposed employers' statutory sick pay scheme.

2.12 SOCIAL SECURITY

1. The approximate cash equivalent of the total of expenditure in table 2.12 in 1981-82 is [figure to be supplied by Treasury (GE)]. Since benefits must be paid to eligible claimants, benefit expenditure is demand-determined and only expenditure on administrative and miscellaneous services, some 4 per cent of the total programme, is subject to cash controls (see table 1.00 of this White Paper).

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

2. The definition of Survey price figures has been changed in this White Paper (see paragraph 31 of Part 6). Social security remains by far the largest Public Expenditure programme, accounting as it does for about   per cent of all public expenditure. The programme consists entirely of central Government expenditure and covers all State-financed social security benefits listed in table 2.12. Between 1980-81 and 1983-84, it is expected to increase by 8 per cent mainly because of growth in the numbers of beneficiaries and higher levels of unemployment. About 63 per cent of the programme consists of contributory benefits, financed from the National Insurance Fund, and 33 per cent non-contributory benefits, financed from the Consolidated Fund. The balance is the cost of administration.

3. Table 2.12 illustrates the split between contributory and non-contributory benefits. Apart from this, with one exception, the presentation is unchanged from that shown in Cmnd 7841. The exception is on child benefit, where, following the Government's announcement that it was the intention to uprate child benefit each year to maintain its value, subject to economic and other circumstances, the cost of such uprating is included for illustrative purposes.

4. As requested by the Select Committee on Social Services, the table below shows total expenditure on social security benefits by broad groups of beneficiary.

5. The expenditure on the elderly shows a steady rise over the survey period and represents just over a half of the total expenditure on social security benefits in 1981-82. The increase in expenditure on the disabled and long term sick is due mainly to more people receiving invalidity benefit but partly to the introduction of new

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ESTIMATED AVERAGE NUMBERS RECEIVING THE MAIN BENEFITS

AT ANY ONE TIME

Table 2.12.1

THOUSANDS

	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
Retirement pensions	8,070	8,250	8,430	8,530	8,680	8,840	8,950	9,020	9,060
Invalidity benefit	470	510	550	600	620	650	650	660	670
Industrial disablement pensions	200	200	200	200	200	200	200	200	200
Widows' pensions and industrial death benefit	545	520	500	490	485	470	460	450	440
Sickness and injury benefits	515	520	540	560	490	500	510	200	200
Widows' allowance	40	40	35	35	35	35	35	35	35
Maternity allowance	80	80	90	100	115	120	125	130	135
Unemployment benefit	570	625	620	570	550	800	1,140	1,130	1,090
Old persons' pensions	90	80	75	65	55	50	45	40	40
War pensions									
Disablement	320	310	300	290	280	270	260	250	240
Widows' and other dependants	110	105	100	95	90	90	85	80	75
Attendance allowance and invalid care allowance	200	235	260	270	290	300	305	305	310
Non-contributory invalidity pension	105	105	115	150	165	170	175	180	180
Mobility allowance	5	30	65	95	140	190	200	210	220
Supplementary benefit									
Supplementary pensions	1,680	1,675	1,720	1,745	1,720	1,700	1,670	1,635	1,595
Supplementary allowances	1,145	1,305	1,345	1,275	1,200	1,415	1,775	1,990	2,010
Family allowance/Child benefit(1)	6,865	6,915	13,680	13,480	13,330	13,170	13,140	13,000	12,870
Family income supplement	60	70	85	85	80	90	100	110	120

(1) Numbers of qualifying children

Expenditure by broad groups of beneficiaries (supplementary benefits in brackets)

£ million at 1980 survey prices

Table 2.12.2

	Elderly	Disabled and long-term sick (1)	Short-term sick	Unemployed	Widows and orphans	Family (2)
1975-76	8,660 (760)	1,640 (215)	780 (15)	1,380 (635)	870 (20)	1,480 (495)
1976-77	8,910 (815)	1,720 (190)	800 (10)	1,630 (840)	830 (15)	1,480 (565)
1977-78	9,210 (825)	1,840 (195)	820 (15)	1,700 (920)	790 (15)	1,850 (615)
1978-79	9,770 (925)	2,010 (185)	830 (10)	1,540 (810)	800 (15)	2,880 (655)
1979-80	9,830 (895)	2,050 (185)	670 (10)	1,420 (765)	760 (10)	3,570 (570)
1980-81	9,990 (900)	2,140 (190)	650 (15)	2,070 (1,060)	750 (10)	3,350 (595)
1981-82	10,400 (1,010)	2,210 (220)	620 (15)	2,780 (1,540)	750 (15)	3,490 (680)
1982-83	10,660 (970)	2,250 (220)	260 (15)	2,920 (1,800)	730 (15)	3,580 (680)
1983-84	10,680 (980)	2,310 (230)	260 (15)	2,930 (1,860)	720 (15)	3,600 (700)

(1) Includes specific benefits for the disabled, invalidity benefit (payable after 28 weeks incapacity) supplementary allowances paid on account of extended incapacity and associated lump sums.

(2) Includes family allowances (child benefit in later years) family income supplement, maternity benefit and supplementary allowances paid to one-parent families and those looking after elderly parents.

disablement benefits. Expenditure on the unemployed is expected to increase between 1980-81 and 1983-84 by about 40 per cent as a result of the rise in the number of unemployed, but the expenditure on the short term sick will halve in 1982-83 on the proposed transfer of responsibility to employers for payment for the initial weeks of sickness. The replacement of family allowances (and child tax allowances) by child benefit and the extension of benefit to the first child of a family accounts for the large increase in expenditure on the family.

Recent developments

6. Social Security benefits were increased in November 1980. The standard single person rate of retirement pension went up to £27.15 a week and the married persons rate to £43.45. The standard single person rate of both unemployment and sickness benefit was increased to £20.65 a week, and the premium paid with child benefit to certain one-parent families was increased tc £3 a week and mobility allowance to £14.50 a week. In December 1980 a Christmas Bonus of £10 was paid to retirement pensioners and other groups of long-term beneficiaries. Heating allowances paid under the Supplementary Benefit scheme have been substantially increased. The basic rate which was extended to all supplementary pensioner householders aged over 70 was increased to £1.40 a week and the middle and upper rates were merged into a combined higher rate of £3.40 a week. Those on family income supplement were paid a further additional £1 a week over and above the normal uprating increase to help with heating costs. These changes to help meet the heating costs of those receiving supplementary benefit and family income supplement add £50 million to the programme in 1981-82 and in later years.

7. In accordance with the Social Security (No.2) Act 1980, the uprating of certain short-term benefits at November 1980 was abated by 5 percentage points. In addition the Pensioners Earning Limit was frozen at £52 per week. The entitlement formula for Earnings Related Supplement was reduced from January 1981 and the Act provides for the supplement to be abolished from January 1982. These changes and others were all foreshadowed in Cmnd 7841.

2.12 SOCIAL SECURITY

Outturn

8. The expenditure on social security in 1979-80 was £166 million or around 1 per cent, lower than estimated in Cmnd 7841. The main reasons for this are lower than expected claims for sickness benefit and reductions in adminstration costs. For 1980-81, expenditure is expected to be higher than estimated in Cmnd 7841 by some £44 million or under ¼ per cent.

The future

9. Estimated expenditure in this programme for the years from 1981-82 to 1983-84 reflect not only assumptions about changes in the demographic and economic factors which influence expenditure, but also the effects, as last year, of implementing Government proposals aimed at containing the level of public expenditure.

10. A Social Security Bill currently before Parliament places on employers statutory responsibility for payment of a minimum level of sick pay during the first 8 weeks of sickness. It is intended that this should take effect from April 1982. After allowing for the cost of reimbursement of sick pay to employers, the savings resulting from the change, including a saving of some 5,000 staff, will be about £305 million in 1982-83 and £335 million in 1983-84.

11. During 1980 prices increased by 1 per cent less than had been assumed when the rates of benefit for November 1980 were determined. Accordingly it is proposed, and the Social Security Bill so provides, to correct this over-provision in the rates of benefit operative from November 1981. The effect of correcting the overprovision will be to reduce the programme by about £55 milllion in 1981-82 and about £145 million a year thereafter. The above arrangements do not apply to child benefit which was increased in November 1980 at the same annual rate of increase as personal tax allowances. The new rate operative from November 1981 is being announced in the Budget.

12. Other changes to the programme as a result of policy decisions include the effects of freezing the earnings rule for pensioners for a further year (see paragraph 7 above). They also include the

administrative and once-for-all benefit savings that would arise if the Government's proposals on the frequency of paying child benefit and other social security benefits are adopted (see Cmnd 8106). These and other administrative savings reduce the programme by about £60 million in 1981-82, £10 million in 1982-83 and £15 million in 1983-84.

13. The effect of the proposals in paragraphs 10 to 12 above, together with further reductions in administration costs, as compared with Cmnd 7841, is to save about £140 million in 1981-82 and 1982-83, and £170 million in later years. The programme as a whole continues to grow, however, because of the estimated increased numbers of beneficiaries - see following paragraphs.

Estimating assumptions

14. For the purpose of the expenditure projections it was assumed that prices would rise by 11 per cent between November 1980 and November 1981, by 8 per cent between November 1981 and November 1982, and by 6 per cent between November 1982 and November 1983. It was also assumed that the unemployed (excluding school leavers etc) would average 1.81 million in 1980-81, 2.5 million in 1981-82 and 2.7 million in 1982-83 and 1983-84. The comparable figures for school leavers, adult students and temporarily stopped were 180,000 in 1980-81 and 200,000 in subsequent years. These are illustrative assumptions only. A variation of 100,000 in the unemployed (excluding school leavers etc) is estimated to vary benefit costs by about £110 million in a year.

15. Table 2.12 shows the estimated average numbers receiving the main benefits on which the expenditure figures in table 2.12 are based. It is estimated that the number of retirement pensioners would increase each year during the Survey period. The large increase in the number of children attracting child benefit between 1976-77 and 1977-80 resulted from the payment of an allowance for the first child of a family when the Child Benefit scheme started in 1977. The numbers fall in subsequent years because of the lower birth rate at the end of the 1960's. The figures for unemployment

benefit and supplementary allowances reflect the assumptions about unemployment and the effect of the benefit changes referred to above The numbers receiving sickness benefit show a large fall in 1982-83 because of the transfer to employers of responsibility for payment during the first 8 weeks of sickness in a tax year.

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2.13 OTHER PUBLIC SERVICES

Table 2.13

£ million at 1980 survey prices

	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
13.1 Houses of Parliament	32	30	29	31	36	37	36	40	40
H.M.Treasury									
13.1 Parliamentary election expenses	1	-	-	-	26	-	-		
13.2 Financial administration	57	60	66	64	72	83	83		
13.2 Exchange control	16	17	16	15	10	-	-		
13.2 UK coinage	17	19	20	18	21	26	20		
13.6 Other services	5	5	5	5	6	7	7		
Total HM Treasury	96	102	108	103	134	116	110	100	100
13.2 Customs and Excise	209	205	202	201	196	200	200	200	200
13.2 Inland Revenue	497	468	461	467	452	438	449	450	450
13.1 Her Majesty's Stationery Office	3	3	3	3	3	25	14	10	10
Civil Service Department									
13.3 Central management of the civil service	37	30	28	28	27	27	28		
13.3 Computers and telecommunications	5	10	8	9	8	4	6		
13.3 Miscellaneous services	1	1	1	-	-	2	1		
Total Civil Service Department	43	41	37	37	36	32	36	30	30
13.2 National Savings Department	77	72	56	49	49	55	66	60	50
13.4 Records, registrations and surveys	30	23	15	12	14	27	50	40	30
13.6 Other services	35	10	9	10	13	11	14		
Total Programme	1,023	954	919	914	931	941	973	930	920

2.13 OTHER PUBLIC SERVICES

1. The cash eqivalent of the total expenditure on this programme for 1981-82 shown in table 2.13 above is approximately £000 million. Cash limits cover some 95 per cent of this, and comprise certain central government votes relating to expenditure on goods and services by a number of departments and non-voted Treasury expenditure on services provided by the Bank of England. The relevant cash controls are listed in Table 1.00.

HOUSES OF PARLIAMENT

2. This expenditure provides for the functioning of Parliament and the cost of the Privy Council Office and its ministers. For Parliament, it includes the accommodation and works services in the Palace of Westminister etc, the pay, allowances, and pensions of Members of Parliament, Peers' expenses allowance, financial aid to opposition parties, the pay and pensions of the staff of both Houses, and the administration costs other than computers (shown under the Civil Service Department) and provision of services by Her Majesty's Stationery Office (shown under HMSO). It is incurred by the House of Commons and House of Lords Offices, the House of Commons Commission, the Privy Council Office and the Property Services Agency.

HM TREASURY

3. This comprises the Treasury's expenditure and expenditure by the Bank of England on the note issue, debt management, and the management of the exchange equialisation account. The following table shows the production of bank notes and, for debt management, gives a broad indication of the level of activity in British Government securities on the Bank of England register. The latter closely reflects market activity, and is liable to considerable fluctuations.

2.13 OTHER PUBLIC SERVICES

Note Issue and Debt Management

Table 2.13.1

Year ended February	1976	1977	1978	1979	1980
Production of bank notes (millions)	1,470	1,666	1,778	1,995	1,992
British Government Securities					
Transfers processed (thousands)	873	1,025	1,123	968	1,106
Number of accounts (thousands)	1,878	2,044	2,032	2,118	2,225

4. The Treasury's payments to the Royal Mint for its services are included, as are payments from the Consolidated Fund for the Queen's Civil List and other members of the Royal Family, Royal Household and Civil List pensions, and, from 1976-77, a supplementary grant to the Royal Trustees from the Treasury Vote. Provision is also made for the salaries of UK members of the European Assembly.

CUSTOMS AND EXCISE

5. The Department collects and accounts for revenue in respect of VAT and car tax; excise duties, principally on hydrocarbon oils, tobacco, alcoholic liquors and betting and gaming; and Customs duties and levies on imported goods. The Department is also responsible for carrying out non-revenue functions such as the compilation of overseas trade statistics, the enforcement of licensing and enforcement of import prohibitions e.g. against drugs and pornography.

6. Expenditure by Customs and Excise consists almost entirely of pay and related administrative costs. In 1979/80 about 42 per cent of total expenditure was attributable to the collection of VAT and car tax, some 14 per cent to Excise duties, some 22 per cent to Customs duties, levies and associated non-revenue work, and some 22 per cent to preventive work and fraud investigation. The total net revenue collected in 1979/80 amounted to some £18,261 million and the ratio of administrative costs to net revenue collected was about 1.35 per cent, although this latter figure has limitations as a measure of Departmental efficiency. The increase in receipts from VAT resulting from the increase in the standard rate in 1979 is expected to have the effect of reducing the percentage cost of collection in 1980/81.

7. On a constant price basis the administrative expenses of Customs and Excise, borne on its own vote, were just over 3 per cent lower in 1979/80 compared with 1978/79, and total manpower usage in 1979/80 was similarly down by about 3 per cent on the previous year. The expenditure outturn from 1979/80 was lower than provided for in Cmnd 7841 mainly because of reductions in staff below the levels forecast.

8. The relatively minor changes shown in the level of future expenditure are mainly attributable to fluctuations in planned capital expenditure on computer hardware needed for the replacement of current machinery. Future needs can be affected by changes in the level and location of trading activity in the UK, volume and source of overseas trade, and future budgetary changes.

INLAND REVENUE

9. The Revenue Departments' expenditure consists almost entirely of wages, salaries and related administrative expenditure incurred in the performance of their statutory duties. In 1979/80, about 87 per cent of net Inland Revenue expenditure was accounted for by the costs of administering taxes on income, profits and capital gains, including petroleum revenue tax and development land tax. Valuation

work (including that for rating purposes) accounted for a further 10 per cent, death duties and capital transfer tax for about 2 per cent, and stamp duties for about 1 per cent. These proportions remain unchanged from the previous year. In all, the Inland Revenue collected net tax receipts of a little over £28,000 million in 1979/80, and the expectation is that net receipts will be over £33,000 million in 1980/81. In addition, National Insurance contributions amounting to nearly £14,000 million were collected in 1979/80, and the receipts in 1980/81 are expected to be of the order of £17,000 million.

10. The ratio of collection expenses to net tax receipts fell to 1.89 per cent in 1979/80 as compared with 2.00 per cent in 1978/79. A major factor in this improvement was a very considerable increase in the yield of petroleum revenue tax, without any corresponding increase in expenses. If National Insurance receipts and the cost of their collection are brought into account, the ratio of collection expenses to net receipts would be about 1.31 per cent.

11. The Inland Revenue's administrative expenses borne on its own Vote in 1979/80 were, on a constant price basis, some 5 per cent lower than in 1978/79, and the present indications are that 1980/81 will show a futher reduction of about 3 per cent compared with 1979/80. Total manpower usage in 1979/80 was down by almost 5 per cent as against the previous year.

12. The Inland Revenue's figures for future expenditure do not include the major part of the expenditure involved in computerising PAYE, nor of the very substantial staff savings which are expected to flow from the project, as it will mainly be implemented after the end of the review period.

HER MAJESTY'S STATIONERY OFFICE

13. As foreshadowed in Cmnd 7841, Her Majesty's Stationery Office (HMSO) became a trading fund under the Government Trading Funds Act, 1973 from 1 April 1980. The bulk of expenditure on printing, stationery, office machinery etc supplied to public departments shown under the heading Stationery and Printing in programme 14 in Cmnd 7841 has therefore been distributed to other programmes where it forms part of their general administrative expenditure. The remainder, shown here, represents the borrowing requirements of the HMSO Trading Fund, the HMSO services and supplies to Parliament, and to UK members of the European Assembly, the subsidy for Hansard and the cost of the half price concession on all government publications purchased by public libraries.

14. Most of the trading fund borrowing for 1980-81 is for initial working capital: the balance, together with the provision for later years, is required to finance fixed capital investment, including the building of a new distribution centre for government publications and modernisation of printing presses and binderies. It is expected that in the early years of the trading fund's operation, less than half its capital investment will be financed from operations, but that this proportion will increase.

CIVIL SERVICE DEPARTMENT

15. This covers expenditure by the Civil Service Department on the central management of the civil service including central civil service recruitment and training and the Central Computers and Telecommunications Agency. It also provides for expenditure on the Civil Service Pay Research Unit, the Office of the Parliamentary Counsel and the Government Hospitality Fund. The expenditure is mainly in respect of pay and general administrative expenses.

16. The procurement of computer services and certain interdepartmental telecommunications services for government departments changed to a wholly repayment basis on 1 April 1980. Expenditure on Civil Service Catering (included under Miscellaneous Services) will change to repayment on 1 April 1981 and the provision is being transferred to other programmes.

NATIONAL SAVINGS DEPARTMENT

17. The main objective of Department for National Savings is to assist in the financing of the public sector borrowing requirement while providing a range of savings facilities, including those suited to the needs of the modest saver.

18. In his Statements on 9 September and 24 November 1980 the Chancellor emphasised that National Savings should once again make an appropriate contribution to financing the PSBR. To that end the Government intended to raise a further £1.5 billion of National Savings before the end of the 1980/81 financial year in additon to £0.5 billion that had already been raised, making about £2.0 billion for 1980/81. Further, it was determined to attract a total of not less than £3 billion of new money in 1981/82. Measures taken thus far to achieve those aims are the introduction of the 2nd Index-Linked National Savings Certificate, increasing the monthly contribution of SAYE 3rd Issue, increasing the number of Premium Bond prizes, increasing the amount of deposits held in the NSB investment accounts, and increasing the limit on holdings of 19th Issue National Savings Certificates. Further measures will be taken when, and if, necessary.

19. Under powers taken in the 1980 Finance Act the portfolio of investments of the National Savings Bank Investment Account (Invac) Fund became a liability of the National Loans Fund from 1 January 1981. From that date the administrative costs of Invac became a direct charge on the DNS Vote, and repayments of deposits and interest payments thereon became a charge on the National Loans Fund. Overall there is no net effect on public expenditure.

Table 2.13.2 National Savings[1]: balances held and management costs

	Balances held on 31.3.80 £million	Change since 31.3.79 £million	Cost per £100 Mean Balance (£)(2) 1979-80	1978-79
National Savings Certificates	6824[3]	+ 1193	0.32	0.31
Save As You Earn	440[3]	+ 86	0.84	0.92
British Savings Bonds[4]	591	- 116)	0.57	0.51
Government Stock	706	+ 317[5])		
Premium Savings Bonds	1405	+ 5	1.56	1.42

Notes (1) Excluding National Savings Bank (a non-Exchequer body).

(2) Administrative costs only. Cost of interest/prizes/ bonus excluded.

(3) Principal plus accrued interest/bonus/index-linked increase.

(4) Withdrawn from sale from 1 January 1980.

(5) Includes £293 million of Government Stock transferred from TSB December 1979.

RECORDS, REGISTRATIONS, AND SURVEYS

20. This item comprises expenditure by the Charity Commission, Land Registry, Public Record Office, Ordnance Survey, and Office of Population, Census and Surveys.

The Land Registry

21. The Land Registry's programme of gross expenditure of approximately £45 million to £47 million over the period of the survey provides for the anticipated growth in registered conveyancing in England and Wales. The increase in expenditure in the later years is mainly due to relatively heavy expenditure on computers. The effect on gross expenditure and receipts of the Housing Act 1980, which makes provision for the sale of council houses, is difficult to estimate. However, subject to the effects of any marked

fluctuation in the property market, receipts are expected to continue to cover expenditure throughout the survey period.

The Ordnance Survey

22. The recommendations of the Report of the Review Committee on the longer term policy and activities of the Ordnance Survey, published on 30 October 1979, are under consideration by the Government, which is also currently studying various possibilities for giving the Department a more enterprising and independent status. Until decisions are made on these issues the Ordnance Survey continues to operate under the interim guidelines for financial and pricing policy announced by the than Secretary of State for the Environment on 6 May 1977.

The Office of Population Censuses and Surveys

23. Provision forthe Office Population Censuses and Surveys (OPCS) includes expenditure on social surveys carried out as allied services for goverment departments and surveys carried out on repayment terms for the Statistical Office of the European Community. The growth in the OPCS provision over the period of the survey, and particularly in 1981-82, is a result of the inclusion of the cost of a full census of the population of England and Wales in 1981.

OTHER SERVICES

24. This item covers expenditure by the Cabinet Office, Parliamentary Commissioner, Public Trustee, Exchequer and Audit Department and net borrowing by the Royal Mint (a negative item).

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2.14 COMMON SERVICES

Table 2.14

£ million at 1980 survey prices

	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
14.1 Property Services Agency									
Capital expenditure	132	128	98	79	78	43	41		
Rent	118	124	132	127	125	125	116		
Maintenance and other running costs	128	141	141	138	129	105	111		
Transport services	10	10	10	8	9	7	8		
Departmental administration	44	47	38	36	38	38	39		
Total Property Services Agency	433	450	419	388	378	318	314	300	300
14.4 Central Office of Information	47	35	32	36	38	39	32	30	30
Paymaster General's Office									
14.5 Civil superannuation	447	459	457	468	508	566	650	660	710
14.7 Other services	4	5	8	7	7	7	8	10	10
Total Paymaster General's Office	451	464	465	474	514	574	658	670	710
14.6 Rates on government property	157	158	163	168	173	174	179	180	190
Total programme	1,088	1,108	1,079	1,068	1,103	1,106	1,183	1,180	1,230

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2.14 COMMON SERVICES

1. The cash equivalent of the total expenditure on this programme for 1981-82 shown in table 2.14 above is approximately £000 million. Cash limits cover some 30 per cent of this expenditure which is entirely by central government, and coprise certain central government votes relating to expenditure on goods and services. The relevant cash controls are listed in Table 1.00.

PROPERTY SERVICES AGENCY

2. Expenditure by the Property Services Agency provides accommodation services, mainly offices, to meet the needs of government departments. The coverage of the programme has been reduced compared with Cmnd 7841 by the exclusion of services for HMSO (see chapter 2.13). Expenditure to 1981-82 is expected to be split as shown in the following table (allocations in later years are still subject to review).

Analysis of Capital and Current expenditure

Table 2.14.1 £ million

	1978-79	1979-80	1980-81	1981-82
Capital*:				
Building Work				
HQ, Regional and Provincial Offices -	40	22	9	7
Dispersal	6	3	2	0
Other work including adaptions and improvements -	19	28	26	23
Furniture -	22	21	14	12
Disposals etc -	-6	-5	-6	-2
Current:				
Rent -	127	125	125	116
Maintenance -	74	73	59	56
Services provided by Landlords	16	16	16	16
Fuel and Miscellaneous -	73	69	65	67
Transport -	8	9	7	8
Receipts -	-24	-29	-35	-33
Administration (net)	36	38	38	39

* Excluding net borrowing from or repayment to the National Loans Fund by PSA Supplies which is included under capital expenditure in Table 2.14.

3. Net expenditure in 1979-80 was £379 million, £12 million more than forecast. £9 million of this was borrowing from the National Loans Fund for the Supplies Trading Fund mainly to meet short-term flucatuations in cash flows. The remainder was due to a shortfall in receipts caused by delays in receipts from property sales partly offset by net reductions in spending. The outturn in 1980-81 is expected to be about £318 million, £19 million less than previously forecast, due mainly to extra receipts and repayment of borrowings from the National Loans Fund.

4. The provision for 1981-82 has been cut by 6 per cent compared with Cmnd 7841 by postponing or cancelling new starts on building work other than highest priority schemes and by limiting current expenditure as far as possible to meeting statutory or legal obligations, payments under leases, essential day-to-day repairs and heating and lighting costs. Some cost saving in real terms should also be possible by reducing the area leased following Civil Service staff cuts. The following table shows the size of the estate to 1980 compared with the provisional forecast for 1983 given in Cmnd 7841. It is estimated that about 65 per cent of the non-industrial Civil Service, approximately 355,000 staff, were accommodated on the estate in April 1980.

Table 2.14.2 Size and Composition of the common user office estate (excluding space occupied by repayment bodies) (London figures in brackets)

thousand of square metres of agents letting area

	Total area	Percentage in Crown Ownership	Annual Change Crown	Annual Change Leased
1974	6247 (2481)	40 (33)	+11(0)	+131(+23)
- -				
1978	7059 (2665)	39 (32)	+50(0)	-21(-11)
1979	7123 (2640)	40 (31)	+54(-21)	+10(-4)
1980	7012 (2515)	39 (30)	-85(-63)	-26(-62)
- -				
1983	6750			

N.B. Figures for 1974 were kept on a different basis from that used after 1978 and may not be completely compatible with later figures.

5. Expenditure on rents at 1980 Survey Prices is based on rents being paid at September 1979. The estate still contains many old leases with low historic rents which are much below current levels. The effect of this keeps the average rent down; the increase in money terms as such old leases fall in is shown by the following table.

Table 2.14.3 Average rents paid by the PSA in 1978-80 at current prices

£ per square metre agents letting area

	London	Elsewhere
1978	29.8	14.9
1979	34.7	16.9
1980	38.0	18.2

N.B. These figures show the average rent payments due under the lease at 31 March of the year in question and do not coincide with payments made in a financial year.

6. Administration costs subsume the 3 per cent cut in staff numbers decided on for 1981-82. An increased requirement for consultants fees reflects the needs of the prison programme in particular.

7. The receipts shown under current expenditure in Table 2.14.1 are mainly payments from the National Insurance Fund in respect of accommodation occupied by civil servants administering the fund. Administration costs in the Table are shown net of about £27 million of receipts from repayment work for the Post Office and other customers; the volume of such work has been falling in recent years. The PSA also receives about £23 million a year from renting property to repyament customers. These receipts, which include service charges, are not at present netted off expenditure in this programme.

CENTRAL OFFICE OF INFORMATION

8. This covers expenditure on publicity services carried out by the Central Office of Information for other government departments at home and the Foreign and Commonwealth Office overseas. The major continuing compaigns are for recruitment to the armed forces, road safety, energy conservation, recruitment to the Prison Service, and support for the export drive.

PAYMSTER GENERAL'S OFFICE

Civil Superannuation

9. This covers net expenditure on superannuation and redundancy compensation benefits for civil servants and their dependants. Expenditure in 1979-80 was slightly below Cmnd 7439 plans because of a fall in the number of retirements. The forecast outturn for 1980-81 exceeds Cmnd 7841 plans because of an increase in the number of retirements, including early retirements resulting from the rundown of Civil Service numbers, and because of higher average awards. On 30 September 1980, pensions averaging £1,545 a year were in payment to 289,100 retired civil servants and pensions averaging £519 a year were being paid to 94,100 widows and other dependants.

10. The plans for future years assume a continuing increase in normal age retirements and more early retirements as a result of measures taken to reduce the size of the civil service. The volume of expenditure will also increase as the average level of benefit goes up and as the number of pensions in payment continues to rise because of reduced re-employment opportunities.

Other Services

This covers the general administrative costs of the Paymaster General's Office. The Office acts as banker for most Government Departments and for certain non-Exchequer bodies and is responsible for the payment of a million public service pensions. It also provides monthly statistics of government expenditure to HM Treasury. The increase in funds in 1981-82 is necessary to meet the costs for computers and support services.

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Table 2.15

£ million at 1980 survey prices

	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
15·1 Agriculture, fisheries, food and forestry	115	132	105	94	124	144	110	110	100
15·2 Industry, energy trade and employment (excluding tourism)	38	124	98	108	113	129	124	120	120
15·10 Other public services	86	84	83	86	83	83	82	80	80
15·11 Common services	—	—	—	—	—	1	1		
Other services(2):									
15·3 Industry, energy trade and employment (tourism only)	4	3	4	4	5	4	5	5	5
15·4 Transport	389	350	372	394	379	355	352	340	340
15·5 Housing	861	819	770	745	765	687	614	540	460
15·6 Other environmental services	546	459	420	453	477	434	418	390	390
15·7 Law, order and protective services	259	256	244	249	263	269	271	270	280
15·8 Education and science, arts and libraries	1,119	1,102	1,069	1,066	1,061	1,023	989	970	960
15·9 Health and personal social services	1,171	1,189	1,203	1,262	1,260	1,270	1,306	1,340	1,360
Total other services	4,350	4,179	4,082	4,173	4,209	4,042	3,955	3,860	3,800
Total expenditure within the Secretary of States responsibility	4,589	4,518	4,368	4,462	4,530	4,399	4,271	4,170	4,100

(1) This programme includes only that expenditure in Scotland which is within the responsibility of the Secretary of State. There is expenditure in Scotland in other programmes.

(2) The allocation of expenditure among these services for future years may be altered at the discretion of the Secretary of State. Expenditure on agriculture, fisheries, food and forestry and on industry, energy, trade and employment (excluding tourism) is not similarly transferable because these services are influenced to a greater extent than others by national and EC policies.

2.15 SCOTLAND

1. The approximate cash equivalent of the total expenditure in table 2.15 in 1981-82 is . Some 46 per cent of this expenditure will be subject to direct cash controls in 1981-82, which comprise certain central government votes relating to expenditure on goods and services and the local authority capital expenditure cash limits (one of which also includes the capital expenditure of certain public corporations). In addition local authorities' current expenditure will be influenced by the cash limit on Rate Support Grant, which, with specific grants, will cover about two-thirds of revelent expenditure. The relevant cash controls are listed in table 1.00.

2. Table 2.15 covers expenditure in Scotland within the responsibility of the Secretary of State for Scotland; in previous years this expenditure has been aggregated with the English and Welsh figures in the various functional programme chapters of the White Paper and summarised in the territorial analyses. The table does not cover the external financing requirements of the nationalised industries for which the Secretary of State is responsible (see Part 3) nor does it cover the expenditure by the Manpower Services Commission in Scotland which appears within the Commission's other expenditure in Great Britain table 2.4. Expenditure in Scotland which is the responsibility of other Ministers will be found in the tables relating to these Ministers' responsibilities; in particular expenditure by the Lord Advocate will be found in table 2.9 and expenditure by the Property Services Agency in support of programmes for which the Secretary of State for Scotland is responsible is in table 2.14.

3. The services within the programme covered by the table fall into two groups. The first group, comprising the first four lines of the table, are services that are influenced to a greater extent than others by United Kingdom and European Community policies. The provision for each of those services is separately determined and is not freely transferable to any other service. The second group, comprising the Other Services in the table, form a block of services for which aggregate provision is adjusted by taking account of changes to comparable English or English and Welsh programmes

and for which, within the aggregate, the Secretary of State may apportion expenditure among the individual services at his discretion.

4. Expenditure on the programme is variously incurred by central government, by other public corporations and by local authorities. Local authority current and capital expenditure accounts for the largest portion - about 52 per cent of all expenditure in the programme. About two-thirds of current expenditure provision is met through Rate Support Grant and certain specific grants. A summary of local authority expenditure (a small amount of which is the responsibility of other Ministers) is shown in table 2.15.7 below.

Outturn 1979-80 and Prospective Outturn 1980-81

5. In 1979-80 expenditure overall was some £60 million lower than planned. Over half of the shortfall was in capital expenditure on the Housing and Education programmes. Local authority current expenditure on services relevant for RSG (ie excluding Housing) was about 1 per cent more than planned for in the RSG settlement for that year. As far as 1980-81 is concerned local authorities have budgeted to spend about 5 per cent more than provided for in the RSG settlement for that year but outturn is expected to fall below their budget totals.

The future Years

6. Over the programme as a whole there is a planned reduction in expenditure, in accordance with the Government's economic strategy. Growth is, however, still planned in expenditure on the Law and Order, and the Health programmes, and account has also been taken of the need to provide a framework for the regeneration of older industrial areas and to foster new and developing industries. Provision for local authority current expenditure (excluding housing) in 1981-82 has been made in the RSG settlement notified to local authorities in December 1980. The assumption has been made that expenditure will show a 2.7 per cent reduction compared with the figure assumed in the 1980-81 settlement. The Report on the RSG (Scotland) Order 1980 gives a brief summary of the prospects for individual programmes consistent with the overall target implied in the settlement. Further details are given in the following notes on individual services.

Agriculture, Fisheries, Food and Forestry

7. Most of the provision is for services operated on a UK basis and the commentary on Programme 3 is generally applicable.
In 1979-80, expenditure was about 10 per cent below the level planned in Cmnd 7841 due to lower spending mainly on demand determined operations under the CAP. For 1980-81 the forecast outturn is about £34 million above the planned expenditure in Cmnd 7841, mainly due to the introduction of premium schemes under the CAP for sheep and suckler cows, increases in the rates of hill livestock compensatory allowances, increased expenditure under price guarantee arrangements for sheep and temporary support measures for fisheries.
The provision for 1981-82 and later years is on average about £2 million below Cmnd 7841 plans.

Industry, Energy, Trade and Employment

8. The provision for selective financial assistance, for the Scottish Development Agency and for the Highlands and Islands Development Board will continue at broadly their current levels throughout the Survey period. This expenditure is primarily for the purposes of attracting new industry and investment and of promoting the development of industrial infrastructure, especially through the provision of factories. The compensation payment to the North of Scotland Hydro Electric Board towards losses incurred under the 1968 contract for the supply of electricity to the British Aluminium Company at Invergordon is expected to fall in real terms as a result of the return to service of reactor 4 at Hunterston Power Station early in 1980.

Transport

9. Although expenditure is planned to fall by the end of the Survey period, the Government's commitment to subsidising shipping and civil aviation services will be maintained. Progress on the motorway and trunk road programme will continue on strategic routes including the dualling of the Perth-Aberdeen Road and improving the standards on the A74 Glasgow-Carlisle and the A75 Gretna-Stranraer. There will have to be some reductions in the programme levels previously planned by local authorities.

Housing

10. Expenditure on public sector housing is forecast to fall by about £245 million (34 per cent) by the last year of the Survey. For 1981-82, to ensure that the total planned resources for local authority housing will not be exceeded, individual local authorities will receive their full capital allocation only if their rate fund contribution to their housing revenue account is kept in line with the level assumed for the Housing Support Grant Order; otherwise there will be an offsetting reduction to the allocation. For later years, the division of the programme has still to be decided but it will reflect the Government's intention to reduce the overall level of subsidies thus protecting capital expenditure within the reduced resources available. New building will be concentrated on areas and groups with special needs and priority is likely to be given to the rehabilitation and modernisation of existing dwellings, with housing associations continuing to play a large part. This policy will be complemented by the promotion of private sector building and the encourageemnt of owner occupation. Tables 2.15.1 to 3 give further detail about the Housing programme.

Other Environmental Services

11. Expenditure is forecast to fall by about £41 million (9.4 per cent) by the last year of the Survey compared with 1980-81. Within the total provision, priority will be given, wherever possible, to expenditure on industrial site development by local authorities and industrial and commercial development by new towns; expenditure on leisure and recreation is planned to fall to enable scarce resources to be concentrated on essential services.

Law, Order and Protective Services

12. The provision made for Law, Order and Protective Services allows generally for growth over the period, though it has no longer been possible to exempt these services wholly from reduction in previously planned levels of expenditure. There is provision for the continuing improvement and development of prison buildings; for modest growth in police manpower; for expected increases in demand on the legal aid and the criminal injuries compensation services; and for additional expenditure to strengthen civil defence. Provision for the fire service assumes that authorities will provide fire cover in accordance with minimum standards. Table 2.15.4 provides further information about the prison services.

Education, Arts and Libraries

13. Expenditure on the whole programme is planned to fall by £63 million or 6 per cent over the Survey period. Most of this reduction occurs in schools where a fall of around £53 million is planned by 1983-84: about £17 million of this will be in the capital programme - reflecting the decreased need for new school building as the number of pupils continues to decline - and about £36 million in current expenditure. This reduction in current expenditure amounts to some 5 per cent, whereas the number of primary and secondary pupils is expected to fall much faster, by about 9 per cent. In further education, a reduction of around 4 per cent or £9 million is planned, much of which is accounted for by reductions in teacher training since fewer newly trained teachers are needed as pupil numbers decrease: planned expenditure on other sectors of further education has been maintained because of the importance of providing trained manpower for industry and commerce. Table 2.15.5 below gives further information on pupil and teacher numbers. There are small net reductions amounting to £1 million in other services within the programme (libraries, youth services, museums and galleries).

Health and Personal Social Services

14. The provision made for the Health Service should allow the previously planned level of development to be maintained: economies are to be sought through greater efficiency. The planned growth in spending should be sufficient to meet new demands caused by changes in population structure, to support some new developments in medical techniques and to permit the continuation of the progressive redistribution of resources to health authorities. Table 2.15.6 below gives further information on population structure.

15. Provision is made for continuing growth in expenditure on social work throughout the period, in view of the increasing demand for services for the most vulnerable members of the community such as the elderly, the physically and mentally handicapped and children in need fo care. Financial support from the Health programme for certain types of project will continue to be available.

TABLE 2.15.1

PERMANENT NEW DWELLINGS : PUBLIC SECTOR : SCOTLAND

(a) COMPLETED
(b) STARTED

number of dwellings

	Local Authorities		New Towns		SSHA		Housing Associations		Total (1)	
	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)
1975	16,086	12,326	3,636	3,683	3,062	2,612	766	592	23,952	19,706
1976	14,361	7,572	3,980	2,665	2,813	2,547	1,152	1,362	22,823	14,605
1977	9,119	5,829	3,167	1,673	2,042	1,631	546	629	15,188	9,840
1978	6,686	4,185	1,510	2,202	1,711	1,174	1,127	1,365	11,316	9,132
1979	4,753	4,847	2,018	984	1,084	1,047	544	1,014	8,605	7,912

(1) Totals include Government Departments

TABLE 2.15.2

BLIC SECTOR IMPROVEMENTS: WORK APPROVED: SCOTLAND

Number of dwellings

	Local Authority	New Towns	SSHA	Housing Associations	Total
1975	20,800	100	3,800	500	25,200
1976	26,800	100	8,900	200	36,000
1977	36,200	-	20,200	300	56,700
1978	35,200	100	9,500	1,400	46,200
1979(p)	21,800	-	12,800	2,700	37,300

Local authority figures from 1978 relate to work completed.

GROSS (UNREBATED) RENTS[1]: SCOTLAND

£ at outturn prices

	Average amount per dwelling - per week	As a perecentage of average weekly earnings[2]
1975-76	2.64	4.4
1976-77	3.55	5.0
1977-78	4.02	5.1
1978-79	4.45	5.0
1979-80	4.90	4.8
1980-81 (provisional)	5.90	4.7

(1) Rents are average for the financial year.

(2) Males aged over 21 in full time employment at April each year.

PRISON SERVICE - SCOTLAND

TABLE 2.15.4

	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
1. Total net expenditure ø £m	26.8	29.4	29.8	30.7	30.0	32.0
2. Daily average inmate population	5,038	4,616/	4,955	4,915	4,955	4,985
3. Total average numbers of out-stations non-industrial staff in post	2,467	2,513	2,620	2,630	2,630	2,630
4. Total number of inmate places available at end of financial year	5,146	5,146	5,146	5,146	5,199*	5,227*

øAt 1980 Survey prices (ie November 1979 prices) (includes PSA capital expenditure from Programme 9.2)

*Net effects of re-opening Greenock as a male prison, offset by reductions at other establishments due to upgrading of ablutions.

/Reflects effects of industrial action in Scottish Courts

RESTRICTED

TABLE 2.15.5

PUPIL AND TEACHER NUMBERS

SCOTLAND
(Thousands)

	1975-76 (actual)	1976-77 (actual)	1977-78 (actual)	1978-79 (actual)	1979-80 (actual)	1980-81 (actual)	1981-82	1982-83	1983-84
PRIMARY (including under-5s)									
Pupils	621	612	595	569	545	518	501	477	458
Teachers	27.7	27.3	26.6	26.6	26.9	25.6	22.9	21.9	21.1
Pupil/teacher ratio	22.4	22.4	22.4	21.4	20.3	20.3	21.9	21.8	21.7
SECONDARY									
Pupils	398	403	406	410	410	408	395	390	383
Teachers	26.4	27.4	27.6	28.2	28.5	28.4	26.9	26.7	26.4
Pupil/teacher ratio	15.1	14.7	14.7	14.6	14.4	14.4	14.7	14.6	14.5

NOTE: The Table relates to pupils and teachers, as at September, in education authority primary and secondary schools only.

POPULATION STATISTICS (SCOTLAND)

TABLE 2.15.6

thousands

	Total	Live Births	0-4	5-15	16-64	65-74	75+
1975	5206.0	69.3	375.5	993.1	3148.0	453.9	236.0
1979	5167.0	66.8	321.1	927.4	3201.0	457.9	259.9
1985*	5127.0	80.1	370.8	762.5	3277.5	424.0	292.5

*1979-based forecast

LOCAL AUTHORITY EXPENDITURE IN SCOTLAND

TABLE 2.15.7

	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-8
Current Expenditure							
Agriculture, fisheries, food and forestry	-	-	-	-	-	-	-
Industry, energy, trade and employment	8	8	7	8	9	10	10
Transport	167	143	164	177	176	171	166
Housing	72	58	69	65	57	59	61
Other environmental services	292	250	252	262	283	270	252
Law, order and protective services	196	195	184	191	197	200	200
Education and science, arts and libraries	875	846	819	843	849	812	792
Health and personal social services	141	162	162	173	181	180	181
Other public services	27	28	28	28	29	30	26
Total current expenditure (PES basis)	1778	1690	1685	1747	1781	1732	1688
Capital Expenditure							
Agriculture, fisheries, food and forestry	1	1	2	2	1	2	2
Industry, energy, trade and employment	-	-	-	-	-	-	T
Transport	130	129	119	135	119	107	97
Housing	386	336	313	290	278	210	235
Other environmental services	224	188	148	161	163	133	131
Law, order and protective services	18	15	14	11	12	12	11
Education and science, arts and libraries	114	122	106	79	64	58	50
Health and personal social services	12	17	12	10	11	12	11
Total capital expenditure (PES basis)	885	808	714	688	648	534	537

2.15 SCOTLAND

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Table 2.16

2.16 WALES(1) RESTRICTED

£ million at 1980 survey prices

	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
16.1 Agriculture, fisheries, food and forestry	23	42	34	28	49	50	40	40	40
16.2 Industry, energy trade and employment (excluding tourism)	12	13	38	58	63	76	75	50	50
Other services(2)									
16.3 Industry, energy trade and employment (tourism only)	3	3	3	4	3	4	4	5	5
16.4 Transport	204	220	190	196	204	195	180	180	180
16.5 Housing	308	299	242	229	225	196	159	135	100
16.6 Other environmental services	238	217	224	214	214	197	188	180	180
16.7 Education and science, arts and libraries(3)	472	466	455	465	461	447	436	430	420
16.8 Health and personal social services	516	523	536	550	542	547	569	580	585
16.9 Other public services	20	22	22	22	25	26	25	20	20
--									
Total other services	1,760	1,748	1,671	1,681	1,675	1,612	1,561	1,540	1,510
Total expenditure within the Secretary of State's responsibility(3)	1,795	1,803	1,744	1,766	1,788	1,737	1,676	1,630	1,600
(3) of which: Support for the Welsh language	—	—	—	—	—	1	2	2	2

(1) This programme includes only that expenditure in Wales which is within the responsibility of the Secretary of State. There is expenditure in Wales in other programmes.

(2) The allocation of expenditure among these services for future years may be altered at the discretion of the Secretary of State. Expenditure on agriculture, fisheries, food and forestry and on industry, energy, trade and employment (excluding tourism) is not similarly transferable because these services are influenced to a greater extent than others by national and EC policies

2.16 WALES

1. The appropriate cash equivalent of the total expenditure in Table 2.16 in 1981-82 is [ ]. Some [per cent] of this expenditure will be subject to cash controls in 1981-82 which comprise certain Central Government votes relating to expenditure on goods and services, the local authority capital expenditure cash limits, the cash limits on the capital expenditure of certain public corporations and the external financing limits of the Welsh Water Authority. In addition local authorities current expenditure will be influenced by cash limits on Rate Support Grant and on other Government grants which will make up about two-thirds of relevant expenditure. The relevant cash controls are listed in Table 1.00.

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2. Table 2.16 covers expenditure in Wales within the responsibility of the Secretary of State for Wales; in previous years this expenditure has been aggregated with the English and Welsh figures in the appropriate functional programme chapters of the White Paper and summarised in the territorial analysis. Expenditure in Wales which is the responsibility of other Ministers is included in the Tables relating to those Ministers responsibilities; in particular the expenditure by the Secretary of State for the Home Department will be found in Table 2.9; expenditure by the Property Services Agency in support of the programmes for which the Secretary of State for Wales is responsible is in Table 2.14; expenditure by the Manpower Services Commission in Wales for which the Secretary of State makes vote provision is in Table 2.4.

3. The services within the Secretary of State's programme fall into two categories. The first category, agriculture, fisheries, food and forestry and also industry, trade and employment are services that are influenced to a greater extent than others by United Kingdom and European Community policies. The provision for these services is separately determined and is not freely transferable to any other service. The second category, the "Other Services" in the table form a block of services for which aggregate provision is

adjusted by taking account of changes to comparable English or English and Scottish programmes and for which, within the total, the Secretary of State has discretion to apportion expenditure among the individual services.

Future Years

4. Expenditure on the programme is divided between Central Government, public corporations and local authorities. Over the programme as a whole there is a planned reduction in expenditure in accordance with the Government's policy of reducing public expenditure. However, within the programme account has been taken of the need to permit special programmes of factory building in the areas affected by steel closures and to promote new industries in Wales.

5. Local authority expenditure, capital and current, accounts for the largest portion -about 50 per cent- of the expenditure in the programme. Local authority expenditure in Wales is shown in Table 2.16.1. The assumption in the 1981-82 rate support grant settlement notified to local authorities in December, 1980 is that current expenditure will show a 4.4 per cent reduction compared with local authority expenditure in 1979-80. Details of expenditure on the individual services are given in the following paragraphs.

Agriculture, Fisheries, Food and Forestry

6. The Welsh Office agriculture and fisheries provision includes agricultural price guarantees and production support, support for capital and other improvements and for agriculture in special areas, other assistance to agricultural production marketing and processing, land management and other miscellaneous services, and support services for the fishing industry. As all these services are operated on a national basis, the commentary on Table 2.3 is generally applicable.

The forecast outturn in Wales for 1980-81 is about £15 million above the plans in Cmnd 7841. This includes an extra £5 million under the fat sheep price guarantees that preceded the European Community sheepmeat regime, £4 million for premium schemes under the CAP for promoting the production of beef and for encouraging farmers to move out of milk production, and £6 million for increased hill livestock compensatory allowances.

The provision for 1981-82 is about £7 million above the Cmnd 7841 plans, due to the introduction of premium schemes under the CAP for ewes and suckler cows to maintain the incomes of sheep and beef producers. Small provisions for the Welsh shares of new fisheries support schemes have also been included. In each of the last two years of the survey there is a reduction of about £1 million forecast in capital grants payments arising from the expected European Community ban on dairy investment aid.

Industry, Energy, Trade and Employment

7. The provision for Industry, Energy, Trade and Employment in Wales relates almost exclusively to industrial support and is almost wholly controlled by cash limits. Selective assistance to industry in assisted areas is available from the Welsh Office in addition to regional development grants provided by the Department of Industry. Provision for the development of the industrial infrastructure, including the reclamation of derelict land, by the Welsh Development Agency is set around £30 million for each year of the period; this amount has been augmented in 1981-82 by £26 million to permit special programmes of factory building in the areas affected by steel closures. The Development Board for rural Wales is concerned with promoting the social and economic development of Mid-Wales, including the designated new town at Newtown, Powys. These activities, including the Board's housing role, amount to about £7 million a year. The provision for employment includes the cost of the Careers Service in Wales but it does not cover expenditure in Wales by the Manpower Services Commission; the Commission's expenditure throughout Great Britain appears in Table 2.4.

Tourism

8. The expenditure on tourism covers grant-in-aid to the Wales Tourist Board and grants and loans for tourist projects.

Transport

9. The roads and transport programme will continue to give priority to improvements to strategic routes which contribute to industrial growth and economic regeneration. Details were set out in "Roads in Wales 1980" published by the

Welsh Office on 18 December. In South Wales the most significant route is the M4/A48/A40. The major part of this route will be completed during 1981 when the M4 Bridgend Northern By-Pass is expected to open. Up-grading of the A55 in North Wales will assume high priority in the programme with a view to completing most of the work by the end of the decade.

The counties' road improvement programmes complement the trunk road programme and will ensure that maximum benefit is derived from the investment in the strategic network.

Housing

10. The reduced housing provision for future years arises out of the general need for public expenditure savings. The reduction in current expenditure in 1981-82 reflects a decision to make rents bear a greater share of the revenue costs of housing. The capital provision in 1981-82 takes account of the Government's policies of increased owner occupation and the improvement of existing housing stock. The housing association movement continues to receive a favourable allocation of its resources in line with its priorities for the rehabilitation of older properties and housing for special needs. No decisions have yet been made on the relative shares of current and capital expenditure for the years 1982-83 and 1983-84.

Other Environmental Services

11. About three-quarters of expenditure on Other Environmental Services consists of local authority expenditure on local environmental services, current and capital. Expenditure on the Urban Programme is maintained at about the same level as for 1980-81. The figures include provision for water services in Wales covering capital expenditure on water conservation and supply, sewage and sewerage disposal, other services including fisheries, amenity and recreation, and arterial drainage. Following the severe flooding in December 1979 capital expenditure on flood protection work is at a greater level than in previous years.

Education, and Science, Arts and Libraries

12. Planned provision for local authority current expenditure on education is broadly maintained. However, the school transport savings assumed in

Cmnd 7841 have been reinstated, and this is offset by reduced expenditure provision elsewhere. These reductions have been found mainly on the further education programme where forecast enrolments in non-advanced further education are lower than those underlying the planned expenditure figures in Cmnd 7841 and from increased income from new further education catering and residence arrangements. The remaining savings come from the broad area of current expenditure on schools. Local authority capital expenditure provision has been reduced by £2.9 million in 1981-82.

Health and Personal Social Services

13. The provision for Health Services which reflects efficiency savings and increased income from charges, will enable existing standards of care to be maintained and provide for demographic growth while meeting the Government's undertaking to maintain the previously planned level of spending. Some £1.5 million has been made available to help meet the consequences of major capital schemes and to contribute towards equalisation of resources between health authorities in Wales. EEC directives on nurses' and midwives' training will be implemented, a new Welsh National Board for Nursing, Midwifery and Health Visiting has been established and the hearing aid programme will be extended. Progress will continue on the equalisation of financial allocations to Health Authorities. A comprehensive capital building programme, mainly aimed at modernisation, will include continuing work on four new district general hospitals and also see the start of work on a further one at Wrexham Maelor. Reductions assumed for local authority current expenditure on Personal Social Services are pro-rata to those in England.

TABLE 2.16.1 LOCAL AUTHORITY EXPENDITURE IN WALES

£ million at 1980 Survey Prices

Current Expenditure	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82
Industry (Tourism only)	-	-	-	0.2	0.3	0.6	0.6
Transport	73.6	75.0	75.2	77.4	72.3	68.3	65.7
Housing	17.8	15.3	12.6	14.8	12.4	14.7	17.1
Other Environmental Services	126.3	119.8	128.1	125.0	129.2	117.9	113.3
Education and Science, Arts and Libraries	415.8	417.5	416.2	425.6	426.9	411.8	403.0
Health and Personal Social Services	64.0	65.3	65.4	68.5	69.8	64.6	65.2
Other Public Services	5.1	5.5	5.1	4.4	5.6	8.5	8.2
Local Authority Current Expenditure within the Secretary of State's responsibility	702.6	698.4	702.6	715.9	716.5	686.4	673.1
Home Office Services	94.1	98.4	97.0	98.0	101.8	105.1	106.2
Other Services	25.9	27.7	36.2	36.9	37.9	38.9	39.2
Total Local Authority Current Expenditure in Wales	822.6	824.5	835.8	850.8	856.2	830.4	818.5

Capital Expenditure	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82
Transport	44.3	41.8	38.1	41.6	51.3	40.1	37.8
Housing	199.9	180.1	123.3	105.9	106.0	76.8	61.2
Other Environmental Services	47.8	38.5	35.4	36.9	45.7	32.2	33.5
Education and Science, Arts and Libraries	45.0	38.3	28.1	28.3	24.3	25.0	22.6
Health and Personal Social Services	5.6	6.0	5.3	4.3	5.3	3.8	4.0
Local Authority Capital Expenditure within the Secretary of State's responsibility	342.6	304.7	230.2	217.0	232.6	177.9	159.1
Home Office Services	6.0	5.1	4.3	3.3	2.9	3.8	4.5
Other Services	0.3	0.2	0.1	0.1	0.1	0.1	0.5
Total Local Authority Capital Expenditure in Wales	348.9	310.0	234.6	220.4	235.6	181.8	164.1
TOTAL LOCAL AUTHORITY EXPENDITURE IN WALES	1,171.5	1,134.5	1,070.4	1,071.2	1,091.8	1,012.2	982.6

TABLE 2.16.2

HOUSING COMPLETIONS IN WALES

	1974	1975	1976	1977	1978	1979
Local Authorities and Newtowns (Cwmbran)	3162	7653	7237	6851	4189	3243
Housing Associations	176	275	182	388	1072	1016
TOTAL COMPLETIONS:	3338	7928	7419	7239	5261	4259

TABLE 2.16.3

PUPILS AND TEACHERS IN MAINTAINED SCHOOLS: WALES

Full-time equivalents (thousands)

	1978-79 (Actual)	1979-80 (Actual)	1980-81	1981-82	1982-83	1983-84
Pupils (1)						
Nursery and Primary schools.	301.4	292.6	282.6	268.3	256.5	246.9
Secondary schools.	241.7	240.8	240.0	237.4	235.5	232.2
Total:	543.1	533.4	522.6	505.7	492.0	479.1
Teachers in Service (2)	29.8	29.5	28.8	28.0	27.2	26.5

(1) Pupil numbers in nursery, primary and secondary schools at January each year.

(2) The total teaching force on the payroll of local authorities. The figures include school teachers absent for long periods or seconded for other duties.

PUPIL/TEACHER RATIOS FOR "MAINTAINED SCHOOLS"

Number of pupils

	1978-79 (Actual)	1979-80 (Actual)	1980-81	1981-82	1982-83	1983-84
Pupil/teacher ratio overall.	18.2	18.1	18.1	18.1	18.1	18.1

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2.17 NORTHERN IRELAND RESTRICTED

Table 2.17

£ million at 1980 survey prices

	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
Northern Ireland Office									
17.7 Law, order and protective services	249	246	236	240	250	259	248		
17.11 Other public services	6	4	4	4	4	4	4		
17.12 Common services	1	1	1	—	—	—	—		
Total Northern Ireland Office	255	252	240	244	254	264	252	250	240
Northern Ireland Departments									
17.1 Agriculture, fisheries, food and forestry	59	62	83	101	69	47	40	40	40
17.2/3 Industry, energy, trade and employment	367	311	267	311	308	320	282	290	290
17.4 Transport	112	107	112	120	114	107	89	80	80
17.5 Housing	173	227	199	206	203	222	207	190	190
17.6 Other environmental services	116	106	106	108	104	104	105	110	110
17.7 Law, order and protective services	7	8	8	8	8	9	10	10	10
17.8 Education and science, arts and libraries	364	360	372	390	382	368	362	350	350
17.9 Health and personal social services	350	352	361	380	380	380	380	380	380
17.10 Social security	466	484	512	570	585	615	672	680	690
17.11 Other public services	13	14	13	13	13	14	16	40	40
17.12 Common services	18	11	8	15	15	21	22		
Total Northern Ireland Departments	2,044	2,042	2,038	2,221	2,183	2,208	2,184	2,160	2,170
--									
Total programme	2,300	2,294	2,278	2,466	2,437	2,472	2,436	2,410	2,410

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2.17 NORTHERN IRELAND

1. The approximate cash equivalent of the total expenditure in table 2.17 in 1981-82 is [ ]. Some [ ] of this expenditure will be subject to cash controls in 1981-82. The relevant cash controls are listed in table 1.00 and comprise certain Central Government votes relating to expenditure on goods and services, and the services provided by the Northern Ireland Departments analogous to GB services covered by cash limits.

2. Figures in the table above relate solely to the responsibilities of the Secretary of State for Northern Ireland and cover expenditure by the Northern Ireland Office, Northern Ireland Departments, Area Boards, District Councils, etc. They therefore exclude expenditure in Northern Ireland by the Ministry of Agriculture, Fisheries and Food which is included in the figures contained in table [ ]. They also exclude expenditure by the Intervention Board for Agricultural Produce on market regulation operations to implement the Common Agricultural Policy in the United Kingdom as a whole (table 2.3); extra costs attributable to the army's task in Northern Ireland which are included within the figures in table 2.1 and are likely to be [ ] in 1980-81; and expenditure by the Lord Chancellor's Department on court services which is included in table 2.9. Receipts from the European Social Fund (which reimburses the Government for part of the cost of a number of training programmes) and from the European Regional Development Fund (which provides assistance towards the development of industry and the infrastructure in the poorer regions of the European Communities) are taken into account in the net contributions to the European Communities (table 2.2). In 1979-80 actual receipts from the Social Fund were £15 million and from the ERDF were £16 million. Annual commitments from these two funds in respect of projects in Northern Ireland are now running at some £50 million. Receipts from the European Agricultural Fund which cannot be attributed accurately on a regional basis are also taken into account in table 2.2 as are receipts under Article 235.

3. The outturn for the financial year 1979-80 was very close to expenditure targets for the year. Early in 1979 funds were diverted to provide for increased industrial support and development needs

and £10 million was provided from the Contingency Reserve to cover the additional costs of the Meat Industry Employment Scheme. The figures for years beyond 1981-82 are rounded to the nearest £10 million and will be reviewed as the Survey is rolled forward in light of the most up-to-date assessment of needs measured against available resources.

4. Northern Ireland has been severely affected by the worldwide recession and unemployment reached [16.3 per cent in December 1980]. The manufacturing sector has been particularly hard hit by the difficult international trading climate, and especially in the field of man-made fibres production in which the province has been disproportionately involved. The substantial increase in oil prices has put severe pressure on the finances of the Northern Ireland Electricity Service. Eighty per cent of electricity generation in Northern Ireland is oil-fired, compared with some 20 per cent in Great Britain.

5. In the allocation of public expenditure priority has been given to placing the Province's industry in as competitive a position as possible. While the Government recognises that there are serious problems in Northern Ireland arising from high unemployment, bad housing, low incomes and the need for environmental improvement, particularly in Belfast, it is not possible to move forward on all fronts at once. Industrial support and development has been adopted as a priority in order to ensure that Northern Ireland is in a position to share fully in the improvement of the United Kingdom economy as a whole which is the Government's overriding objective.

6. £48 million was added to the Northern Ireland Programme in 1980-81 from the Contingency Reserve mainly for industrial needs and this priority also underlay the reallocation of resources carried out during the year. The Government's revised plans will enable industrial support and assistance to be maintained at a higher level than would have been possible under the plans contained in Cmnd 7841. In 1980 over 6,850 jobs were promoted: major projects include the Lear Fan aircraft unit (1,250 jobs) and the expansion of the GM subsidiary, Fisher Body (1,250 jobs); in the small firms sector the

Local Enterprise Development Unit promoted over 1,150 jobs. Support for existing firms has enabled substantial numbers of jobs to be maintained. A package of special employment measures of £9.4 million additional to provision already made and geared to Northern Ireland's particular needs and circumstances was announced in December 1980 to come into operation in 1981-82.

7. The financial position of the Electricity Service and the implications of its heavy dependence on oil for generation are currently the subject of review. Pending decisions on that review the allocation in the forward years for energy (and consequently for other programmes) is highly provisional.

8. Substantial programmes in other sectors will continue to be sustained. On housing, in recognition of the particular housing problems which exist in Northern Ireland, spending will be maintained at a level substantially above the GB rate on a per capita basis. Special priority will be accorded to Belfast which as the greatest concentration of low standard housing in Northern Ireland.

Table 2.17.1 Housing completions by the Northern Ireland Housing Executive

1974	1975	1976	1977	1978	1979
5,412	4,885	6,518	7,676	5,681	3,436

The drop in the number of completions by the Housing Executive is accounted for by a switch in emphasis from new building to improvement in existing stock. Belfast will also be accorded priority within the Roads and Transport programmes and provision has been made for completion of the M1-M2 motorway link.

9. Provision is made in 1981-82 for a rate of recurrent growth on Health services comparable to that in Great Britain and for a capital programme meeting essential commitments.

10. Provision for education and allied services reduces over the survey period in Northern Ireland as elsewhere in the United Kingdom and the school population is expected to fall by some 5 per cent between 1980-81 and 1983-84.

Table 2.17.2 Pupil numbers

thousands

Academic Year	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
Primary Pupil numbers (1)	209	204	201	195	191	187
Secondary Pupil numbers (2)	159	159	159	158	156	154
Total pupils...	368	363	360	353	347	341
Teacher numbers (excluding teachers in special schools).......	19	19	19	19	19	19
Pupil/teacher ratio..........	19.0	18.7	18.6	18.6	18.5	18.5

(1) Including nursery schools and grammar schools preparatory departments but excluding special schools.

(2) Excluding grammar schools' preparatory departments.

(a) The table relates to grant-aided nursury, primary and secondary schools. Special schools are excluded. Pupil numbers are as at January.

(b) Teacher numbers comprise full-time and full-time equivalent of part-time. Substitutes are excluded.

(c) Teacher numbers take account of both teachers in school and of extra teachers for the developing programme of induction and in-service training. Principally for this reason the pupil/teacher ratios cannot be taken as a measure of effective staffing standards in schools.

11. The agricultural industry continues to provide a significant share of Northern Ireland's gross output. The Government will continue to seek the maximum aid from European Community Funds for Northern Ireland farming. Within the overall resources available, it has not been possible to make provision for the continuation of Milk Aid which has hitherto been funded on a year to year basis.

12. The Government has continued to give priority to the Law and Order Programme and will make available all necessary resources to combat terrorism.

13. The Government will continue to do everything possible to respond to Northern Ireland's particular needs, compatible with the policy of containing public expenditure. In recognition of these needs, both social and industrial, the plans for the years ahead maintain a substantially higher level of per capita spending than in GB. It is vitally important that the resources allocated are used to maximum effect and expenditure will continue to be monitored closely to this end.

14. For the purpose of social security expenditure projections it has been assumed that unemployment in Northern Ireland will grow at the same rate as assumed for GB (as shown in chapter 2.12) and that the average figures of unemployed (excluding school-leavers) would be 80,000 in 1980-81; 108,000 in 1981-82; and 116,000 in subsequent years. The comparable assumptions for school-leavers, adult students and temporarily stopped are 10,800 in 1980-81 and 12,200 in 1981-82 and subsequent years.

Table 2.17.3 Social Security: Estimated numbers receiving the main benefits at any one time

thousands

	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81
Retirement pensions	172.4	173.1	175.0	181.0	182.0	190.0
Invalidity benefit	24.0	25.5	26.0	28.0	28.0	30.5
Industrial disablement benefit	4.0	4.0	4.0	5.0	5.0	4.4
Widows' pensions and industrial death benefit..	19.0	19.0	19.0	17.0	16.0	15.2
Old persons' pensions	5.5	5.3	5.0	5.0	4.0	4.1
Attendance allowance	12.2	12.7	13.0	14.0	16.0	15.5
Non-contributory invalidity pension	6.1	6.6	10.0	9.0	9.0	9.8
Invalid care allowance	-	0.7	0.9	1.0	1.0	0.7
Mobility allowance	0.1	1.2	1.8	3.0	4.0	2.6
Supplementary benefit	103.4	112.0	117.0	120.0	121.0	129.0
Child benefit (up to 1976-77 family allowance including child interim benefit) (1)	296.0	298.0	496.0	488.0	480.0	492.5
Family income supplement ...	7.5	7.4	8.0	8.0	8.0	8.5
Sickness and injury benefits and maternity allowance (2)	30.2	30.5	30.0	33.0	35.0	27.1
Unemployment benefit	25.3	35.0	28.0	30.0	25.0	38.5
Widows' allowance, maternity and death grants (3)	39.3	40.6	40.0	40.0	40.0	41.0

(1) These figures are the numbers of children for whom allowances/ benefit were paid.

(2) These figures include the numbers of awards of maternity allowance during the year (for an average of 17 weeks).

(3) These figures show the number of awards of widows' allowance, maternity and death grants in year. Widows' allowance is awarded for 26 weeks: maternity and death grants are lump-sum payments.

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PART THREE

NATIONALISED INDUSTRIES' CAPITAL REQUIREMENTS AND FINANCING

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NATIONALISED INDUSTRIES : FINANCING OF CAPITAL REQUIREMENTS

Table 3·1

£million at 1980 survey prices[1]

	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
Government lending (net)									
Loans	999	- 315	- 901	- 200	673	900	650		
PDC and issues under Section 18 of the Iron and Steel Act 1975	695	730	620	1012	1184	1150	750		
Total	1694	415	- 281	812	1857	2050	1400	350	- 150
Overseas and Market Borrowing (net)									
Overseas	921	1965	587	96	- 285	- 100	- 400		
Market	-	- 139	-	11	- 747	- 200	- 300		
Short-term borrowing and leasing	- 58	25	602	416	701	- 200	100		
Total	863	1851	1189	523	- 331	- 500	- 600	- 400	- 550
Total net borrowing	2557	2266	908	1335	1526	1550	800	- 50	- 700
Grants	2199	1009	914	1032	1087	950	950	800	750
Total external finance	4756	3275	1822	2367	2613	2500	1750	750	50
Total internal resources	1640	3123	2762	2855	1927 (2)	2250 (2)	3650	4750	5450
Total capital requirements	6396	6398	4584	5222	4540	4750	5400	5500	5500

(1) 1979-80 outturn prices.
(2) Excludes proceeds of BNOC advance payments for oil.

PART 3: NATIONALISED INDUSTRIES' CAPITAL REQUIREMENTS AND FINANCING

1. In this section, the nationalised industries' capital requirements and the means by which they are financed are set out in a series of tables which provide first an aggregate summary and then the figures for the individual industries. These are followed by commentaries on the capital investment and financing plans of each industry.

2. Table 3.1 above shows how the total capital requirements of the nationalised industries are financed. The industries' total external finance enters into the public expenditure planning total. It consists of grants, Government net lending, and overseas and market borrowing. Grants to the industries are entered in the programmes concerned (tables 2.4, 2.6 and 2.8) and summarised here. Net Government lending, comprising loans, Public Dividend Capital and issues under Section 18 of the Iron and Steel Act 1975, constitutes an expenditure programme and is included in line 8 of table 1.1. The industries' net overseas and market borrowing, which includes their short-term borrowing and the capital value of leased assets, is added to total programmes and included in the public expenditure planning total as shown in table 1.1. Total external financing requirements depend both on the size of the industries' investment programmes and on their ability to generate their own funds. Since the latter in particular is sensitive to general trading conditions, total external finance projections are inevitably highly uncertain, especially for the later years.

The Overall Position

3. Cmnd 7841 projected a reduction in the industries' external financing requirements of some £2¼ billion at 1980 survey prices

between 1980-81 and 1983-84. This reflected the industries' forecasts of a steady rise in the level of internal resources throughout the period as a result of the phased application of economic pricing policies (particularly in the gas and electricity industries), reductions in the levels of current losses by the coal steel and shipbuilding industries, and improvements in efficiency throughout the nationalised industry sector.

4. The downturn in economic activity at home and abroad which has occurred since the figures in Cmnd 7841 were compiled is proving to be more severe than the industries expected at that time. In submitting forecasts for the 1980 Investment and Financing Review, the industries revised downwards their projections of internal resources throughout the planning period. In 1980-81 and 1981-82, the reduction in projected internal resources has been met mainly by increased external financing requirements but partly also by reduced levels of capital spending, and was reflected both in the increases announced in external financing limits for 1980-81 and in the external financing limits for 1981-82 announced on 24 November 1980. For the later years the reduction in internal resources is offset more equally by increased external finance and reduced capital requirements. These figures are based on the industries' forecasts in the 1980 Investment and Financing Review. They are more than usually uncertain as a result of the recession, and will need to be reexamined in this year's Review.

5. Although the industries' external financing requirements have been revised upwards in each of the years 1980-81 to 1983-84, the extent of the expected reduction in the industries' dependence on external finance over this period at about £2½ billion remains of broadly the same order as that envisaged in Cmnd 7841 as the policies underlying the turnround projected there continue to be carried forward.

Capital Requirements and Financing

6. As in previous White Papers, tables 3.2 to 3.5 provide more detailed information about the individual industries' capital requirements and their financing needs in 1979-80 to 1981-82. No figures are included for British Aerospace beyond 1979-80 on the

assumption of an early sale of shares. In the case of other planned disposals, figures continue to be included in view of the uncertainty about the timing of proposed sales. The effect of the disposals programme on the public expenditure planning totals is shown in table 1.1.

7. Table 3.2 shows the capital requirements underlying the borrowing figures in table 3.1 for each industry, broken down into fixed assets and other capital requirements. It is expressed at 1980 survey prices so that the figures here for total capital requirements correspond to those in the bottom line of table 3.1. The shortfall allowance of £400m contained in Cmnd 7841 for 1981-82 has been removed owing to the tightness of the industries' overall financing position in the coming year. The standard reduction for shortfall (£500 million) has been made to the total capital requirement figures for 1982-83 and 1983-84 leaving a broadly constant level of capital spending through the forward years.

8. Tables 3.3 to 3.5 set out the financing of the industries' capital requirements for each industry in 1979-80, 1980-81 and 1981-82. These tables are expressed at outturn prices as the main public expenditure controls for these years - the industries' external financing limits - have been set in these terms. Thus the right-hand column of the 1981-82 financing table (table 3.5) lists the industries' external financing limits for 1981-82. (except in the case of the British National Oil Corporation, which

is not set a formal limit). The information provided in these tables has been expanded compared with Cmnd 7841 to give a clearer picture of the industries' profitability and the extent to which capital requirements are financed internally. The tables now identify within internal resources current cost operating profit, interest dividends and tax, depreciation, and other receipts and payments. It has not been possible for the British Steel Corporation and British Shipbuilders to provide current cost figures for this White Paper, but in future all figures for these tables will be presented on a current cost basis.

1979-80 and 1980-81

9. Table 3.3 shows the final outturn figures for 1979-80. It updates table 3.3 in Cmnd 7841. The industries' total external financing requirements for that year, which are included in the public expenditure planning total, were within the planned provision. Government grants and net lending to the nationalised industries were /some £400 million/ lower than forecast in Cmnd 7841, but overseas and market borrowing exceeded the estimated level by a similar amount.

10. Table 3.4 gives estimated outturn figures for the current year. These figures are inevitably subject to revision but it is clear that the final outturn for 1980-81 will show the industries' external financing requirements to have been substantially in excess of the level planned in Cmnd 7841. Following adjustments to the Post Office and the British Steel Corporation's External Financing Limits anticipated in the last White Paper, increases to the External Financing Limits published in the 1980-81 Financial Statement and Budget Report for British Steel Corporation (£550m) British Airways Board (£85m), British Railways Board (£40m), British Shipbuilders (£65m), Scottish Transport Group (£3m) and Post Office Telecommunications /£ m/ (figures at outturn prices), have so far been announced, and the figures in table 3.4 incorporate these changes.

Future Years

11. Table 3.5 gives the financing figures for 1981-82. The figures for total external finance (final column) are those announced by the Chief Secretary on 24 November, 1980,* and constitute the industries' external financing limits except in the case of the British National Oil Corporation. The breakdown of the components of each industry's financing requirements is based on preliminary estimates and is likely to change. The survey price figures for 1981-82 in table 3.1 have been obtained from the outturn price figures in this table by use of a standard deflator.

12. It should be emphasised that the capital expenditure and financing figures for the later years of the survey period are particularly uncertain both in aggregate and for particular industries. The projected reduction in external financing requirements depends upon a continuing improvement in the level of internal resources generated by the industries, which is in turn subject to general trading conditions. In particular it assumes continued application of policies of economic pricing and success in reducing current losses for example in the steel, coal and shipbuilding industries.

13. The following paragraphs give the background to the capital investment and financing plans of each of the nationalised industries.

Energy Industries

Etc.

* except for the NCB where an increase of £4 million was subsequently announced (see paragraph 19), and BCS where the limit has yet to be announced.

NATIONALISED INDUSTRIES CAPITAL REQUIREMENTS

TABLE 3.2

£ million at 1980 survey prices

	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
Expenditure on fixed assets in the UK (1)									
National Coal Board	358	438	468	580	665	676	614	710	728
Electricity Council and Boards	1075	1028	864	838	834	814	930	938	978
North of Scotland Hydro-Electric Board	115	111	81	56	46	35	33	34	33
South of Scotland Electricity Board	116	82	55	62	65	113	185	264	290
British Gas Corporation	591	395	302	328	402	442	558	635	560
British National Oil Corporation	15	233	265	285	218	235	282	274	264
British Steel Corporation	875	870	646	391	289	148	151	- (2)	- (2)
Telecommunications	1424	1191	1087	1164	1215	1290	1636	1450	1475
Post Office									
Posts and other	80	57	46	55	69	73	111	82	80
British Airways Board	195	228	260	257	289	228	155	188	245
British Airports Authority	58	61	48	39	54	72	72	121	88
British Railways Board	398	362	355	409	381	289	291	328	334
British Transport Docks Board	20	12	13	11	13	9	10	17	18
British Waterways Board	2	3	3	2	4	6	4	3	3
National Freight Company	34	33	39	42	35	31	34	41	38
National Bus Company	51	58	59	63	60	54	40	66	69
Scottish Transport Group	12	15	13	20	16	13	12	11	11
British Aerospace	-	-	24	30	42	- (3)	- (3)	- (3)	- (3)
British Shipbuilders	-	-	26	32	18	10	23	28	33
Total expenditure on fixed assets	5403	5176	4654	4664	4715	4538	5141	5190	5247
Other capital requirements	993	1222	-70	558	-175	195	264	812	753
Shortfall	-	-	-	-	-	-	-	-500	-500
Total capital requirements	6396	6398	4584	5222	4540	4733	5405	5502	5500

(1) **Including the capital value of assets leased.**

(2) The level of BSC's investment programme for these years has yet to be determined, but a notional allowance, consistent with the approved external financing figures, has been included in "other capital requirements".

(3) No figures are included for BAe in the assumption of a sale of shares in a successor company in 1980-81.

FINANCING OF CAPITAL REQUIREMENTS OF THE NATIONALISED INDUSTRIES 1979-80

Table 3.3

£million at outturn prices

	Capital requirements (1)			Financed by (1)											
				Internal resources					External finance						
	Fixed assets in the UK	Other	Total	Current cost operating profit	Interest, dividends and tax (2)	Depreciation etc (3)	Other receipts and payments	Total	Government grants (4)	Issues of PDC (5)	Net borrowing from the NLF	Net overseas borrowing	Net market borrowing	Short-term borrowing and leasing	Total (6)
National Coal Board	665	-212	453	-327	-179	276	32	-198	244	-	184	128	1	94	651
Electricity (England and Wales)	834	100	934	514	-482	629	84	745	5	-	837	-340	-483	170	189
North of Scotland Hydro-Electric Board	46	40	86	13	-51	60	5	27	11	-	13	8	-15	42	59
South of Scotland Electricity Board	65	59	124	-16	-66	144	7	69	-	-	67	45	-31	-26	55
British Gas Corporation	402	74	476	466	-40	456	41	923	-	-	-120	-90	-205	-32	-447
British National Oil Corporation	218	2	220	175	-40	112	-	247	-	-	84 (8)	-108	-4	1	-27
British Steel Corporation	289	-275 (9)	14		-196			-565	-	905	-209	-34	-	-83	579 (9)
Post Office	1284	194 (10)	1478	755	-527	906	104	1238	-	-	-184	-62	-	486	240 (10)
British Airways Board	289	-51	238	-9	-58	133	1	67	-	10	-6	149	-8	26	171
British Airports Authority	54	-6	48	6	-13	51	4	48	1	-	-1	-	-	-	-
British Railways Board	381	-196	185	-725	-62	166	92	-529	687	-	26	19	-1	-17	714
British Transport Docks Board	13	2	16	15	-12	17	2	22	-	-	-	-	-	-7	-7
British Waterways Board	4	-	4	-22	-1	1	-	-22	23	-	3	-	-	-	26
National Freight Company	35	5	40	-2	-12	16	10	12	11	-	-	-	-	17	28
National Bus Company	60	1	61	-42	-15	34	4	-19	60	-	12	-	-	8	80
Scottish Transport Group	16	-1	15	-9	-1	12	1	3	14	-	2	-	-1	-3	12
British Aerospace	42	67	109	(11)	4	(11)	(11)	56	-	33	20	-	-	-	53
British Shipbuilders	18	21	39	(11)	-13	(11)	(11)	-197	31	236	-55	-	-	24	236
Total	4715	-175	4540		-1764			1927	1087	1184	673	-285	-747	701	2613

(1) The capital value of leased assets is included.
(2) The figure for interest alone is £1691 million.
(3) Including cost of sales adjustment, monetary working capital adjustment and other items not involving movement of funds.
(4) Shows subsidies and capital grants received in the year.
(5) Including issues under Section 18 of the Iron and Steel Act 1975
(6) Except in the case of BNOC, the figure shown against each industry is the external financing limit outturn for the year.
(7) Excludes the proceeds of advance payments for oil.
(8) Includes BNOC's net payments into the National Oil Account.
(9) The BSC figures exclude payments amounting to £121 million carried forward into 1980-81 in respect of liabilities which the Corporation was unable to meet during the steel strike.
(10) The PO figures take account of the effect of the billing dispute (£345 million).
(11) Current cost figures not available.

FINANCING OF CAPITAL REQUIREMENTS OF THE NATIONALISED INDUSTRIES 1980–81 (1)

Table 3.4

£million at outturn prices

	Capital requirements (2)			Financed by (2)							
				Internal resources					External finance		
	Fixed assets in the UK	Other	Total	Current cost operating profit	Interest, dividend and tax (3)	Depreciation etc (4)	Other receipts and payments	Total	Government grants (5)	Net borrowing, issues of PDC (6) and leasing	Total (7)
National Coal Board	800	-45	755	-268	-257	433	15	-77	251	581	832
Electricity (England and Wales)	963	339	1302	233	-568	1234	228	1127	5	170	175
North of Scotland Hydro-Electric Board	41	30	71	64	-61	22	4	29	16	26	42
South of Scotland Electricity Board	134	15	149	(10)	(10)	(10)	(10)	91	-	58	58
British Gas Corporation	523	141	664	436	8	444	176	1064	-	-400	-400
British National Oil Corporation	278	-23	255	298	-14	168	8	460 (8)	-	-205 (9)	-205
British Steel Corporation	175	53	228	-712	-179	298	-300	-893	-	1121	1121
Post Office	1613	-205	1408	807	-529	1237	15	1530	-	-122	-122
British Airways Board	270	6	276	-128	-76	160	16	-28	-	304	304
British Airports Authority	85	6	91	14	-13	68	4	73	-	18	18
British Railways Board	342	-130	212	-818	-74	197	117	-578	673	117	790
British Transport Docks Board	10	1	11	7	-9	19	4	21	-	-10	-10
British Waterways Board	7	-	7	-24	-2	1	2	-23	26	4	30
National Freight Company	36	-1	35	-5	-11	23	17	24	6	5	11
National Bus Company	64	-1	63	-55	-18	41	10	-22	66	19	85
Scottish Transport Group	16	-1	15	-10	-1	13	-	3	21	-9	12
British Shipbuilders	12	47	59	(10)	-5	(10)	(10)	-126	38	147	185
Total	5369	232	5601		-1888			2675	1102	1824 (11)	2926

(1) No figures are included for British Aerospace on the assumption of a sale of shares in a successor company in 1980–81.
(2) The capital value of leased assets is included.
(3) The figure for interest alone is £-1856 million.
(4) Including cost of sales adjustment, monetary working capital adjustment and other items not involving the movement of funds.
(5) Shows subsidies and capital grants received during the year.
(6) Including issues under Section 18 of the Iron and Steel Act 1975.
(7) Except in the case of BNOC and BSC, the figure shown against each industry is the external financing limit for the year.
(8) Excludes the proceeds of advance payments for oil.
(9) Includes BNOC's net payments into the National Oil Account.
(10) Current cost figures net available.
(11) Of which:

Government loans	1050
Issues of PDC (including issues under Section 18 of the Iron and Steel Act 1975)	1379
Overseas borrowing	-139
Market borrowing	-247
Short-term borrowing and leasing	-219

FINANCING OF CAPITAL REQUIREMENTS OF THE NATIONALISED INDUSTRIES 1981-82(1)

Table 3.5

£million at outturn prices

	Capital requirements (2)			Financed by (2)							
				Internal resources					External finance		
	Fixed assets in the UK	Other	Total	Current cost oper-ating profit	Interest, divi- and tax (3)	Deprec-iation etc (4)	Other receipts and payments	Total	Govern-ment grants (5)	Net borrowing, issues of PDC(6) and leasing	Total (7)
National Coal Board	806	53	859	-269	-294	525	11	-27	267	619	886
Electricity (England and Wales)	1221	6	1227	457	-594	1386	188	1437	10	-220	-210
North of Scotland Hydro-Electric Board	44	35	79	78	-64	29	4	47	14	18	32
South of Scotland Electricity Board	243	-56	187	115	-87	75	7	110	-	77	77
British Gas Corporation	733	136	869	700	-111	489	181	1259	-	-390(8)	-390
British National Oil Corporation	370	19	389	438	-14	288	37	749	-	-360	-360
British Steel Corporation	198	149	347	-399	-152	281	-113	-383	-	730	730
Post Office Telecommunications	2148	38	2186	1100	-545	1440	11	2006	-	180	180
Posts and Giro	146	-4	142	59	-7	69	5	126	-	16	16
British Airways Board	203	5	208	18	-113	193	9	107	-	101	101
British Airports Authority	95	2	97	25	-17	71	4	83	1	13	14
British Railways Board	382	-97	285	-885	-81	233	98	-635	780	140	920
British Transport Docks Boards	13	2	15	4	-7	22	1	20	-	-5	-5
British Waterways Board	6	-	6	-26	-3	1	2	-26	29	3	32
National Freight Company	45	3	48	3	-7	27	18	41	2	5	7
National Bus Company	52	7	59	-46	-22	49	3	-16	60	15	75
Scottish Transport Group	16	-1	15	-12	-5	15	-	-2	22	-5	17
British Shipbuilders	30	50	80	(10)		(10)	(10)	-70	43	107	150
Total	6751	347	7098		-2126			4826	1228	1044(9)	2272

(1) No figures are included for British Aerospace on the assumption of a sale of shares in a successor company in 1980-81.
(2) The capital value of leased assets is included.
(3) The figure for interests alone is £- 1933 million.
(4) Including cost of sales adjustment, monetary working capital adjustment and other items not involving the movement of funds.
(5) Shows subsidies and capital grants received during the year.
(6) Including issues under Section 18 of the Iron and Steel Act 1975.
(7) Except in the case of BNOC and BSC, the figure shown against each industry is the external financing limit for the year.
(8) Includes BNOC's net payments into the National Oil Account.
(9) Of which :

Government loans	844
Issues of PDC (including issues under Section 18 of the Iron and Steel Act)	977
Overseas borrowing	-544
Market borrowing	-384
Short-term borrowing and leasing	151

(10) Current cost figures not available.

NATIONAL COAL BOARD

14. The Government's financial strategy for the coal industry, agreed with the National Coal Board (NCB) as a result of a review of the industry's prospects, was given effect in the Coal Industry Act 1980. The strategy is designed to provide a framework within which the NCB can develop into a modern, competitive and profitable industry.

15. In accordance with the strategy, it is planned that the Board will receive a progressively declining level of grants towards their operations and revenues over the period. This expenditure which is shown in Table 2.4 is subject to cash limits.

16. Social grants, which include the Government's contributions to the mineworkers' pension scheme for pre-1975 pensioners, payments towards the cost of pit closures and for the pensions of mineworkers who retire early, will continue.

17. The Government will also continue to provide finance for investment and in the Coal Industry Act raised the NCB's borrowing limit from £2,200m to £3,400m, with provision for a further rise to £4,200m. Investment in fixed assets in 1981-82 is expected to be slightly less than forecast in the Cmnd 7841. The figures for the later years, shown in table 3.2 are necessarily tentative at this stage. The Board does not expect to make any contribution to the financing of its investment programme in 1980-81 over and above historic cost depreciation.

18. In 1980-81 the market for coal has been depressed. Sales are expected to be some 6m tonnes lower than in 1979-80. Output, however, has continued at the same level as in 1979-80, with the result that stocks of coal are likely to rise by some 6m tonnes. Productivity (output per manshift) is expected to increase by about 19 per cent over the year. Despite difficult trading conditions, the NCB expect to keep within their EFL for 1980-81 of £832m.

19. The NCB's announced EFL of £882m for 1981-82 is to be increased to £886m to take account of a grant of £4m towards the cost of payments by the Board under the industry's Pneumoconiosis Scheme.

3. NATIONALISED INDUSTRIES

ELECTRICITY

20. The electricity supply industry forecasts that total electricity requirements in 1983-84 will be 252.0 terawatt hours (TWh) and that Simultaneous Maximum Demand (SMD) will reach 52.1 gigawatts (GW). The year by year figures are as follows:

Table 3.6	1980-81	1981-82	1982-83	1983-84
Requirements (TWh)	245.1	245.2	247.7	252.0
SMD (GW)	50.7	50.7	51.2	52.1

21. The main item in the industry's investment programme continues to be new generation capacity. Construction of the Advanced Gas-cooled Reactor power stations (AGRs) at Heysham and Torness is proceeding and the Central Electricity Generating Board (CEGB) and the South of Scotland Electricity Board (SSEB) placed some of the main contracts for civil engineering and some manufacturing work at the end of 1980. The CEGB have applied for consent to construct their first 1100 megawatt (MW) Pressurised Water Reactor (PWR) nuclear power station at Sizewell in Suffolk. The public inquiry into this proposal is expected to be ready to start by summer 1982.

22. The Government has given investment approval to the CEGB for its share of the first tranche of the proposed 2000 MW Cross Channel Link between Britain and France. This covers the first 1000 MW of the project. Approval for the second stage will proceed in step with the corresponding approval by the French Government. The CEGB's planning application to site the converter station for the link at Sellindge in Kent remains subject to the decision of the Secretaries of State for Energy and the Environment.

23. Over the period 1980-81 to 1982-83 the CEGB plans to commission some 9.3 GW of new generating capacity, and retire some 6.0 GW of older capacity. The bulk of the retirements will take place in October 1981 when 22 power stations (or parts of power stations) in England and Wales totalling 3.4 GW will be removed from the system, though 1320 MW of this capacity will be put into reserve with the possibility of being brought back into service at a later date if required. This level of plant retirements results from reductions in the industry's forecasts of demand as well as the industry's efforts to reduce its costs. The Scottish Electricity Boards plan to commission 1.3 GW of new generating capacity over the same period.

24. A medium-term financial target for the industry in England and Wales was set in January 1980. Progress is being kept under review with the industry. The industry in England and Wales expects to remain within its external financing limit (EFL) for 1980-81 of £187m. The EFL for 1981-82 has been set at -£210m. The SSEB's EFLs for 1980-81 and 1981-82 are £73m and £77m respectively and for the North of Scotland Hydro-Electric Board (NSHEB) the EFLs are £59m and £32m.

25. Grants to the CEGB for accelerating capital investment and compensation to the NSHEB for losses incurred in supplying electricity to the Invergordon smelter under the terms of the 1968 contract with the British Aluminium Company Limited are included in Table 2.4.

26. The Electricity Council and the Scottish Electricity Boards published a considerably expanded range of financial, manpower and technical indicators in their 1979-80 Annual Reports covering the electricity supply industry's performance over the past ten years. Performance aims for the electricity industry in England and Wales were announced on [ ] and for the Scottish Boards on [ ].

BRITISH GAS CORPORATION

27. The Northern Basin of the North Sea currently supplies about 35 per cent of Britain's natural gas, with almost all the remainder coming from the Southern Basin. The proportion of gas from the Northern Basin will rise substantially when supplies from the Brent field begin to come ashore and when Norwegian gas from Odin and North East Frigg joins the Frigg pipeline system. In June 1980 the Secretary of State for Energy announced that the Government considered a new gas gathering system in the North Sea along the general lines recommended in a BGC/Mobil North Sea Limited study (Energy Paper No. 44) to be in the national interest, and that such a system should be constructed as quickly as possible with the aim of bringing gas ashore from 1984/85. The Secretary of State invited an Organising Group of BGC, BP and Mobil to carry out pre-construction work on the project, and develop proposals for a pipeline organisation outside the public sector. BGC would take up 30 per cent of the equity of the company; the impact of this would be minimal in terms of public expenditure. With the approval of the Secretary of State the Organising Group is currently working towards the formation of an interim pipeline company.

28. Sales in recent years and indications of possible future sales by the Corporation are as follows:

Table 3.7 Gas Sales Million therms

	78-79	79-80	80-81	81-82	82-83	83-84
Domestic	7895	8163	8500	8700	8800	9000
Commercial	1965	2060	2100	2300	2500	2600
Industrial	6074	6513	6000	6600	7100	7200
	15934	16736	16600	17600	18400	18800

29. With the continuing increase in oil prices in real terms and uncertainties in supplies in 1979 there was an unprecedented demand for gas which far exceeded BGC's planned rate of expansion and its ability to meet the demand at peak periods. Although the more recent downturn in economic activity has temporarily eased the pressures, there is still a lower level of security of supply at peak periods. Major capital projects, particularly to improve supplies at times of peak demand, are therefore underway, including the development of the new Morecambe Bay gas field and the conversion of the partially depleted Rough field to a seasonal store.

30. BGC have repaid all their long term NLF debt and at present are depositing their cash surpluses with the NLF. The Corporations's medium term target of an average return of 9 per cent on revalued assets for the three year period 1980 81 to 1982 83 was set in January 1980, on the basis that domestic tariffs would increase by 10 per cent over and above the rate of inflation in each of the years of the target period. In May 1980 the Government announced its intention to impose a levy on the British Gas Corporation in respect of gas purchased from fields on the United Kingdom Continental Shelf and sold to the Corporation under contracts not subject to petroleum revenue tax. A Bill to introduce this levy was published earlier this year. The levy will have no effect on gas prices during the target period. The original financial target will be modified to compensate for the levy and for the effect of implementing the Statement of Standard Accounting Practice No 16. The financial forecasts in the White Paper do not take account of the impact of the levy or of the proposed changes to North Sea taxation.

BRITISH NATIONAL OIL CORPORATION

31. In September 1980, the Government announced its intention to take the powers necessary to allow the introduction of private equity capital into the Corporation's upstream activities. A Bill to effect this and to end the Corporation's access to the National Oil Account (NOA) was published earlier this year. These forecasts assume continuing Government ownership and access to the NOA. Moreover, they take no account of the recent proposed changes in North Sea taxation. Consideration is being given to the possibility of setting the Corporation a financial target once final decisions about its future financial structure have been taken.

32. The bulk of BNOC's capital investment in the years up to 1983-84 will be required for its existing North Sea licence interests, which include nine fields either in production or under development, a number of other fields where development decisions can be expected within the PES period and a continuing programme of further exploration. It is also envisaged that certain limited expenditure will be needed for exploration work on recently acquired interests overseas.

33. BNOC has used two sources of finance for its capital expenditure programme; the proceeds of sales under the 1977 Forward Oil Purchase Agreement with BritOil Inc and the NOA. During 1980/81 the Corporation has been a net contributor of funds to the Account. Most of this surplus was used in 1980 to reduce BNOC's obligations to BritOil Inc.

34. BNOC has again arranged to receive advance payments in March 1981 for oil it intends to deliver in 1981/82. These payments are included in line 10 ("Special Sale of Assets") of Table 1.1 and do not affect the Corporation's EFR. Continuing uncertainty about oil price movements and about the pace of expenditure on joint venture projects in the North Sea make it difficult to forecast with confidence the Corporation's net EFR. As in the past therefore BNOC's forecast EFR is not expressed as a limit for the coming year.

BRITISH STEEL CORPORATION

35. **During 1980 the British Steel Corporation successfully implemented the plans announced in December 1979 to reduce manned liquid steelmaking capacity from 21½ million tonnes per year to 15 million tonnes and to reduce manning by 50,000 employees. BSC will however fall far short of the target, set in 1979, of operating at a profit in the financial year 1980/81. The continuing losses have been due to a combination of factors: a loss of market share following the strike in the first three months of 1980, low demand for steel, particularly in the UK, and low prices resulting from strong**

international competition. In September 1980 the Secretary of State announced an interim £400 million increase in the Corporation's external finance limit for 1980/81 and a further increase of £150 million was subsequently announced. These increases were necessary to enable BSC to continue trading during the preparation of a new Corporate Plan, to counteract BSC's deteriorating financial position.

36. On 12 December 1980 BSC submitted a Corporate Plan aimed at improving the financial position through a cut in manned capacity from 15 to 14.4 million tonnes and improved working practices resulting in the elimination of overmanning, together involving a further reduction of 20,000 in the labour force. The targets in the Plan also include restoration of the pre-strike UK market share of 54% and an increased level of exports. The BSC Chairman has said that if the Corporation has not made substantial progress towards achieving viability by July 1981 further closures and redundancies may be unavoidable. Capital investment is being restricted to the completion of existing major projects and the undertaking of essential smaller projects. No major new capital projects will be authorised until BSC and the Government are satisfied that the business concerned has a secure long-term future.

37. At the time of going to print Ministers had not yet reached decisions on the BSC plan. The figures shown which are based on that plan, are therefore provisional.

British Aerospace

38. Figures for British Aerospace (BAe) are not included in the tables for years after 1979/80. In accordance with the British Aerospace Act 1980, the property, rights, liabilities, and obligations of British Aerospace were vested in British Aerospace Limited on 1 January 1981. On 2 January 1981, the company was re-registered as British Aerospace PLC. The new company will meet its financing requirements from market sources. It is intended to offer for sale at the earliest appropriate opportunity about half the shares in the company. When this takes place, the company's borrowing will not form part of the PSBR.

39. In 1979, BAe made a trading profit, before interest and provision against launch costs, of £90m, equivalent to a return on average net assets of 23%, and meeting the Corporation's financial objective. In 1980, the Corporation's objective was to achieve a trading profit of £98m. Although final audited figures for 1980 are not yet available, it is expected that trading profit should exceed this objective.

40. BAe's commencing capital under section 15 of the Aircraft and Shipbuilding Industries Act 1977 was determined in December 1980 as £158.75m, being equal to the amount of compensation paid to the former owners of the companies which vested in BAe under the 1977 Act. £128.72m of the commencing capital was determined as public dividend capital and the rest as commencing debt. The Corporation met the interest liability on the debt element of the commencing capital from 29 April 1977 by a lump sum payment of £10m. The Corporation's liability in respect of its commencing capital was extinguished immediately before the appointed day in accordance with section 2 of the British Aerospace Act 1980.

BRITISH SHIPBUILDERS

41. In November 1980 the Government announced an increase in British Shipbuilders' External Financing Limit for 1980/81 from £120 million to £185 million and that BS is likely to exceed by £20 million their loss limit for 1980/81 of £90 million before crediting Intervention Fund assistance. The Government also announced that proposals have been put to the European Commission for an extension of Intervention Fund assistance to July 1982 with a new tranche of £45 million from July 1981.

42. BS have forecast an improvement in 1981/82 largely because of forecast higher utilisation in the shipyards and the benefits of restructuring and economies. The External Financing Limit for 1981/82 has been set at £150 million and the loss limit at £25 million after crediting Intervention Fund assistance (equivalent to £75 million before crediting Intervention Fund assistance). However, the Government's statement drew attention to uncertainties ahead, which could affect these forecasts, arising from the difficult markets for shipbuilding, shiprepair and offshore and the fact that the level of naval orders had not been determined. The Corporation has been invited to produce a new Corporate Plan in Spring 1981.

POST OFFICE

43 Following consultation with the Post Office, the manufacturing industry, the Post Office User's National Council, the trade unions and others concerned, the Government is implementing its policy of separating the Post Office into two independent Corporations and introducing competition where feasible into the services they provide. The British Telecommunications Bill, introduced into Parliament in November 1980, will give effect to separation by creating a new corporation, British Telecommunications, to run the telecommunications and data processing services of the Post Office. The Bill provides powers which will be used to relax the telecommunications monopoly with a view to giving greater scope for competition both in the supply of apparatus for attachment to the public telecommunications network, the provision of services using the network and the provision of transmission systems. It also provides for measures to open up some areas of the postal monopoly to competition, to stimulate greater efficiency within the postal service, and to safeguard the interests of its customers.

44. Although Posts and Telecommunications are increasingly being treated as separate industries, a single EFL has been set for the Post Office in both 1979-80 and 1980-81. The 1979-80 outturn recorded in table 33 shows a number of deviations from the Cmnd 7841 estimates, which were prepared at a time when the Post Office's accounting procedures had been upset by an industrial dispute involving computer operators. Investment by the Post Office in fixed assets was some £84m above forecast, the bulk of which was due to unanticipated increases in the costs of assets purchased and changes in accounting procedures. The effect of the billing backlog reported in Cmnd 7841 was finally estimated at £345m, leading to an adjusted cash limit for the Corporation of £235m. The Telecoms and National Girobank businesses kept within their share of the adjusted EFL, but the postal business had a small shortfall at £4.9m.

45. The EFL set for the Post Office in 1980-81 was £65m of which, as an administrative arrangement, £78m was allocated to the telecommunications business and a net repayment of £13m was allocated to Posts and Giro. As a result mainly of the effect of the recession on revenue, and following the industrial action affecting BT's computer control of stores and stock levels, the telecommunications business will be unable to avoid a substantial overrun of its share of the EFL this year.

TELECOMMUNICATIONS

46. BT expect to continue modernisation of the network and improvement of service standards and to achieve growth in the telecommunications system with only a relatively small increase in manpower. Over the five year period to 1984-85 continuing growth is expected in the telephone system (29%) and in the volume of local calls (30%) and trunk calls (54%). This reflects the continuing demand for telephones, which remains buoyant despite the downturn in economic activity, and British Telecommunications' plans for the continued marketing of both new and existing telecommunications products and services.

47. The table below gives some relevant statistics.

Expansion of size and use of Telecommunications System

Table 38

	1975-76	1979-80	1984-85
Size of System (thousands):			
Working Telephone connections	13,200	17,600	22,600
Working Telex connections	59	86	134
Data Transmission Terminals	37	67	226
Residential penetration per 100 households	53	72	87
Telephone Calls (Millions)			
Inland (effective calls):	15,200	19,900	27,300
Overseas (million paid minutes)	266	603	1,350
Inland telephone calls per head of population	271	356	489

48. Investment is required to modernise and extend the network and the range of services provided through it, so that future demands for greater capacity and more sophisticated communications systems can be efficiently met. An increase in the provision for the digital network, including System X exchanges, has been made since last year, reflecting the importance of such investment to take advantage of modern digital technology and developing information technologies as well as System X's export potential. This accompanies the improvements in service which

semi-electronic TXE4 and TXE4a exchanges will bring. Investment is also needed to provide a number of new products and services, including the introduction of a new generation of public telephones, a fully integrated national radiopaging service and the development of Prestel, the Post Office's public viewdata service. During the period to 1984-85 about 45% of total investment is planned to be for the replacement of existing assets, and 55% for growth and new facilities. The Government has stressed the need for a strong and successful BT not only competing with the private sector but cooperating with it in joint ventures. An increased level of investment is planned to reflect this need.

49. In terms of 1980 survey prices, investment totalled about £1,250m in 1979-80, is expected to total £1,263m in 1980-81, and Cmnd 7841 made provision for investment levels of around £1,400m a year in 1981-82 to 1983-84. The external financing limit of £180m now set for BT in 1981-82 should allow for a substantial increase over these investment levels. In addition the Government believes there is scope for BT to finance further productive investment by partnerships with the private sector. Provided that BT is not in control of any partnership it will be a genuine private sector activity where financing can be conducted outside the PSBR and therefore in addition to the EFL. The figures in table 3.2 indicating BT's expenditure on fixed assets in 1982-83 and 1983-84 are based on PO plans submitted in the 1980 investment review which showed an investment requirement of £1,500m and £1,578m respectively; but it has been assumed that £50m and £100m respectively would be undertaken through private sector investment in joint ventures or otherwise and would therefore not be classified within BT's investment programme.

50. The telecommunications business made a profit after interest of £236m in 1979-80 including exceptional gains of £107m. This represented a real return of 4.6% on net assets compared with a target of 5% (the return is defined as profit before interest but after historic and supplementary depreciation, taken as a proportion of net assets at replacement cost). The Telecommunications performance aim is to achieve a 5% per annum improvement in real unit costs, 1978-79 to 1982-83. On average, the business reduced its real costs per unit of output by 7.2% per year over the first two years although there has probably been some deterioration in 1980-81. Owing chiefly to the effects of the recession on revenue, the business is expected to make a return of nearly 5% on net assets in 1980-81 rather than the level of 6% assumed in Cmnd 7841. The figures in this White Paper assume that BT will make a return of 6% in 1981-82 rather than the 6½% assumed in Cmnd 7841, and 6½% in 1982-83 onwards, but precise financial targets for 1981-82 and subsequent years have yet to be announced.

POSTS

51. The investment programme in 1981-82 is larger than in Cmnd 7841 primarily because of the need for the Postal Business to press ahead with the mechanization programme, as recommended by the Monopolies and Mergers Commission in its report on the Inner London Letter Post published in April 1980. The figures for investment in fixed assets in 1982-83 and 1983-84 are on the assumption that the postal business finds £5.0m from disposal of assets or from sources other than tariff increases; to the extent that such income is not realised, the fixed investment programme will need to be reduced accordingly. The forecast trend in traffic is shown as follows:

MAIL TRAFFIC

Table 3.9 thousand million items

1973-74	1979-80	1983-84
11.2	10.4	10.2

52. The postal business made a profit of £34.0m (before other gains of £15.2m) in 1979-80, which represents the 2% on turnover, after charging historic and supplementary depreciation and interest, required to achieve the financial target. The business may however have some difficulty in meeting its financial target in 1980-81, due to lower than expected revenues. The financial target which applies for the years 1980-81 to 1982-83 is approximately equivalent to a return of 4.3% (after depreciation and before interest) on net assets at replacement cost.

53. 1979-80 was the second year of the five year performance aim for the postal business which was announced in the White Paper entitled 'The Post Office' (Cmnd 7292). This was that for Posts real unit costs should not increase over the period to 1982-83 as a whole. In 1978-79 real unit costs were reduced by 3.3% and in 1979-80 they remained at the 1978-79 level but it is probable that 1980-81 will see some deterioration in real unit costs compared with the previous year. Postal Business performance aims are currently being reviewed by the Government in consultation with the Post Office.

NATIONAL GIROBANK

54. National Girobank was set a financial target for the years 1979-80 to 1981-82 of earning an average annual return of 13% before payment of NLF interest on its historic mean net assets as well as earning an additional £5.0m over the three year period. Its current cost profit of £9.5m before interest and depreciation in 1979-80 met this target and provided for a considerable reduction in the business' accumulated deficit.

3. NATIONALISED INDUSTRIES

AIRWAYS AND AIRPORTS

BRITISH AIRWAYS

55. The Civil Aviation Act 1980 received Royal Assent in November. Part I contains the legislative framework to enable British Airways' status to be changed to a private sector company and shares in that company to be offered for sale to the public. However, the Government announced in October 1980 that, because of difficult trading conditions in the international aviation market, shares would not be offered for sale in 1981.

56. British Airways' profits before interest and tax in 1979/80 were £55m compared with £110m in 1978/79. The airline carried 17.3m scheduled passengers in 1979/80 - 1.5m more than 1978/79 - and staff productivity based on output improved by 7%. 1979/80 profits were less than British Airways had planned. The reduction was due largely to unexpectedly high increases in fuel prices during the year and the strength of sterling, which reduced the value of revenue earned in foreign currencies.

57. British Airways' current statutory financial target requires an average 6% real return on net assets revalued at replacement cost over the three years 1979/80 to 1981/82. The actual real return achieved in 1979/80 was 0.4%. In his statement dated 4 August 1980, the Secretary of State said that the airline was expected to make continuing efforts to produce results which reflect the required return and recover as much of the ground lost in 1979/80 as may be possible in the remaining two years. Despite the year's problems the airline kept within the external financing limit of £172m set by the Government.

58. In 1980/81, the international aviation market has been adversely affected by the general economic recession. This factor, combined with increased competition and the strength of sterling, is expected to lead to a significant shortfall in British Airways' revenue for the year which it will not be possible to meet in full, by capital and cost savings. Consequently, the Government announced on 12 January 1981 that British Airways' 1980/81 external financing limit could be increased by £85m, from £219m to £304m.

59. British Airways' capital investment programme is predominantly geared to modernisation of the fleet by replacing old, inefficient and noisy aircraft with new models. The airline's long term plans are designed to respond to the established pressures for lower air fares in real terms. The investment programe, combined with other measures to reduce operating costs, is intended to enable British Airways to meet increased competition successfully and profitably.

60. Nearly all British Airways' external finance takes the form of overseas borrowings.

BRITISH AIRPORTS AUTHORITY

61. In 1979-80 the number of terminal passengers at the British Airports Authority's airports increased by 8.4 per cent to 43 million. This overall figure is unlikely to increase in 1980-81 although there has been further growth at Gatwick, where the policy of encouraging new scheduled services is having considerable success, and Aberdeen, where there is a continued increase in North Sea oil-related traffic.

62. The Authority has agreed a new financial target with the Government of an average rate of return of 6 per cent per annum on net assets revalued at current cost over the three financial years 1980/81 to 1982/83. The target has been supplemented by the establishment of two performance aims for the same period, requiring a growth in the number of passengers handled per employee and a fall in expenditure per passenger.

63. The investment programme reflects the Government's airports policy as set out in the Secretary of State for Trade's statement of 17 December 1979 and is designed to meet forecast demand for air travel in the mid-1980's and beyond. Expenditure on fixed assets includes a fourth terminal at Heathrow and, subject to the outcome of a public inquiry, a proposed second terminal at Gatwick. A public inquiry into the Authority's planning application to build a new terminal and associated facilities at Stansted to meet demand in the late 1980's and beyond, is expected to begin in the Autumn of 1981.

64. The financing figures for the later years are subject to considerable uncertainty in the light of recent more pessimistic assumptions about the rate at which traffic is likely to grow over the next few years.

3. NATIONALISED INDUSTRIES

SURFACE TRANSPORT INDUSTRIES

BRITISH RAILWAYS BOARD

65. The Government and the British Railways Board have agreed that private capital should be introduced into certain of the Board's non-rail subsidiary activities. It is expected that the Board will dispose of a majority of their interest in Sealink, British Transport Hotels, British Rail Hovercraft and a large property portfolio and that these undertakings will leave the public sector. The Transport Bill currently before Parliament provides appropriate powers. However, since the timing of introduction of private capital is uncertain, it is assumed that BRB's subsidiaries will remain wholly in the public sector for the period covered by the White Paper. BRB's capital requirements as shown in table 3.1 thus include investment in both the Board's rail and non-rail businesses.

66. Investment in the railways business chiefly entails the replacement and renewal of existing assets. About one third of all rail investment is in signalling and other infrastructure and, under the accounting conventions which were adopted following the Railways Act 1974, is charged to revenue.

67. The Board's capital requirements are maintained at the level envisaged in Cmnd 7841 - £325 million at survey prices. However, additional provision has been made in 1982-83 and 1983-84 (£3m and £9m respectively) for improvements to the Victoria-Gatwick Rail link.

68. Grant support for the Board's passenger services is shown in table 2.6 under the provision for central government subsidies and for passenger transport subsidies by local authorities. The Board do not receive support for the current operations of their non-passenger business. For 1980 the Board's claim for support was 41% of the passenger direct expenses and indirect costs. The costs include the passenger element of expenditure on track and signalling and also the special replacement allowance towards the costs of renewing the assets of the passenger railway.

69. Financial targets have been agreed for certain of the Board's businesses. A target to achieve by 1982 a 5 per cent return on net assets at current cost has been set for Sealink UK Limited. The Government has also agreed interim financial targets for the Board's Inter-City and freight businesses; Inter-City is by 1982 to achieve a £28 million improvement (at 1979 prices) in the 1978 level of contribution to the total indirect costs of the railway, while the freight business is by 1982 to cover two-thirds of its current cost depreciation and amortisation charges after meeting its direct expenses and its agreed contribution to indirect expenses. Work is proceeding on targets for other parts of the Board's businesses.

70. The financing figures for the later years forecast a significant reduction in net borrowing but are subject to considerable uncertainty. The costs associated with the Board's decision to close its loss making collect and deliver parcels business will decline rapidly from their peak in 1981-82. Thereafter, the financing figures assume achievement by the Board of the interim financial targets set for the railway businesses. In 1980, however, management action to achieve progress towards the financial targets has been hampered by adverse trading conditions. The Board's ability to achieve further business changes will be crucial in validating the financing projections.

71. The Government is currently discussing with the Board a performance aim for the railway businesses. The Board's 1979 accounts contained a comprehensive set of performance indicators for the railways and the subsidiary businesses.

BRITISH TRANSPORT DOCKS BOARD

72. The British Transport Docks Board operates 19 ports throughout Great Britain and in 1979 handled 82.2 million tonnes, about a quarter of the total port traffic in Great Britain. Despite the low level of overseas trade, the Board achieved a surplus in 1979 of £6.8 million after replacement cost depreciation, interest and taxation. The Board's surplus before interest and taxation but after historic cost depreciation represented a 15.1 per cent return on capital employed against a target of 20 per cent agreed with the Government. Continuing adverse trading conditions rule out the achievement of this target by 1980 as intended.

73. The Transport Bill now before Parliament provides for a new two tier organisation to replace BTDB. A Companies Act holding company will be given power to control a reconstituted BTDB, to be known as British Ports, as if it were a wholly owned subsidiary. The Secretary of State for Transport proposes to sell shares in the holding company to private investors.

74. The Board expect to continue to finance all investment from internally generated resources. About three quarters of BTDB's investment programme is devoted to the maintenance, improvement or replacement of existing port facilities. The remainder is set aside for schemes undertaken to handle specific cargoes in agreement with the customer. These schemes are particularly sensitive to economic conditions and the reduction in capital investment below previously planned levels reflects the reduced demand for customer-related investment.

BRITISH WATERWAYS BOARD

75. The Board are responsible for the upkeep of some 2000 miles of waterways throughout Britain. About 300 miles of commercial waterways are maintained for freight traffic and 1100 miles for navigation by pleasure craft. The network has considerable land drainage and also water supply functions. The Board has its own docks, warehouse, inland freight terminals and a small freight carrying fleet.

76. The Board's major task is to keep the navigable waterways open and to deal with the backlog of maintenance so far as the financial resources available to it allow. Consultations on the future organisation and objectives of the Board have taken place over the last year and it has been decided that the Board should continue substantially in its present form. Consideration is now being given to the development of suitable performance aims and financial targets, although the range of functions carried out by the Board poses particular difficulties in establishing appropriate indicators.

77. The bulk of the investment programme is accounted for by the Sheffield and South Yorkshire Navigation project, which should be completed in 1982-83. The capital cost of the project is being financed by NLF borrowing and grants from South Yorkshire County Council and the European Regional Development Fund. The deficit on revenue account is met by Government grant (borne on Programme 8); this is the Board's major source of finance, amounting to some 60% of total revenue.

The National Bus Company

78. The National Bus Company comprises some 34 subsidiary companies operating mainly stage carriage services in England and Wales, and National Travel (NBC) Ltd, which co-ordinates a long distance express coach service. In 1979, 1,778 million passenger journeys were made on NBC services, a reduction of only ½ per cent on the total for the previous year. Of these, 1,711 million journeys were on stage carriage services, 1.3 per cent less than in 1978. Vehicle miles on stage carriage services were reduced by 2.6 per cent compared with 1978; much of the saving was achieved by more closely matching services to passenger needs as a result of MAP (Market Analysis Project) studies.

79. In 1979 the Company achieved a surplus on an historic cost basis of £6 million, compared with £17½ million in 1978. This was below expectations and was in some measure due to the effects of the severe winter, which reduced receipts and increased maintenance costs.

80. The provisions of the Transport Act 1980 will open up a new competitive environment for the Company's services. On express services, the removal of the requirement for road service licences allows operators including the National Bus Company to introduce new services on a straightforward commercial basis. Road service licences continue to be required for stage services, but the criteria for obtaining them have been relaxed so that a new service will be allowed unless the Traffic Commissioners are satisfied that it would be against the public interest.

81. NBC's investment is divided between replacement of vehicles (which represents around 90 per cent of the capital investment programme for 1981-82) and infrastructure, such as the renewal or replacement of depots and garages. The capital requirement shown in table 3.1 reflects a reduction of nearly 40 per cent in 1981-82 below the level of investment projected in Cmnd 7841. The figures for future years project an increase in capital spending. But these forecasts were made before the substantial fall in patronage which most operators, including the NBC, experienced in 1980, and the figures will need to be reviewed accordingly.

82. The Company receives revenue support from local authorities and new bus grant from Central Government. Provision for these grants is included in table 2.6. Local authority revenue support is projected to remain at some 6 per cent of total revenue throughout the period covered by the White Paper, a reduction of 13 per cent on levels previously forecast. New bus grant will be phased out by 31 March 1984. The Company will thus have to rely increasingly on internal resources to finance capital requirements.

83. Discussions are continuing with a view to setting a financial target and performance aim for the Company.

The National Freight Company Ltd

84. The undertaking of the former National Freight Corporation was transferred to the National Freight Company Limited on 1 October 1980 under the provisions of the Transport Act 1980. The Company is 100 per cent Government-owned, but it is the Government's intention to sell all the shares to private sector investors; the timing of the sale will depend on market conditions. Meanwhile the Company's borrowing remains within the PSBR.

85. In anticipation of sale the Company's investment strategy is to concentrate on selected priority areas where financial performance is relatively stable and backed by formal customer commitment, eg contract hire, and on specialised activities thought to have good prospects for growth. At the same time they will withdraw from or rationalise activities with poor performance or prospects.

86. The Company's capital requirements will continue to be financed largely from internal resources and leasing. The write-off of the former Corporation's commencing capital debt relieved the Company of a significant level of interest payments and their financing requirements have been adjusted accordingly.

SCOTTISH TRANSPORT GROUP

87. About 80% of the Group's planned capital expenditure is for the replacement of buses, the rest being mainly for the modernisation of bus depots and ferry terminals. Over the period covered by the White Paper there will be a continued decline in government grants as new bus grant is phased out partly offset by a planned real increase within overall expenditure totals in central government grants to ferry services and by some increase in local authority support which has been assumed on the basis of current trends.

88. Following discussions with the Group a medium term financial target (to 1983) has been set for bus operations. This requires the Scottish Bus Group to make a current cost operating profit amounting to an average rate of return of 4½% per annum of net fixed assets at current cost over the period to 31 December 1983. The 1980 financial targets for the ferry and ancillary activities of the Group are being reviewed with a view to setting medium term targets for these operations also. Performance aims have been set and were published, with relevant historical indicators, in the 1979 accounts.

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PART FOUR

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Table 4.1 RESTRICTED

UNITED KINGDOM PUBLIC EXPENDITURE BY PROGRAMME £ million at 1980 survey prices

	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85
DEFENCE (as in table 2.1)	9,436	9,287	9,082	9,026	9,294	9,746	9,750	10,050	10,350	
OVERSEAS AID AND OTHER OVERSEAS SERVICES (as in table 2.2)	1,176	1,406	1,904	2,021	2,069	1,648	1,592	1,530	1,530	
AGRICULTURE, FISHERIES, FOOD AND FORESTRY ETC										
Market support under CAP	554	254	316	379	343	484	402	410	410	
Other Market support	157	74	72	57	45	99	57	50	60	
Other assistance to agriculture	639	482	428	408	502	466	417	400	390	
Support for the fishing industry	43	20	15	15	23	47	40	40	40	
Forestry	39	37	32	35	46	38	45	40	40	
Food subsidies	942	589	235	11						
Programme 17 (Northern Ireland) expenditure	59	62	83	101	69	47	40	40	40	
Total	2432	1519	1182	1007	1028	1182	1 001	940	980	
INDUSTRY, ENERGY, TRADE AND EMPLOYMENT										
Regional and general industrial support										
Regional development grants	530	565	477	469	318	390	351	350	330	
National Enterprise Board	8	33	46	55	63	56	37	20	10	
Other	813	240	272	409	373	400	364	320	320	
Total	1,351	838	795	934	755	847	752	680	660	
Scientific and technological assistance	333	360	307	299	314	353	381	370	380	
Support for nationalised industries, BL Limited and Rolls Royce	654	719	580	602	652	780	1,070	540	150	
Trade	1,107	1,013	-103	462	20	209	73	140	40	
Shipping	14	12	16	15	19	25	21	10	10	
Employment and training	737	997	1,194	1,214	1,226	1,729	1,773	1,360	1,260	
REP	356	317	4	—	—	—	—	—	—	
Compensation for price restraint to nationalised industries	108	—	—	—	—	—	—	—	—	
Departmental administration and other services	107	122	139	137	77	123	121	120	120	
Programme 17 (Northern Ireland) expenditure	367	311	267	311	308	320	282	290	290	
Total	5136	4688	3197	3973	3370	4386	4473	3520	2900	
GOVERNMENT LENDING TO NATIONALISED INDUSTRIES (as in table 3.1)	1,644	415	-281	812	1,857	2,050	1,400	350	-150	
TRANSPORT motorways and trunk roads	848	792	606	615	631	580	615	620	620	

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RESTRICTED

Local transport									
Local capital									
Roads maintenance	989 771	924 702	703 705	690 752	701 705	683. 692.	642 659	620 660	620 680
Revenue support	354	322	270	271	270	267.	247	230	230
Other current	382	355	340	343	361	322.	295	270	260
Total local transport	2496	2303	2018	2056	2037	1964	1844	1790	1790
Central government subsidies	891	761	706	647	708	630.	630	600	59
Ports	84	96	94	75	68	85.	60	60	60
Driver and vehicle licensing	83	80	63	58	51	57.	54	50	60
Other transport services	90	66	54	52	51	55.	63	60	60
Civil aviation	142	96	69	47	56	50	42	40	30
Programme 17(Northern Ireland) expenditure	112	107	112	120	114	107.	89	80	80
Total	4796	4302	3723	3668	3716	3528	3395.	3300	3290
HOUSING									
Central government subsidies to local authority housing	1,210	1,379	1,279	1,385	1,545	1,525.	804		
Other general subsidies	488	428	422	488	566	592.	450		
Rent rebates	250	241	253	238	247	300.	359		
Rent allowances	39	37	49	44	39	64.	60		
Total income related subsidies	1,987	2,085	2,003	2,154	2,397	2,480.	1,673		
Option mortgage scheme	175	196	188	170	192	208.	220		
Administration	69	96	70	109	103	96.	99		
Local authority gross capital expenditure	4,906	4,239	3,628	3,219	3,055	2,229.	2,038		
Sales and repayments	-413	-425	-541	-662	-534	-577.	-725		
Other capital	518	807	760	712	706	703.	611		
Programme 17(Northern Ireland)expenditure	173	227	199	206	203	222.	207		
Total	7,414	7,225	6,305	5,908	6,121	5,361.	4,122	3,590	2,980
OTHER ENVIRONMENTAL SERVICES									
Water services	1,024	925	798	771	685	647.	663	650	650
Land drainage and urban and rural flood protection	134	150	173	188	225	209.	194	180	120
Local environmental services	2,836	2,516	2,510	2,526	2,510	2,304.	2,105	2,010	
Urban programme	12	14	21	75	101	121.	203	190	190
Other	280	307	295	308	286	299.	291	280	200
Programme 17(Northern Ireland)expenditure	116	106	106	108	104	104.	105	110	110
VAT paid by local authorities	362	338	328	339	320	324.	320	320	310

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Total	4,764	4,357	4,231	4,313	4,231	4,008	3,881	3,730	3,666
LAW, ORDER AND PROTECTIVE SERVICES									
Administration of Justice	238	236	237	254	277	299.	330	360	390
Treatment of offenders	398	400	398	405	417	438.	441	450	460
General protective services									
Police	1,643	1,695	1,664	1,637	1,708	1,795.	1,812	1,850	1,860
Fire and other	426	438	405	438	432	440.	434	440	430
Civil defence	31	24	16	16	33	22.	32	40	40
Other	95	91	95	95	94	109.	109	100	100
Programme 17(Northern Ireland)expenditure	256	254	243	248	258	269.	258	250	250
Total	3,087	3,139	3,058	3,093	3,218	3,371.	3,415	3,490	3,530
EDUCATION AND SCIENCE, ARTS AND LIBRARIES									
Schools	6,727	6,753	6,491	6,547	6,528	6,160.	5,958	5,820	5,700
Higher and further education (including teacher training)	2,984	2,909	2,783	2,844	2,894	2,921.	2,750	2,680	2,620
Other	541	521	502	522	533	517.	506	510	510
Total education	10,252	10,183	9,776	9,914	9,955	9,598.	9,215	9,010	8,820
Research councils etc	329	341	329	342	342	347.	346	350	350
Arts and libraries									
central government	131	148	146	156	167	168.	158	160	160
Local authorities	300	290	284	291	295	266.	251	240	240
Total arts and libraries	431	438	430	447	462	434.	409	400	400
Programme 17(Northern Ireland)expenditure	364	360	372	390	382	368.	362	350	350
Total	11,376	11,320	10,907	11,093	11,141	10,747.	10,331	10,110	9,720
HEALTH AND PERSONAL SOCIAL SERVICES									
Health									
Hospital and community health services	6,733	6,723	6,784	6,977	6,916	7,054.	7,258	7,380	7,390
Family practitioner services	1,703	1,794	1,831	1,873	1,868	1,872.	1,899	1,960	2,[illegible]20
Total	8,437	8,518	8,615	8,850	8,784	8,926.	9,156	4,338	9,406
Personal social services									
Local authority services	1,504	1,533	1,509	1,569	1,636	1,531.	1,523	1,560	1,590
Central government services	13	15	14	14	15	17.	17	20	20
Total	1,517	1,548	1,524	1,583	1,651	1,548.	1,540	1,570	1,610

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	350	347	345	352	370	410.	413	410	410
Programme 17(Northern Ireland)expenditure	350	352	361	380	380	380.	380	380	380
Total	10654	10764	10845	11164	11136	11263	11489	11697	11803
SOCIAL SECURITY									
Retirement pensions	7,851	8,043	8,235	8,710	8,814	8,983.	9,295	9,560	9,630
Child benefit	870	773	1,088	2,074	2,830	2,579.	2,622	2,710	2,710
Other	7,016	7,430	7,770	7,860	7,462	8,213.	9,244	9,030	9,090
Programme 17(Northern Ireland)expenditure	466	484	512	570	585	615.	672	680	690
Total	16,203	16,731	17,605	19,213	19,691	20,390.	21,833	21,980	22,120
MISCELLANEOUS EXPENDITURE									
other public services	1,130	1,059	1,024	1,021	1,039	1,050.	1,080	1,030	1,020
Common services	1,088	1,108	1,080	1,068	1,104	1,106.	1,184	1,180	1,230
Programme 17(Northern Ireland)expenditure	37	30	25	32	33	40.	42	40	40
Total	2,255	2,196	2,128	2,122	2,176	2,196.	2,306	2,250	2,290
GRAND TOTAL	80,422	77349	73885	77414	79,096	78,877	78,989	76,600	75,200

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Local authority expenditure in Great Britain

Table 4.2 £million at 1980 survey prices

	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82
Current expenditure in England (1)							
Agriculture, fisheries, food and forestry	48	51	67	58	~~56~~ 57	55	52
Industry, energy, trade and employment	75	77	75	77	82	90	83
Transport	1266	1161	1076	1112	1088	1041	970
Housing	445	415	379	462	511	548	388
Other Environmental Services	1531	1479	1554	1573	1649	1503	1450
Law, Order and protective services	1774	1849	1817	1832	1901	1968	1985
Education and Science, arts and libraries	7017	7082	7037	7237	7320	7025	6776
Health and personal social services	1159	1190	1210	1258	1313	1203	1195
Other public services	115	111	117	111	121	120	118
Total current expenditure in England	13430	13415	13332	13720	~~[illegible]~~ 14042	13556	13018
Total current expenditure in Scotland (from table 2.15.[illegible])	1777	1690	1686	1747	1782	1733	1689
Total current expenditure in Wales (from table 2.16.[illegible])	823	824	836	851	856	830	~~828~~ 819
Total current expenditure in Great Britain (2)	15930	15929	15854	16318	~~16677~~ 16680	16119	~~15525~~ 15526
Capital expenditure in England (3)							
Agriculture, fisheries, food and forestry	55	59	53	62	88	82	75
Industry, Energy, Trade and Employment	6	5	7	9	21	16	28
Transport	~~801~~ 844	~~776~~ 790	~~522~~ 552	~~496~~ 540	~~505~~ 556	~~510~~ 557	~~475~~ 517
Housing	3864	3061	2404	1923	1990	1229	963
Other Environmental Services	696	561	482	502	387	431	343
Law, Order and protective services (4)	96	82	68	53	46	60	72
Education and Science, arts and libraries	682	600	467	407	339	331	284
Health and personal social services	125	95	58	57	59	70	69
Total capital expenditure in England	~~6325~~ 6367	~~5189~~ 5253	~~4066~~ 4120	~~3508~~ 3552	~~3485~~ 3535	~~2709~~ 2718	~~2309~~ 2351
Total capital expenditure in Scotland (from table 2.15)	385	809	714	688	648	534	537
Total capital expenditure in Wales (from table 2.16)(4)	349	310	235	220	236	182	164
Total capital expenditure in Great Britain	~~7559~~ 7601	~~6308~~ 6372	~~5016~~ 5069	~~4416~~ 4460	~~4369~~ 4419	~~3445~~ 3494	~~3010~~ 3052

(1) Local authority current expenditure is not controlled directly by the central government. Local authorities are free to decide on its level and distribution; but there are cash limits on certain central government grants.

(2) The relationship of local authority current expenditure to rate support grant in 1981-82 is given in table 4.[illegible].

(3) Local authority capital expenditure is controlled by cash limits, with more freedom for local authorities to determine its distribution among services.

(4) This reflects a notional split of England and Wales capital expenditure on law, Order and protective services.

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Local authority expenditure in Great Britain relevant for rate support in 1981-82

Table 4.3

	England	Scotland	Wales	Great Britain
		£million, 1980 survey prices		
Current expenditure (PES definition)	13,018(1)	1,689(2)	~~818~~ 819 (3)	~~15,525~~ 15526
of which				
Relevant current expenditure (4)	12,130	1,633	772	14,535
		£million, estimated outturn prices		
Relevant current expenditure	16,180	2,195(5)	~~1,031~~ 1032	~~19,406~~ 19407
Rate fund contributions to Housing Revenue Accounts	254	-	11	265
Revenue contributions to capital expenditure	582	19	~~54~~ 50	~~652~~ 651
Loan charges	1,674	408	~~109~~ 108	~~2,191~~ 2190
Interest receipts	-267	-10	-15	-292
Total relevant expenditure	18,423	2,612	1,187	~~22,222~~ 22,221
of which				
Aggregate Exchequer Grant	10,895	1,742	871	13,508
at a rate of (6)	59.1%	66.7%	73.4%	-
of which				
Block Grant (7) (cash limited)	8,364	1,583	697	10,644
Other cash limited grants (8)	421	-	41	462
Domestic Rate relief grant	663	14	48	725
Specific grants not cash limited (9)	1,447	145	85	1,677

(1) From Table 4.1

(2) From Table 2.15

(3) From Table 2.16

(4) Relevant current expenditure is that part of local authority current expenditure as defined for this White Paper which is included in relevant expenditure for RSG purposes. The main differences are that relevant current expenditure excludes certain items met almost entirely from central government funds such as expenditure on mandatory student awards and expenditure met by central government grants for rent rebates and allowances.

(5) Unlike RSG in England and Wales, RSG in Scotland is not paid at estimate outturn prices. This column shows the figures implied by the cash limit on Scottish RSG.

(6) This is consistent with an overall rate of grant support of 60% in England and Wales.

(7) In Scotland, the cash limited part of Rate Support Grant.

(8) In England and Wales, Transport Supplementary Grant and National Parks Supplementary Grant.

(9) Law and Order services account for three-quarters of expenditure met by these grants.

DEBT INTEREST

TABLE 4·4

£ million at 1980 survey prices

	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
Debt interest (1)	1,694	2,185	2,476	2,853	3,836	4,100	4,400	4,500	4,500
add back									
(a) Debt interest payments matched by:									
general government interest receipts	3,359	3,351	3,415	3,289	3,069	3,100			
interest provision from trading activities of general government	2,261	2,410	2,333	2,368	2,329	2,300			
(b) Interest support costs (included in programme 4) (2)	279	385	177	303	411	300	6,000	5,500	5,000
equals									
General government debt interest payments	7,592	8,331	8,401	8,812	9,645	9,800			
add									
(c) Public corporations' debt interest payments to the private sector and overseas	874	1,164	990	955	791	700			
equals									
Total public sector debt interest payments (National Accounts basis) (3)	8,466	9,495	9,391	9,767	10,436	10,500	10,400	10,000	9,500

(1) Shown as 'debt interest net' in Memorandum A of Table 1.1.

(2) These costs arise from the support of export credit and home ship building lending at fixed rates of interest. They are included in programme 4 in this White Paper but as debt interest in the National Accounts. The figures in programme 4 at 1980 survey prices do not exactly match those in this table, as they are revalued onto a different price basis.

(3) Shown as 'debt interest gross' in Memorandum A of Table 1.1.

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DEBT INTEREST

1. The estimates of net debt interest in public expenditure are on the basis used in recent public expenditure White Papers. They exclude interest payments which are matched by interest receipts or by provision for interest in the accounts of public trading activities. They thus broadly correspond to those interest payments which are a charge against taxation and, if not met from taxation, necessitate further government borrowing. Table 4.4 shows, first, debt interest on the public expenditure basis (shown as 'debt interest-net' in Memorandum A of Table 1.1), and then the interest payments excluded from that definition of debt interest, and finally the total of public sector payments of debt interest to the private sector and overseas (shown as 'debt interest-gross' in Memorandum A of Table 1.1).

2. Debt interest on a public expenditure basis (at 1980 survey prices) is projected to rise by around £300 million in 1980-81 and 1981-82, largely because of recently high interest rates and borrowing. This follows an increase of close to £1 billion in 1979-80. The growth is projected to decelerate after 1981-82, growing by only another £100 million by the end of the survey period.

3. Total public sector debt interest payments are expected to rise by under £100 million in 1980-81, but to decline each year thereafter. The different trend in the two series is partly accounted for by the fact that general government interest receipts are expected to fall in real terms over the survey period - thus pushing up net interest payments, but not affecting the gross debt interest figure.

Table 4.5

CAPITAL EXPENDITURE ON CONSTRUCTION WORK

£ million at 1980 survey prices

	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82
Housing: England							
New dwellings and improvements	2598	2697	2443	2116	2017	1520	1212
Grants and loans to housing associations and improvement grants	742	822	830	765	733	686	617
Other environmental services	1261	1177	1017	1085	916	901	841
Transport	1241	1101	766	727	759	699	681
Education...	510	463	378	323	319	280	244
Health and personal social services	577	532	382	376	370	406	442
Scotland (1)	1083	981	890	850	847	739	750
Wales (1)...	454	425	365	340	347	320	296
Northern Ireland	292	284	267	247	231	215	184
Other (2)...	644	651	616	566	651	659	596
Total (excluding nationalised industries)	9401	9134	7954	7394	7190	6425	5863
Nationalised industries:							
Electricity	260	245	204	218	201	200	232
Gas	441	242	185	190	207	236	259
Railways	270	189	169	235	146	133	141
Coal	86	105	125	193	221	259	269
Other	428	353	283	265	222	251	313
Total nationalised industries (3)	1,485	1,134	966	1,101	997	1,079	1,214
Grand Total	10886	10268	8920	8495	8187	7504	7077

(1) Includes grants and loans to the housing associations and improvement grants.

(2) Includes defence new construction expenditure (which is classified as current expenditure on goods and services); industry, energy, trade and employment; law, order and protective services and office and general accommodation.

(3) Certain capital expenditure by the British National Oil Corporation which is classified in the national accounts as new buildings and works has been excluded from this table since little of the work is produced by the construction industry.

1. Table 4 5 gives information about capital expenditure by the public sector on construction work. As decisions have not yet been taken in all cases on allocations within the main programmes, it is not possible to extend this analysis into the later years.

2. With minor exceptions, the figures relate to the construction component of capital expenditure and do not include repair and maintenance work. The figures consequently understate total public expenditure on construction, but they also include small amounts of expenditure which is not on work done by the construction industry.

3. No allowance is made for any construction component in the unallocated expenditure provided for in the contingency reserves for future years. Neither is allowance made for shortfall in future years.

4. The figures include the following elements:

(*a*) direct spending on new construction (including architects' and surveyors' fees);

(*b*) capital grants and loans to housing associations and improvement grants (line 2 of table 5.2); these go to finance construction work, except that the figures for housing associations also include finance for their expenditure on the acquisition of land and existing dwellings;

(*c*) the estimated construction component of nationalised industries' investment programmes.

PUBLIC EXPENDITURE AT OUTTURN PRICES

TABLE 4.6

£ million

	1975-76	1976-77	1977-78	1978-79	1979-80
Defence	5,351	6,180	6,819	7,496	9,225
Overseas aid and other overseas services	731	1,040	1,580	1,837	2,089
Agriculture, fisheries, food and forestry	1,447	992	879	826	996
Industry, energy, trade and employment	3,036	3,087	2,250	3,050	2,921
Transport	2,287	2,333	2,272	2,428	2,899
Housing	3,617	3,934	3,735	3,874	4,785
Other environmental services	2,172	2,247	2,379	2,690	3,127
Law, order and protective services	1,466	1,680	1,798	2,038	2,564
Education and science, arts and libraries	6,197	6,982	7,338	8,093	9,350
Health and personal social services	5,206	5,938	6,540	7,426	8,897
Social security	9,568	11,389	13,647	16,165	19,105
Other public services	663	692	718	776	916
Common services	631	729	794	882	1,044
Scotland	2,779	3,070	3,263	3,677	4,431
Wales	1,124	1,257	1,320	1,495	1,766
Northern Ireland	1,418	1,620	1,808	2,134	2,448
Government lending to nationalised industries	1,038	284	- 218	693	1,857
ADJUSTMENTS					
Nationalised industries' net overseas and market borrowing (1)	510	1,269	923	458	- 322
Special sales of assets	-	-	- 548	-	- 998
PLANNING TOTAL	49,242	54,723	57,297	66,038	77,100
of which:					
Central government (including Government finance for nationalised industries)	32,769	36,546	39,566	46,567	55,824
Local authorities	14,903	15,835	16,397	17,996	21,470
Certain public corporations' capital expenditure	1,048	1,072	960	1,017	1,126
Nationalised industries' net overseas and market borrowing	522	1,269	923	458	- 322
Special sales of assets	-	-	- 548	-	- 998
Debt interest - gross	5,134	6,502	7,306	8,378	10,436
- net	1,027	1,496	1,926	2,447	3,836

(1) Includes Civil Aviation Authority

TABLE 4.7

Estimated Outturn compared with planned expenditure(1) in 1979-80 by programme

£ million at 1980 survey prices

	Cmnd 7439 revalued	Announced changes to plans(2)	Provisional outturn	Other changes from plans Shortfall (-) Excess (+)		of which: changes since Cmnd 7841	
				£ million	As a per cent of plan(1)	£ million	As a per cent of plan
Defence	9,519	+ 120	9,294	- 345	-3.6%	+ 5	+ 0.1%
Overseas aid and other overseas services	2,114	- 35	2,069	- 10	-0.5%	-130	- 6.3%
Agriculture, fisheries, food and forestry	1,169	+ 14	1,010	- 173	-14.6%	- 15	- 1.3%
Industry, energy, trade and employment	3,725	- 691	2,929	- 105	-3.5%	-334	-11.0%
Transport	3,185	- 14	2,967	- 204	-6.4%	- 87	- 2.7%
Housing	5,472	- 389	4,928	- 154	-3.0%	+162	+ 3.2%
Other environmental services	3,398	- 140	3,210	- 47	-1.5%	+ 21	+ 0.6%
Law, order and protective services	2,777	-	2,698	- 79	-2.8%	- 49	- 1.8%
Education and science, arts and libraries	9,365	- 68	9,236	- 61	-0.7%	- 83	- 0.9%
Health and personal social services	9,221	- 33	9,003	- 185	-2.0%	- 12	- 0.1%
Social security	19,657	+ 188	19,106	- 739	-3.7%	-166	- 0.8%
Other public services	994	- 2	931	- 61	-6.2%	- 29	- 2.9%
Common services	1,171	- 32	1,103	- 35	-3.1%	+ 1	+ 0.1%
Scotland	4,697	- 76	4,530	- 90	-1.9%	- 60	- 1.3%
Wales	1,801	- 16	1,788	+ 4	+0.2%	- 28	- 1.6%
Northern Ireland	2,526	- 34	2,437	- 56	-2.2%	- 25	- 1.0%
Government lending to nationalised industries	1,686	+ 132	1,858	+ 40	+2.2%	-360	-19.8%
Net overseas and market borrowing of nationalised industries(3)	- 460	- 232	- 322	+ 370	..	+371	..
Special sales of assets	-	-1,000	- 998	+ 2	..	+ 52	..
Contingency reserve	974	- 881	-	- 93	..	- 93	..
Effect of cash limit policy	-	-1,260	-	+1,260	..	-	..
General allowance for shortfall	-2,500	-	-	+2,500	..	+280	..
Planning total	80,491	-4,452	77,777	+1,738	+2.3%	-579	- 0.8%

(1) As in Cmnd 7439, published January 1979, plus announced policy changes.

(2) Mainly in the Budget Statement of June 1979, but the following changes were announced before 3.5.79 - +£15m on Overseas Aid and Other Overseas Services, +£2m on Agriculture, Fisheries, Food and Forestry, -£250m on Industry, energy, trade and employment.

(3) Including short-term borrowing and the capital value of leased assets.

TABLE 4.8

Estimated Outturn compared with planned expenditure(1) in 1979-80 by spending authority and economic category

£ million at 1980 survey prices

	Cmnd 7439 revalued	Announced changes to plans(2)	Provisional outturn	Other changes from plans Shortfall (-) Excess (+) £ million	As a per cent of plan(1)	of which: changes since Cmnd 7841 £ million	As a per cent of plan
Central government							
Current:							
Wages and salaries including for ces' pay	12,946	- 11	12,702	- 234	- 1.8%	- 47	- 0.4%
Other goods and services	11,734	+ 50	11,289	- 495	- 4.2%	- 99	- 0.8%
Subsidies and grants	27,592	- 64	26,963	- 565	- 2.1%	-268	- 1.0%
Capital:							
Goods and services	1,881	- 50	1,522	- 309	-16.9%	-135	- 7.4%
Grants	1,961	- 210	1,653	- 98	- 5.6%	-100	- 5.7%
Government lending to nationalised industries	1,686	+ 132	1,858	+ 40	+ 2.2%	-360	-19.8%
Net lending to some other public corporations	377	- 39	300	- 38	-11.2%	-160	-47.3%
Other net lending and capital transactions	262	- 275	-175	- 162	..	- 10	..
Total	58,438	- 465	56,110	-1,863	- 3.2%	-1179	- 2.0%
Local authorities							
Current:							
Wages and salaries	12,466	- 4	12,390	- 72	- 0.6%	- 60	- 0.5%
Other goods and services	3,061	- 6	3,229	+ 174	+ 5.7%	+ 145	+ 4.7%
Subsidies and grants	1,672	- 33	1,682	+ 43	+ 2.6%	- 22	- 1.3%
Capital:							
Goods and services	5,006	- 481	3,830	- 694	-15.3%	+ 16	+ 0.4%
Grants	305	+ 8	181	- 132	-42.1%	- 10	- 3.2%
Net lending and other capital transactions	14	+ 12	450	+ 424	..	- 9	-34.6%
Total	22,525	- 505	21,762	- 258	- 1.2%	+ 61	+ 0.3%
Certain public corporations							
Capital:							
Goods and services	1,333	- 101	1,062	- 170	-13.8%	- 52	- 4.2%
Grants	19	-	23	+ 4	+23.9%	-	-
Net lending and other capital transactions	162	- 8	140	- 14	- 9.0%	- 18	-11.7%
Total	1,514	- 109	1,225	- 180	-12.8%	- 71	- 5.1%
Net overseas and market borrowing of nationalised industries(3)	- 460	- 232	- 322	+ 370	..	+ 371	..
Special sales of assets	-	-1,000	- 998	+ 2	..	+ 52	..
Contingency reserve	974	- 881	-	- 93	..	- 93	..
Effect of cash limit policy	-	-1,260	-	+1,260	..	-	..
General allowance for shortfall	-2,500	-	-	+2,500	..	+ 280	..
Planning total	80,491	-4,452	77,777	+1,738	+ 2.3%	- 579	- 0.8%

(1) As in Cmnd 7439, published January 1979, plus announced policy changes.

(2) Mainly in the Budget Statement of June 1979, but the following changes were announced before 3.5.79 - +£15m Overseas and other overseas services, +£2m on Scotland and Wales, -£250m on Industry, energy, trade and employment.

(3) Including short-term borrowing and the capital value of leased assets.

PUBLIC EXPENDITURE BY MAIN PROGRAMME AND SPENDING AUTHORITY, DISTINGUISHING CURRENT AND CAPITAL EXPENDITURE IN 1981-82

TABLE 4.9

£ million at 1980 survey prices

	Central government			Local authorities (1)	Certain public corporations (2)	Total
	Voted expenditure					
	Cash-limited	Other	Other			
Defence						
Current	9,690	-	-17	-	-	9,673
Capital	80	-	- 3	-	-	77
Overseas aid and other overseas services						
Current	-357	89	1,610	-	-	1,342
Capital	228	-	4	-	18	250
Agriculture, fisheries, food and forestry						
Current	191	410	-	52	-	653
Capital	60	154	- 3	75	65	352
Industry, energy, trade and employment						
Current	1,543	1,217	386	95	-	3,240
Capital	147	640	-33	29(3)	-	783
Transport						
Current	235	590(3)	-	970	-	1,795
Capital	376	-	7	477(3)	81	941
Housing						
Current	22	1,243	-	385	-	1,650
Capital	-	336(3)	- 3	963	197	1,493
Other environmental services						
Current	153	4	-	1,837	-	1,994
Capital	28	53(3)	10	382(3)	509	982
Law, order and protective services						
Current	485	215	-80	2,105	-	2,725
Capital	87	-	- 2	76	-	161
Education and science, arts and libraries						
Current	1,243	22	-	6,809	-	8,074
Capital	143	44	- 1	284	-	470
Health and personal social services						
Current	5,863	1,621	8	1,195		8,687
Capital ...	477	1	-	69		547
Social security						
Current	383	6,986	13,770	-	-	21,139
Capital	22	-	-	-	-	22
Other public services						
Current	854	60	21	-	-	935
Capital	26	-	4	-	8	38
Common services						
Current	339	927	- 124	-	-	1,141
Capital	44	-	- 2	-	-	42

Scotland						
Current	1,144	521	-	1,683	-	3,348
Capital	218	79	1	534	91	923
Wales						
Current	412	199	-	676	-	1,288
Capital	146	30	-	159	53	388
Northern Ireland						
Current	102	-	1,594 (5)	304 (5)	-	1,999
Capital	9	-	278 (5)	42 (5)	108	437
Government lending to nationalised industries (4)						
Capital	-	758	642	-	-	1,400
ADJUSTMENTS						
Nationalised industries' net overseas and market borrowing (4)						- 585
Special sales of assets						- 175
Contingency reserve						1,500
General allowance for shortfall						- 500
PLANNING TOTAL						79,225

(1) Capital expenditure by local authorities is subject to cash limits. As regards local authority current expenditure, the Supporting finance provided through the rate support grants and some specific grants is subject to cash limits.

(2) The capital expenditure of most of these public corporations is subject to cash limits, in the case of the Water Council and the Regional Water Authorities in England and Wales the limit applies to their external financing; their capital is included in programmes 3,8 and 16.

(3) Includes certain grants to nationalised industries that are included in their external financing limits.

(4) Included in the external financing limits of the nationalised industries.

(5) Expenditure by Northern Ireland Departments is subject to a cash limit for services so controlled in Great Britain.

TABLE 4.10

CMND 7841(1) REVALUATION AND CLASSIFICATION CHANGES BY MAIN PROGRAMME AND IN TOTAL : 1981-82

£ million at 1980 survey prices

	Cmnd 7841 at 1979 survey prices (before classification changes)	Cmnd 7841 1979 survey prices in new programmes	Changes due to revaluation (2)	Classification changes (3)	Cmnd 7841 revalued
Defence	8,240	8,240	+ 1,662	+ 41	9,943
Overseas aid and other overseas services	2,280	2,268	+ 74	+ 7	2,349
Agriculture, fisheries, food and forestry	920	778	+ 260	- 45	993
Industry, energy, trade and employment	2,390	2,234	+ 346	+166	2,746
Transport	2,780	2,329	+ 419	+ 46	2,794
Housing	3,840	3,167	+ 310	-342	3,135
Other environmental services	3,040	2,510	+ 424	+117	3,051
Law, order and protective services	2,600	2,369	+ 538	+ 29	2,936
Education and science, arts and libraries	9,010	7,811	+ 946	- 62	8,695
Health and personal social services	9,230	7,675	+ 1,499	- 7	9,167
Social security	19,800	19,795	+ 112	+370	20,277
Other public services	990	936	+ 178	-134	980
Common services	1,070	1,070	+ 197	-126	1,141
Scotland	..	3,634	+ 650	+ 10	4,294
Wales	..	1,374	+ 229	+ 70	1,673
Northern Ireland	2,110	2,110	+ 262	+ 2	2,374
Government lending to nationalised industries	300	300	+ 27	-140	187
ADJUSTMENTS					
Nationalised industries' net overseas and market borrowing	- 300	- 300	- 60	-	- 360
Special sales of assets	- 50	- 50	-	-	- 50
Contingency reserve	1,200	1,200	+ 200	-	1,400
General allowance for shortfall	- 750	- 750	- 90	-	- 840
PLANNING TOTAL	68,700	68,700	+ 8,183	+ 2	76,885
Debt interest - gross	9,600	9,600	-	-	9,600
- net	8,500	3,500	-	-	3,500
Nationalised industries' total net borrowing (included above)	-	-	- 33	-140	- 175

(1) The Government's expenditure plans, 1980-81 to 1983-84, March 1980

(2) See Part 5, Section /IV/

(3) See Part 5, Section /V/

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SPECIAL SALES OF ASSETS IN 1979-80

TABLE 4.11

	£ million 1979-80 prices
Net reductions in expenditure	
Sale of shares in the British Petroleum Company Ltd.	276
National Enterprise Board - sale of certain shares	37
Sale of shares in Drake and Scull Holding Ltd.	1
New Town Development Corporations and the Commission for the New Towns - sale of land & buildings	26
Regional Water Authority - sale of land	3
Sale of shares in Suez Finance Company	22
Property Services Agency - sale of land and buildings	5
Total	370
Revenue offsets to planned expenditure	
British National Oil Corporation - receipts of advance payments for oil	622
Stamp duty and VAT	7
Grand total	999

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PUBLIC EXPENDITURE

VOLUME ADJUSTED FOR RELATIVE PRICE CHANGES, BY PROGRAMME

Table 4.12

£ million at 1979-80 prices, including relative price changes

	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82
Defence	8829	9022	8764	8736	9225	9791	9689
Overseas aid and other overseas services	1205	1517	2028	2140	2089	1617	1540
Agriculture, fisheries, food and forestry	2384	1446	1128	960	996	1140	998
Industry, energy, trade and employment	5003	4499	2886	3549	2921	3909	4002
Roads and transport	3771	3402	2918	2827	2899	2860	2759
Housing	5967	5743	4800	4514	4785	4206	3043
Other environmental services	3581	3276	3052	3131	3127	3029	2872
Law, order and protective services	2415	2447	2307	2371	2564	2715	2754
Education and science, arts and libraries	10220	10187	9426	9427	9350	9371	8860
Health and personal social services	8589	8666	8405	8652	8897	9484	9418
Social security	15788	16625	17539	18839	19105	19524	20891
Other public services	1089	1006	920	902	916	982	1012
Common services	1041	1064	1020	1027	1044	1043	1111
Scotland	4570	4466	4178	4272	4431	4396	4220
Wales	1846	1826	1687	1733	1766	1763	1680
Northern Ireland	2334	2358	2317	2381	2448	2520	2464
Government lending to nationalised industries	1713	415	-280	808	1858	1841	817
ADJUSTMENTS							
Nationalised industries' net overseas and market borrowing	861	1853	1186	533	-322	-548	-87
Special sales of assets	-	-	-704	-	-998	-325	-150
Contingency reserve	-	-	-	-	-	450	1500
General allowance for shortfall	-	-	-	-	-	-	-500
PLANNING TOTAL	81205	79817	73576	76901	77101	79770	78893
Debt interest - gross	8466	9495	9391	9767	10346	10500	10400
- net	1694	2185	2476	2853	3836	4100	4400
Planning total plus debt interest as defined for calculating ratio to GDP(1)	82899	82002	76052	79754	80937	83870	83293

(1)Excludes non-trading government capital consumption

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PUBLIC EXPENDITURE : ANALYSIS OF RELATIVE PRICE CHANGES

Table 4.13

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	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82
PLANNING TOTAL (£ million)							
- in volume terms, at 1980 survey prices	81300	79200	74400	77950	77800	79250	79150
- adjustment to 1979-80 average prices	-800	-700	-600	-600	-700	-650	-600
- in volume terms at 1979-80 average prices	80500	78500	73800	77350	77100	78600	78550
- relative price effect	700	1300	-200	-450	-	1150	350
- volume adjusted for relative price changes, at 1979-80 average prices	81200	79800	73600	76900	77100	79750	78900
RELATIVE PRICE EFFECT (£million at 1979-80 prices)							
Wages and salaries	1400	1150	-250	-250	-	1250	600
Other current expenditure on goods and services	-1100	-550	-300	-150	-	50	100
Capital expenditure on goods and services	50	-100	-250	-200	-	+300	+300
Current grants to persons	100	450	550	200	-	-300	-350
Other expenditure	250	350	50	-50	-	-100	-300
Total	700	1300	-200	-450	-	1150	350
Change over previous year		+600	-1500	-650	+450	+1150	-800
RELATIVE PRICE CHANGE OVER PREVIOUS YEAR (%)							
Wages and salaries		-1	-5½	-	+1	+5	-2½
Other current expenditure on goods and services		+4½	+1½	+1	+1	+½	-
Capital expenditure on goods and services		-2	-5	+½	+3	+6	+½
Current grants to persons		+2	+4	-2	-1	-1½	-
Other expenditure		+½	-2	-½	-	-1½	-1½
Total		+1	-2	-½	+½	+1½	-1

DIRECT TAX ALLOWANCES AND RELIEFS

The following list gives 1980/81 figures for those tax reliefs and allowances for which costs can be given. It corresponds to table 4.14 of Cmnd 7841.

In interpreting the costings, the following considerations should be borne in mind:

a. No attempt is made to distinguish reliefs and allowances which can be regarded as part of the structure of the tax system.

b. Each relief is costed separately; the combined costs of more than one cannot therefore be calculated by summing the figures.

c. The costings assume that taxpayers' behaviour would be unaffected by withdrawal of the relief. Though this assumption is sometimes unrealistic (eg in relation to capital gains tax on owner-occupier houses, or transfers of gilt-edged securities) the size of the effects cannot be estimated.

d. The costs of personal income tax reliefs and allowances do not include tax which would become due if the allowances were withdrawn from persons who are not on Inland Revenue records because their incomes are below tax thresholds.

e. All figures are on the basis of accruals, not receipts, except where otherwise shown.

Table 4.14

Tax Provision	Estimated cost for 1980/81 (£ million)
INCOME TAX	
Married man's allowance	8,430
Single person's allowance	4,450
Wife's earned income allowance	2,440
Husband and wife: election for separate taxation of wife's earnings	90
Age allowance (1)	370
Exemption of first £5,500 of investment income from investment income surcharge	910
Additional personal allowance for one parent family	85
Blind person's allowance	1
Dependent relative allowance	20
Housekeeper allowance	under £1 million
Son's or daughter's services allowance	under £1 million
Child allowance for certain students and non-resident children (2)	7
Widow's bereavement allowance	10
Relief for:-	
Pension schemes (3)	700*
Self-employed: retirement annuity payments (4)	240
Life assurance premiums	540
Qualifying interest on loans for purchase or improvement of owner-occupied etc property	1,960
Profit Sharing Schemes	25*
Savings-linked share option schemes	under £1 million
Foreign earnings of employees working abroad for less than 365 days: 25 per cent deduction	50*
Foreign emoluments (non-domiciled employee of foreign employer):	
- maximum charge of 50 per cent of emoluments (resident less than 9 years)	50*
- maximum charge of 75 per cent of emoluments (resident for 9 years or more)	5*
Exemption of:-	
First £70 of certain Trustee and National Savings Bank interest (5)	45*
Interest on National Savings Certificates (including retirement issue)	175*
Premium Bond prizes	25*

Tax provision	Estimated cost for 1980/81 (£ million)
Exemption of:-	
SAYE	15*
British Savings Bonds bonuses	1
Income of charities and scientific research associations (6)	175
British government securities where owner not ordinarily resident in United Kingdom	150*
Schedule E work expenses allowed as a deduction	200
Foreign service allowance paid to Crown servants abroad	55
Option to tax woodland under Sch B instead of Sch D	5*
Farming etc averaging of profits	10*
Relief for losses on unquoted shares in trading companies	20*
Relief for expenditure on property managed as one estate	2*
Exemption of:-	
Unemployment benefit	200
Sickness benefit (7)	220
Invalidity benefit and non-contributory invalidity pension	75*
Attendance allowance	20*
Maternity allowance	25*
Family income supplement	10
Supplementary benefits	105*
Industrial injury benefits (7)	15*
Industrial disablement benefit	30*
£10 Christmas bonus for pensioners	12
War disablement benefits	30
Widows etc dependency additions	14
War widow's pension	17
Children's allowance to Forces widows	under £1 million
Annuities to victims of Nazi persecution if exempt in Germany	under £1 million
Annuity paid to holder of Victoria Cross etc	under £1 million
Pension and annuities from certain gallantry awards	under £1 million
Allowance to rehabilitees	under £1 million
Student maintenance awards	25*
Statutory redundancy payments	100*
Payments under job release scheme	14*
Payments under training opportunities scheme	10*
Allowance to young people under youth opportunities programmes	10*

Tax provision	Estimated cost for 1980/81 (£ million)
INCOME AND CORPORATION TAX	
Capital allowances: (8)	
Income tax relief	650*
Corporation tax relief (9)(10)	6,800*
(of which: companies	5,400*)
public corporations	1,400*)
Stock relief: (8)	
Income tax relief	125*
Corporation tax relief (9)(10) (11)	1,900*
Double taxation relief: (12)	
Income tax and corporation tax	2,200*
Small companies reduced rate of corporation tax (13)	150*
Special rate of corporation tax for building societies (13)	25*
PETROLEUM REVENUE TAX (14)	
Relief for certain expenditure qualifying for uplift and the uplift thereon	830
Oil allowance	120
Safeguard: restricting petroleum revenue tax to not more than 80 per cent of the excess over a 30 per cent return on historic capital cost	Nil
Exemption for gas sold to British Gas pre-July 1975 contracts	10
CAPITAL GAINS TAX (15)	
Exemption of:-	
First £3,000 of gains of individuals and first £1,500 of gains of trustees	65
Gains accrued but unrealised at death	60*
Gains accruing to authorised unit and investment trusts	40*
Gains arising on disposal of:	
Life assurance policies (other than at death) (16)	100*
Life assurance policies (on death) (16)	20*
Only or main residence (or residence provided for a dependent relative) (17)	2,400*
Residential lettings	under £1 million
Traded options: wasting assets	5*
Relief for Loans to traders	5*
Rollover relief for lifetime gifts by individuals and gifts of business assets	10*

Tax provision	Estimated cost for 1980/81 (£ million)
DEVELOPMENT LAND TAX (15)	
Exemption of development value realised on disposal of private residences	under £1 million
Advance assessment of tax on deemed disposals	1
Special addition to Base A	1
CAPITAL TRANSFER TAX (15)	
Exemption of:-	
Transfers on death to surviving spouses	240*
Transfers to charities on death	50
Double taxation relief	3
Agricultural relief	25
Business relief	20
Transitional relief for distributions from discretionary trusts	60
Relief for heritage property and maintenance funds (18)	30*
Killed in war relief	under £1 million
Quick succession relief	5
Transfers to employee trusts	under £1 million
Settled property exemption: Newspaper trusts	under £1 million
STAMP DUTY	
Exemption of transfers of government stocks and local authority loans	1,600
Transfers of houses or other property (not stocks and shares):	
£20,000 exemption	150
Reduced rates - £35,000 and under	110
Reduced rate for transfers to charities	4
Reduced rate for transfers of stocks and securities to certain non-residents	12

*This figure is particularly tentative and subject to a wide margin of error.

(1) This figure represents the cost of the amount of age allowance in excess of the ordinary personal allowance.

(2) With the exception of the provision for certain students and children living abroad, child tax allowances have been withdrawn with effect from 6 April 1979.

(3) The basis on which this figure is calculated is set out in the Inland Revenue's note of February 1978 to the General Sub-Committee of the Expenditure Committee (Second Report 1977/78, appendix 15). The figure includes the cost of relief for employees' contributions and the cost of exempting from tax the income of approved funds, but not the cost of capital gains tax exemption of schemes.

(4) This cost has been calculated on a basis similar to that for the estimate for employee's superannuation contributions - see note (3). Previous estimates took into account only the cost of tax relief given on premiums. The estimated cost for 1979/80 on the new basis is £160 million.

(5) Exemption of the first £70 of Trustee Savings Bank interest has been withdrawn in respect of interest credited for any period after 20 November 1979. However, as assessment is carried out on the basis of the interest arising in the previous year, the cost of relief on the eligible interest in 1979/80 is borne in 1980/81.

(6) This figure represents the sum repaid in respect of tax credits and income deducted at source (investment income and payments received under covenant). Information is not available about the income received gross.

(7) About three-fifths of this figure relates to payments of benefit which would be replaced by Employers' Statutory Sick Pay if this scheme operates from April 1982 as proposed.

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(8) Effect on receipts in 1980/81. The figures for capital allowances are net of balancing charges and those on stock relief are net of recoveries of relief.

(9) The corporation tax figures cover all companies and public corporations, including North Sea Oil and Gas. (Public corporations were excluded in Cmnd 7841.)

(10) The combined impact of capital allowances and stock relief on corporation tax is provisionally estimated at £9,500*m (of which £1,400*m is for public corporations.)

(11) Public corporations account for very little of this figure.

(12) Relates to accounting periods ending in 1975/76, the latest year for which fairly full information is available.

(13) Effect on receipts in 1980/81.

(14) The figures are net of any consequential effect on corporation tax.

(15) For capital gains tax, capital transfer tax and development land tax most of the costs are on a receipt basis, that is, the revenue which would be lost assuming the exemptions and reliefs applied to the transactions on which the 1980/81 receipts were based. The exceptions are the capital gains tax exemption of life assurance policies and the exemption of the only or main residence, which are both on an accruals basis.

(16) In the absence of other information tax has been assumed to be charged at 30 per cent. The exempt slice of £3,000 would substantially reduce the cost of these exemptions. It should be noted that in the absence of a capital gains charge on most life assurance disposals, certain gains from surrenders and maturities of life assurance policies are treated as income to be assessed for higher rate income tax.

(17) On the assumption that there would be no relief for gains when disposal proceeds are applied to the purchase of another house and also that there would be no consequential effects on length of ownership and on the housing market.

(18) On an accruals basis the cost of the reliefs would be £60* million. The changes made by the Finance Act 1976 have not yet been substantially reflected in tax receipts.

PART FIVE

EXPLANATORY AND TECHNICAL NOTES

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PART 5: EXPLANATORY AND TECHNICAL NOTES

I Introduction

1. This White Paper describes the Government's plans for the financial years 1981-82 to 1983-84. It supersedes the White Paper "The Government's Expenditure Plans 1980-81 to 1983-84" (Cmnd 7841) published in March 1980.

2. Most public expenditure is divided into main programmes, which bring together spending on functions such as defence, education, health, etc. As foreshadowed in Cmnd 7841, separate programmes have been introduced for Scotland and Wales comparable with the programme for Northern Ireland. These programmes each bring together expenditure on several functions within the responsibility of the appropriate Secretary of State. Other expenditure incurred in the territorial areas is the responsibility of other Secretaries of State - for example expenditure on social security and by the Manpower Services Commission and by IBAP. Such expenditure is retained in the appropriate functional programmes. Some small subprogrammes have been moved between programmes to align the programme classification more closely with Departmental responsibilities. Most of the main programmes include expenditure by different spending authorities - central government, local authorities, and public corporations. Thus not all of the expenditure described in the White Paper is subject to direct control by central government.

3. The figures in the White Paper are generally presented at constant prices (see paragraphs 30 to 35), including an early estimate of the outturn for the current financial year and comparative figures for the previous five years; but certain of these outturn figures are also given at outturn prices and some estimates in cash for the years 1980-81 and 1981-82 are also given for the first time (see part 1). All figures have been rounded and do not therefore necessarily add up to the totals.

II The role of the public expenditure White Paper in the control of public expenditure

4. For central government expenditure the planning figures in the White Paper for the year ahead provide the basis for the annual Supply Estimates presented to Parliament. In many cases these Estimates are subject to cash limits. These limits are listed in table 1.00 in Part 1 of this White Paper. The planning figures also cover some spending outside the scope of votes, for example payments from the National Insurance Fund, government lending to nationalised industries from the National Loans Fund, and contributions to the budget of the European Community. Not all Supply Estimates are separately included in public expenditure because they form part of expenditure already included for the relevant spending authority (see paragraph 9), for example government grants to local authorities and certain public corporations.

5. For local authorities the Rate Support Grant (RSG) settlements for 1981-82, announced in December 1980, incorporated the plans for local authority expenditure set out in this White Paper. The definition of local authority current expenditure in this White Paper differs in certain respects from "relevant expenditure" which is the aggregate on which the level of government grant to local authorities is based.(1) The rate support grants are subject to cash limits. The Local Government Planning and Land Act 1980 introduced a new form of capital control for local authorities in England and Wales. Starting in 1981-82, all local authority capital expenditure will be subject to a form of cash limit. Such a scheme already operates in Scotland, although there are some slight differences.

6. The plans of the nationalised industries described in this White Paper stem from an annual review of their investment programmes and financing. When this review has been completed the Government informs the industries of the approved level of their investment programmes for the coming year. They also approve proportions of the programmes planned for the two following years. The industries' investment programmes are described in Part 3 of this White Paper, which also includes tables showing their financing in the years 1979-80 to 1981-82 at outturn prices. Public expenditure comprises government lending to these industries (Programme 5) and government grants and subsidies (included in Programmes 4, 6, 8 and 15). Their borrowing from the market and abroad is also included in the planning total. Limits are set on the industries' total external financing, including grants and total borrowing. Limits for 1981-82 are shown in table [3.X]. The figures for nationalised industries' external finance are inevitably more uncertain than those for most public service programmes: they represent the difference between much larger flows of revenue and expenditure, flows which are difficult to forecast partly because they are subject to uncertainty about market conditions.

7. For other public corporations the material in the White Paper similarly provides the framework for administering the relevant programmes. In some cases the White Paper reflects their external financing and in other cases their capital expenditure.

III The definition of public expenditure in this White Paper

8. The definition of public expenditure used in this White Paper reflects its role in the planning and control of expenditure. It includes nearly all spending of central government and local authorities but excludes transactions between them. The fundamental approach to the definition of public expenditure is to follow the concepts of national income accounting(2) so that public expenditure can be planned in the context of the management of

(1) A reconciliation between the two definitions is given in table [4.6].

(2) The national income accounts seek to measure the nation's aggregate income and to set out the inter-related transactions between the sectors of the economy.

the economy as a whole. The main departures from this reflect the desirability of focussing on control arrangements in detail and a total that in broad terms has to be financed from taxation, national insurance contributions (and other comparable contributions) or public sector borrowing. This section defines the main components of public expenditure and relates them to the national income accounts. The main components are:

expenditure on staff costs, procurement and capital expenditure on physical assets by central and local government; this is more than half the total of public expenditure (paragraphs 14-17);

the capital expenditure of certain public corporations, principally the water authorities, the Housing Corporation and new town corporations (paragraph 22);

subsidies, benefits and various grants; among them, social security accounts for about a quarter of all public expenditure (paragraph 18);

net lending including that to the nationalised industries and certain other public corporations and similar transactions (paragraphs 19 and 22);

certain debt interest payments (paragraph 20);

special sales of assets (paragraph 21);

for future years, total public expenditure includes an unallocated provision, the contingency reserve (paragraph 23), and a general allowance for shortfall (paragraph 24) to enable a projection of the outturn of expenditure for future years to be shown in terms consistent with the actual volume of expenditure in past years.

9. Transactions between central government and local authorities are excluded to avoid double counting. Thus central government grants to local authorities such as the rate support grants, and also loans, are excluded because the expenditure which they help to finance is included as public expenditure by the local authorities. Similarly, since public expenditure includes the capital expenditure of certain public corporations, grants and loans to those corporations are excluded. Further details and fuller explanations of the definition of public expenditure are given in the remainder of this section.

10. The White Paper focusses on a planning total which excludes debt interest (see paragraph 20) and includes total net borrowing by the nationalised industries and the Civil Aviation Authority.

11. The first component mentioned above, all expenditure on staff and procurement (current and capital) by central government and the local authorities, with the exclusions mentioned in paragraphs 14 and 15, is described in this White Paper as expenditure on goods and services.

12. Central government is defined as in the national income accounts, to include Parliament, government departments and the Northern Ireland departments, extra-departmental government funds (the largest of which is the National Insurance Fund) and a number of other bodies (excluding public corporations) financed from government funds, by far the largest of which is the National Health Service.

13. Local authorities comprise the elected local councils (including education authorities), police authorities, passenger transport executives, the Land Authority for Wales and some other bodies controlled by councils jointly. (In the national income accounts passenger transport executives and the Land Authority for Wales are treated as public corporations). They are directly responsible for the greater part of expenditure on education, housing and other environmental services, and account for about one quarter of total public expenditure.

14. Current expenditure on goods and services includes expenditure where central and local government provides services directly, eg National Health Service or education, but not where the services are provided through trading bodies, eg local transport undertakings. (Current expenditure on goods and services by the latter bodies is considered as part of their trading activities and thus excluded from public expenditure.) From 1981-82 onward, as part of the new arrangements for recording local authority capital expenditure, lease payments under finance leases, on property leases lasting more than 20 years and on vehicles leased for more than one year are excluded (see paragraphs 17 and 42).

15. The pay of certain officials wholly concerned with the planning and management of investment expenditure is charged to capital account (see paragraph 17). Also, current expenditure on goods and services is net of charges for certain goods and services supplied (see paragraph 25). It excludes any allowance for non-trading capital consumption, the 'using up' of schools, hospitals, roads etc, and in this respect differs from government final consumption in the national income accounts. Local authority expenditure is measured net of VAT which is refunded to them but a notional addition for it is included in programme 8. Current expenditure on goods and services does include virtually all defence expenditure, on buildings as well as on equipment, in order to conform with international conventions.

16. The figures shown for wages and salaries include employers' contributions to national insurance and to occupational pension schemes, the national insurance surcharge and, in the case of pension schemes like those for the armed forces and civil servants, actual pensions paid.

17. Capital expenditure on goods and services consists of fixed investment and stockbuilding. Fixed investment (gross domestic fixed capital formation) includes the services of certain employees engaged in planning and supervising capital projects. Local

authority capital expenditure includes the capital expenditure of passenger transport executives. From 1981-82 onward it also includes the capital value of assets leased by local authorities under finance leases, property leased for more than 20 years and all vehicles leased for more than 1 year. (Figures are not available for earlier years.) In this respect, this White Paper differs from the national accounts where leased assets are assigned to sector according to ownership and not according to usage. In measuring public expenditure at current (ie outturn) prices, stock appreciation is ignored, a difference of treatment from the national income accounts.

18. Grants and subsidies form the second major component of public expenditure. Grants by one body to another within general government (central government and local authorities together) or by government bodies to certain corporations[3] are excluded to avoid double counting. Thus the rate support and other grants to local authorities are excluded. Grants included in public expenditure are those made to the private sector, to nationalised industries and some other public corporations[4] and overseas. Current grants include social security benefits, and recurrent grants to universities. Capital grants are intended to be used for capital expenditure by the recipient. Trading bodies are assumed to operate at market prices and current payments to trading bodies are considered to subsidise the price to the customer and are thus classified as subsidies benefiting final consumers. Therefore subsidies paid in the first instance to trading accounts within government are counted as public expenditure. A major example is subsidies from both central government and local authorities to local authority housing accounts.

19. Lending and similar transactions includes lending to the private sector and overseas and to nationalised industries and some other public corporations[4] but excludes lending to local authorities and certain public corporations[3] to avoid double counting. The same broad category includes issues of public dividend capital to public corporations, issues under section 18 of the Iron and Steel Act 1975 and also cash expenditure on company securities provided the company is in the private sector. These transactions are scored net of repayment and of sales of company securities for cash.

20. Debt interest: the cost of debt interest is not attributed to any of the functional programmes because the government does not borrow for specific projects. Debt interest is not susceptible to the same controls as other expenditure. Two definitions are used in this White Paper. The larger total is debt interest payments of the public sector. The smaller represents only those interest payments which have to be financed from taxation or further

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(3) Those whose capital expenditure is included in public expenditure - see table 6.1, List B.

(4) Those for which government finance counts as public expenditure - see table 6.1, List A.

government borrowing[5]. Figures for the latter definition are derived as general government payments of interest (from the national income accounts) less (i) all general government interest receipts, (ii) interest provision from trading activities of general government, and (iii) interest support costs for fixed rate export and shipbuilding credit (which are included as subsidies in the industry, energy, trade and employment programme). These are converted to 1979-80 prices using the GDP deflator.This definition contrasts with that used in the national income accounts which scores all debt interest payments as expenditure and all receipts as income. The relationship between the two definitions of debt interest is shown in table [5.1] which gives estimates of the various components for the period 1975-76 to 1980-81 and projections for the two definitions for 1981-82 to 1983-84.

21. The intention of making special sales of assets were announced in the June 1979 Budget statement. The precise treatment of the sales in relation to public expenditure and the public sector borrowing requirement depends on the exact nature of the transactions. Table 4.11 records the composition of the special sales of assets in 1979-80

22. Other public corporations: table [6.1] shows public corporations other than nationalised industries divided into two groups for public expenditure purposes. Those in part A are treated like nationalised industries though, in general, government financing only is included in public expenditure: the Civil Aviation Authority is an exception in that all its external financing is included (for the first time in this White Paper). Total capital expenditure is included for those in Part B.

23. The contingency reserve: the White Paper contains a reserve for each forward year to provide for future decisions to add to programmes within the announced planning totals. The aim is to meet the cost of new items of expenditure wherever possible from within existing totals by finding appropriate offsetting savings in either the programme concerned or other programmes; if this cannot be done, the additional expenditure is considered as a bid for an allocation from the contingency reserve.

24. Shortfall occurs when the volume of expenditure is less than planned and the term excess is used when expenditure is greater than planned. Some shortfall is expected overall and is allowed for in the plans for future years. In comparing the actual volume of expenditure with that planned, the planned volume is defined as that published in the White Paper just before the year began (eg Cmnd 7439 for 1979-80) adjusted for announced changes to plan. It is brought onto current classifications and the most up to date price base (see

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[5] For a fuller discussion, see the Treasury memoranda 'The Treatment of Debt Interest in the Public Expenditure White Papers' and 'Debt interest' included in the minute of evidence to the Thirteenth Report of the Expenditure Committee, Session 1975-76. HC 718.

Other public corporations (6)

Table 6.1

Title	Programme reference
List A: public expenditure includes any government finance to the following public corporations (7)	
The Crown Agents The Crown Agents Holding and Realisation Board	2. Overseas Aid and Other Overseas Services
Covent Garden Market Authority	3. Agriculture, fisheries, food and forestry
National Dock Labour Board National Enterprise Board National Film Finance Corporation Civil Aviation Authority (8)	4. Industry, energy, trade and employment
Urban Development Corporations	8. Other environmental services
British Broadcasting Corporation (Home) Cable and Wireless Ltd Independent Broadcasting Authority	13. Other public services
Scottish Development Agency	15. Scotland
Welsh Development Agency	16. Wales
Northern Ireland Development Agency Northern Ireland Electricity Service Northern Ireland Transport Holding Company	17. Northern Ireland
Government Trading Funds ~~and bodies~~ (9):	
Royal Ordnance Factories	1. Defence
Royal Mint Her Majesty's Stationery Office	13. Other public services
Property Services Agency Supplies	14. Common Services
List B: public expenditure includes the capital expenditure of the following corporations (and not government loans or capital grants (to them)	
Commonwealth Development Corporation	2. Overseas aid and other overseas services
National Ports Council Public Trusts Ports	6. Roads and transport 15. Scotland 16. Wales
Housing Corporation	7. Housing
New Town Development Corporations and the Commission for the New Towns	6. Roads and transport 7. Housing 8. Other environmental services 15. Scotland
Regional Water Authorities	8. Other environmental services 16. Wales
Bank of England	13. Other public services
Scottish Special Housing Association	15. Scotland
The Development Board for Rural Wales (new town activities)	16. Wales
Northern Ireland Housing Executive	17. Northern Ireland

(6) For a fuller discussion, see the Treasury memorandum "Public Expenditure White Papers: Treatment of Public Corporations other than the Nationalised Industries" published as minutes of evidence in memoranda on the Control of Public Expenditure to the Expenditure Committee, Session 1977-78 HC 196 (Memoranda).

(7) Some have received no such finance in the past, some are not expected to receive any in the future.

(8) The planning total also includes market and overseas borrowing by the CAA.

(9) Classified as public corporations for statistical and planning purposes.

paragraph 32). An analysis of shortfall in 1979-80 is outlined in a Treasury Working Paper "Public Expenditure 1979-80. Outturn Compared with Plan" based on the figures in this White Paper. Tables [5.4] and [5.5] give a summary of this analysis.

25. Gross or net presentation: Public expenditure is measured net of income received from certain charges.[10] Important examples are charges for school meals and further education courses, prescription and dental etc charges. Essentially, current expenditure on goods and services is shown net of charges when:

i. there is a clear and direct link between the payment of the charge and the acquisition of specific goods and services (including the testing of an ability of level of performance or the establishment of standards): and

ii. the charge is related to the cost of providing the goods and services, and the Government is not using its power to make the charge an instrument for raising revenue (ie charging significantly more than cost).

26. Expenditure on fixed assets is measured net of the proceeds of sales of land and buildings, etc, reflecting the corresponding definition in the national income accounts. It represents the gross addition to the capital stock in the public sector less the transfer of fixed assets to the private sector but before allowing for capital consumption. Lending to nationalised industries, to some other public corporations, to Government trading funds and to the private sector and overseas is measured net of repayment. Public expenditure, unlike expenditure in the national income accounts, is measured net of fines and fees collected by Scottish and magistrates' courts, reflecting their nature as an integral part of the law and order programme.[11] Any surplus on trading accounts is considered as revenue along with taxes and not as negative public expenditure.

Relationship with the national income accounts

27. A number of points of difference from national income accounts practice have been mentioned in previous paragraphs. The relationship between public expenditure on programmes and general government expenditure in the national income accounts is illustrated (for past years at current prices) in Financial Statistics, table 2.4. Starting from general government expenditure in the national income accounts excluding debt interest, the main stages in the adjustment are:

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[10] In the national income accounts certain classes of expenditure are scored net of corresponding receipts. These conventions are followed in public expenditure and some further items are netted off for particular reasons.

[11] For a fuller discussion see the Treasury memorandum 'Public Expenditure - Gross or Net Presentation' published as minutes of evidence in Memoranda on the Control of Public Expenditure to the Expenditure Committee, session 1977-78, HC 196 (Memoranda).

i. to include the capital expenditure of the public corporations in list B (table 6.1) and to exclude government capital grants and loans to them;

ii. to deduct fines and fees in magistrates' and Scottish courts (see paragraph 26);

iii. to deduct the imputed value of non-trading capital consumption;

iv. for 1975-76 to deduct lending by the Bank of England in respect of refinanced shipbuilding and export credits;

v. to deduct stock appreciation;

vi. to add back the income from the special sales of assets.

vii. to reclassify interest support costs for fixed rate export and shipbuilding credit as subsidies in the industry, energy, trade and employment programme.

28. A further difference is that the national income accounts are not adjusted for changes in definition or classification for periods before the date and change came into effect; as noted in paragraph 37, figures in this White Paper are adjusted for all years to the definitions and classifications now current.

IV The price basis of this White Paper

29. Survey prices: in this White Paper there has been a change in the definition of survey prices in order to improve their consistency: see paragraph 31.

30. Most of the figures are at constant prices, called 1980 survey prices. This allows comparisons from one year to another of the quantity ("volume") of goods and services used, either directly or indirectly, by the programmes, and thus enables discussion to focus on their content, leaving aside past and future rates of inflation. For this reason the figures are also said to be in "volume terms".

31. 1980 Survey prices are broadly the prices of late 1979. In general, direct purchases of goods and services are expressed at the prices of a particular month in the autumn of 1979; November in the case of local authority expenditure. For most transfer payments (eg subsidies and grants such as social security benefits) survey prices are the average prices of the financial year 1979-80: in previous White Papers, transfer payments had been priced at the average of the year current when it was published. Special sales of assets are similarly expressed in the average prices of the financial year 1979-80.

32. Revaluation: survey prices are updated annually to take account of a further year's movement in prices. The first step in the 1980 survey, therefore, was to revalue the plans in the last White Paper, Cmnd 7841, from 1979 survey prices where necessary to 1980 survey prices. The effect of this on the main programme totals for 1981-82 is shown in table [5.7]

although the revaluation is carried out at a much more detailed level. The average increases from one set of survey prices to the next in recent years have been:

1975 to 1976 survey prices		18 per cent
1976 to 1977 survey prices		13 per cent
1977 to 1978 survey prices		9½ per cent
1978 to 1979 survey prices		12 per cent
1979 to 1980 survey prices		
transfer payments - close to zero[12]	)	12 per cent
other expenditure - 18 per cent	)	

33. <u>The relative price effect</u>: The various wages and prices paid by the public sector change at different rates from each other and this affects the relative costs both from programme to programme and between the public services as a whole and the economy generally. This "relative price effect" is not reflected in the volume figures which do not, therefore, provide a full measure of the growth in the cost of public expenditure, which is relevant to examining the financing implications and to estimating the ratio of public expenditure to gross domestic product (GDP).

34. The figures in table 4.12 and 4.13 illustrate the cost of expenditure up to 1981-82 expressed elsewhere in this White Paper in volume terms. The general effect of inflation is removed from these "cost terms" figures but they allow for the different ways in which the prices of different types of expenditure have moved in the past and may move in the future. Price movements are measured relative to the average of domestic costs (the deflator for gross domestic product (GDP) at market prices). The figures for past years are derived by inflating actual expenditure from current prices to average 1979-80 prices with the GDP deflator. The figures for 1980-81 and 1981-82 are derived by converting figures in survey prices to average 1979-80 prices, and then adjusting for the amounts by which changes in the prices of the relevant goods and services are assumed to differ from the changes in the general price levels in the year ahead. This is equivalent to converting the survey price figures to cash, and then deflating to 1979-80 average prices by using relevant GDP deflator for each of the years. The "relative price effect" (RPE) is measured as the difference between expenditure in cost terms and in volume terms. Table 4.12 shows how the cost terms figures (including the relative price effect) relate to the volume figures and how mthe main economic categories contribute to the aggregate estimate of the RPE.

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[12] This is due to the change in definition of survey prices (see paragraph 31).

35. In the past, there has been a tendency for the average "price" of public expenditure to rise faster than the average domestic costs because the public sector is comparatively labour intensive and earnings have tended to rise faster than prices. This tendency can sometimes be reversed. Interpretation of the relative price effect must take account of the following two measurement conventions. First, the price of services rendered by public service employees is deemed to be measured by their rate of pay, without any allowance for changes in productivity. Secondly, the average price of public expenditure is affected by the price of imported goods and services but the GDP deflator is a direct measure of domestic costs only.

V Comparison between planned expenditure and outturn

36. The definition and classification of public expenditure in the White Paper reflect the nature of public administration and are thus not static but change from year to year as administrative practice develops. In order to show real changes, the figures for past years are brought onto current classifications as well as on to the most recent price base. Figures quoted in previous public expenditure White Papers are also translated into the terms of the current White Paper and tables produced to show the changes between White Papers.

37. Tables [5.4] and [5.5] compare expenditure in 1979-80, by programme and by economic category and spending authority, with the plans published in Cmnd 7439 revalued to 1980 survey prices and adjusted for subsequent announced changes. Tables [5.8 and 5.9] give a summary of the differences between Cmnd 7841 published in March 1980 and the plans in this White Paper for the years 1979-80 to 1983-84 by programme and by economic category.

38. The survey price estimates for past expenditure by central government are derived by departments from current (ie outturn) price information from their accounting records; those for expenditure by local authorities and certain public corporations are based by departments on returns made by these bodies or their published accounts. Information on most central government expenditure in 1979-80 is available for use in this White Paper from Appropriation and other accounts; provisional estimates only of local authorities' expenditure are now available. Figures of expenditure in the last five years at current (ie outturn) prices are given in table [5.3].

39. Classification changes may affect the figures in a number of ways. The attribution to spending authority may be altered, reflecting a transfer of responsibility: expenditure on a

service may be reallocated to another functional programme; and the economic classification of a particular item of expenditure may be reassessed. Most of these changes do not affect the total of public expenditure.

40. The scope and definition of public expenditure may be altered from one White Paper to the next for various reasons: perhaps to reflect more closely the extent to which a service makes a call on taxation or government borrowing; perhaps because a recurrent item is taken into account for the first time, or because an activity previously undertaken by the government is taken over by the private sector (or vice versa).

VI Main classification changes since Cmnd 7841

41. In general, the same definition and classification are used in this White Paper as in Cmnd 7841, but the following changes have occurred.

42. Changes in the scope of public expenditure and the planning total.

(a) the definition of local authority capital expenditure has been revised to include

i. the freehold value of property leased for a period of more than 20 years; and the freehold value of any lease over 1 year where a permanent building has been erected at the request of the authority (eg sale/leaseback, or lease/leaseback schemes);

ii. the capital value of vehicles leased for more than one year; and

iii. the capital value of plant and machinery acquired by finance leases ie for this purpose those where the lease term covers the major part of the anticipated useful life and where the lessee accepts responsibility for maintenance.

The lease payments on such assets no longer score as current expenditure. This change is implicit in the planned figures for 1981-82 to 1983-84, but cannot be incorporated into the historical figures because of lack of information.

(b) The definition of the Forestry Commission has been changed so that it reflects more closely estimated cash requirements. Government finance to the Forestry Enterprise is now included instead of capital expenditure by the Enterprise. The 3 per cent notional interest charge has been dropped from the definition of public expenditure.

43. Transfers between programmes:

(a) Rent rebates and rent allowances paid to recipients of supplementary benefits and supplementary pensions are now included in programme 12 - Social security and not in programme 7 - Housing.

(b) A variety of small transfers have occurred between programmes in order to bring the functional classification into closer correspondence with Departmental responsibilities.

(c) As mentioned in paragraph 2 programmes have been created for expenditure within the responsibility of the Secretaries of State for Scotland (programme 15) and for Wales (programme 16). Consequently the programme for Northern Ireland has been renumbered 17.

44. Changes in economic category and spending authority

(a) The two roles of the Forestry Commission, the Forestry Authority and the Forestry Enterprise, are now presented separately. That of the Forestry Authority is concerned with the administration of Government policy on forestry (including the payments of grants to the private sector) and that of the Forestry Enterprise (a Government trading service) with the development, management and exploitation of the forests and other assets owned by or placed at the disposal of the Commission.

(b) Her Majesty's Stationery Office (HMSO) is now a government trading fund. Expenditure programmes include Department's payments to HMSO with the exception of supplies to Parliament which remain on an allied service basis. Programme 13 includes Government lending to HMSO and its expenditure on supplies to Parliament etc (see chapter 2.13 paragraph 0.0).

(c) Consequential on the change in programme of some rent rebates and rent allowance, the corresponding expenditure has been classified to central government rather than to local authorities.

(d) Some transport spending by local authorities on depots, vehicles, plant and machinery, previously shown as maintenance (current expenditure) is now classified as capital spending on roads.

VII Glossary of terms

<u>Appropriation accounts</u> are prepared for each vote (qv), covering supply expenditure (qv) which has come in course of payment in the financial year.

Assimilation is the process of aligning the coverage of individual supply votes and cash limits on voted expenditure.

Borrowing requirement: the public sector borrowing requirement (PSBR) is the difference between public sector receipts from and payments to the private sector and overseas. Payments include net lending and similar transactions (such as the purchase of company securities) undertaken as a matter of policy. The borrowing requirements of the three sub-sectors of the public sector, central Government, local authorities and public corporations (CGBR, LABR and PCBR) are similarly defined, but include policy lending from one sub-sector to another. The PSBR is therefore equal to the sum of CGBR, LABR and PCBR, less all lending transactions between the sub-sectors. The general government borrowing requirement (GGBR) is equal to the central government borrowing requirement plus local authority borrowing from sources other than central government. Borrowing requirements are in practice measured by their financing (see general government and financial balance).

Cash limits set a limit on the amount of cash the Government proposes to spend or authorise on certain services or blocks of services during one financial year (see also Part 1 and paragraphs 4-6).

Capital consumption is a measure of the amount of fixed capital resources used up each year. It is allowed for in the prices of trading activities. An imputed charge for the consumption of non-trading capital assets is included in general government expenditure and income in the national income accounts but not in public expenditure in this White Paper. However it is taken into account in estimating the ratio of public expenditure to GDP.

Central government public expenditure: see paragraphs 4, 12-26.

Classification changes: see paragraphs 39-44.

Consolidated Fund is the Government's main account with the Bank of England. The largest part of central government expenditure is financed from this fund, and the Government's tax revenues and other current receipts are paid into it.

Contingency reserve: see paragraph 23.

Cost terms: see paragraphs 33-34.

Current prices: see outturn prices.

Debt interest: see paragraph 20.

Estimates: see under Supply expenditure.

The financial balance (or deficit) is the balance on current and capital account, excluding lending and other financial transactions. The financial balance of general government is commonly used in international comparisons. (See also borrowing requirement, general government).

General government is the central government and local authorities sectors consolidated (see paragraphs 8-26). See also public sector.

Grants are payments to individuals or bodies in the private or public sector, for which no goods or services are received in return. Grants made to assist in financing capital expenditure are classified as capital grants. Unrequited payments of a current nature to trading concerns, whether in the public or private sector, are classified as subsidies (qv). (See paragraph 18.)

Gross domestic fixed capital formation (GDFCF) is purchases less sales of fixed assets (land buildings, vehicles, plant and machinery) for use in the United Kingdom, either for renewing or for adding to the stock of fixed assets. Expenditure on maintenance and repair is excluded.

Gross domestic product (GDP) (at market prices) is the value of the goods and services produced by United Kingdom residents including taxes on expenditure on both home produced and imported goods and services, and excluding subsidies. No deduction is made for depreciation of existing assets. Gross national product includes the income of United Kingdom residents from economic activity abroad, the property held abroad, less the corresponding income in the United Kingdom of non-residents.

Local authority public expenditure: see paragraphs 13-26.

National Insurance Fund is the statutory fund into which all national insurance contributions payable by employers, employers, employees and the self employed are paid, and from which expenditure on most contributory social security benefits is met.

National Loans Fund is the government's account with the Bank of England set up under the National Loans Act 1968. All government borrowing transactions (including the payment of debt interest) and most lending transactions are handled through this fund.

Net lending etc in public expenditure comprises loans to the private sector (individuals, unincorporated bodies and companies), to overseas governments, to nationalised industries and some other public corporations (including issues of public dividend capital and issues under section 18 of the Iron and Steel Act 1975) and drawings on UK subscriptions to international lending bodies; all are measured net of repayments of principal. It also includes purchase of company securities, net of sales (see also paragraph 19).

Outturn, estimated outturn describes actual expenditure or estimates made on the basis of partial information.

Outturn prices are the prices of the period when the expenditure occurs, also described as current prices.

Planning total: see paragraph 10.

£ billion is used to denote £ thousand million in this publication.

Prices, survey prices, constant prices, relative price effect, cost terms: see paragraphs 29-34. See also outturn prices.

Public corporations are publicly owned trading bodies with a substantial degree of financial independence - including the powers to borrow and to maintain reserves - from central government and local authorities. They include nationalised industries (see paragraphs 6-7) and other bodies listed in table 6.1.

Public dividend capital (PDC) is a form of long-term finance for public corporations, analogous to equity capital and earning dividends rather than interest. It is not repayable. Issues of public dividend capital are borne on votes.

Public expenditure: see paragraph 8-28.

Public expenditure survey (PES, PESC) is the annual review of public expenditure plans undertaken by the government (see paragraph 2). The system is commonly referred to by the initials of the Public Expenditure Survey Committee, the co-ordinating committee of departmental officials, chaired by the Treasury.

Public sector comprises central government, local authorities (see paragraphs 8-26) and public corporations (qv) (see also general government).

Public sector borrowing requirement: see borrowing requirement.

Rate support grant (RSG) is the general grant from central government to local authorities to supplement income from rates. In addition, specific grants are made for certain services.

Relative price effect: see paragraphs 32-33.

Relevant expenditure is the specific aggregate of local authority expenditure on which rate support grant and other current government grants to local authorities are based. It differs in certain respects from local authority current expenditure in this White Paper (see paragraph 5).

Retail prices index (RPI) measures the change in the average level of prices of goods and services purchased by households in the United Kingdom. It is published monthly in the Employment Gazette.

Revaluation: see paragraphs 32-33.

Shortfall: see paragraph 24.

Spending authorities: the types of spending authority distinguished in this White Paper are central government and local authorities (see paragraphs 12 and 13) and public corporations (qv).

Stocks: public expenditure in this White Paper includes the value of the physical increase in stocks.

Subsidies are transfer payments made to a producer or trader usually with the object of reducing selling prices for the final buyers to below the factor costs of production. Subsidies in this White Paper include the financing of losses on certain public trading services, including the housing revenue accounts of local authorities (see also grants).

Supply Estimates: see supply expenditure.

Supply expenditure is expenditure by central government which is financed by monies voted by Parliament in the annual Supply Estimates (see also Votes and Appropriation accounts).

Survey: see public expenditure survey.

Survey prices: see paragraphs 29-31.

Transfer payments are payments for which no goods or services are received in return. They include social security payments and other grants, current and capital, to individuals or bodies in the private sector, subsidies, net lending, and cash expenditure on company securities.

Volume, in volume terms: see paragraph 30.

Votes are the headings into which Supply services are divided. Hence, voted expenditure.

Wages and salaries: see paragraph 16.

CONFIDENTIAL

Prime Minister

2

cc the Deputies

Treasury Chambers, Parliament Street, SWIP 3AG
01-233 3000

R 4/2

4 February 1981

Tim Lankester Esq
Private Secretary
Prime Minister's Office
No.10 Downing Street
LONDON SW1

MT

Dear Tim,

PUBLIC EXPENDITURE WHITE PAPER

The Chancellor was grateful for the Prime Minister's minute of 30 January; as she is aware from the discussions he has already had with her, he is very much in agreement with her general approach.

He has asked me to let you know that he and the Chief Secretary are now working urgently with a view to some of the right decisions being taken in time for announcement in the Budget (but it seems unlikely that it will be possible to complete the preparatory work and the necessary discussions at Ministerial level in time for the results to be incorporated in this year's Public Expenditure White Paper).

Yours,

John

A J WIGGINS
Principal Private Secretary

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Ref. A04170

Prime Minister

MR. WHITMORE

TL 4/2

I have now had the discussion with Sir Douglas Wass which the Prime Minister proposed in her minute of 27th January to the Chancellor of the Exchequer (M2/81).

2. The way in which we handle public expenditure issues in future will of course be affected by any changes in the system for controlling public expenditure that are agreed as a result of the review which is going forward at present, and it is too early to lay down procedural guidelines as yet. Sir Douglas and I agreed, however, that the recent discussions of cash limits had not been satisfactory. Sir Douglas Wass accepted this, and he agreed that, before the Chancellor put round proposals for the revision of the system, it would be useful if he were to discuss them beforehand with a few senior officials, both in order to ensure that the Treasury had not overlooked problems and in order to ensure that Departmental Ministers were adequately briefed for the subsequent Ministerial discussion. He also agreed that, if whatever new system was agreed upon produced the need to agree upon annual pay and price factors for cash limits, it would again be useful for there to be some preliminary official ground and mind-clearing discussion before papers were put to Ministers for decision.

3. It was useful to have established this with the Treasury, and I shall be keeping Sir Douglas Wass up to his promises.

RTA

ROBERT ARMSTRONG

3rd February, 1981

CONFIDENTIAL

Prime Minister 2

The Chancellor's reply to your criticism of the Treasury handling of the pay/price cash limit issue. See also Robert Armstrong's report (attached) on his discussion with Douglas Wass.

Treasury Chambers, Parliament Street, SWIP 3AG
01-233 3000

PRIME MINISTER

HANDLING BY CABINET OF CASH LIMIT FACTORS

Thank you for your personal minute M2/81 about the Cabinet's handling of the question of pay and price factors for cash limits.

2. I fully share your view that this has not been a satisfactory episode. There were several reasons, some at least with hindsight avoidable, some less so, why events developed as they did. Before each of the two recent Cabinets Treasury officials did what they could, within the timescale available, to keep in touch at official level with the other departments chiefly concern to alert those who would be briefing their Ministers to what might be discussed; but we must all agree that it would have been better had the matters at issue been more fully documented.

3. Some of the trouble sprang from the desire of colleagues, contrary to my original proposal that we settle and announce all the general price and pay factors together last November, to take the decisions on each of the pay factors as the relevant pay negotiations arose. This meant that discussion was spread over a series of meetings. Matters were further complicated when, at each of the meetings it emerged that some Ministers were so unhappy with the consequences of the decision in which they had previously acquiesced that they sought to reopen options which had been thought to be discarded.

4. That said, I am sure that it would be useful for Sir Douglas Wass and Sir Robert Armstrong to have a talk as you suggest about what can be done to handle such questions better in future. We should ask them to report to us what conclusions they come to.

(G.H.)
3 February, 1981

CONFIDENTIAL

cc CPRS
Mr Hoskyns (Hustle) only

Econ Pol
Public Expenditure

MR WRIGHT

I enclose a copy of a minute which the Prime Minister has sent to the Chancellor of the Exchequer today in response to the Chancellor's minute of 23 January, a copy of which Sir Robert has.

I am sure you will understand that it is important that knowledge of the existence of this minute should not reach other Departments, but the Prime Minister has asked me to emphasise the point.

I am sending a copy of this minute and enclosure to Robin Ibbs.

TP LANKESTER

30 January 1981

CONFIDENTIAL

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CONFIDENTIAL

SUBJECT

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File

10 DOWNING STREET

BF 13.2.81

THE PRIME MINISTER

Personal Minute
No. M3/81

CHANCELLOR OF THE EXCHEQUER

Public Expenditure White Paper

Thank you for your minute of 23 January about some of the difficulties involved in the public expenditure figures to appear in the White Paper. As you say, there are problems of both substance and presentation. Both are very serious and I feel, as I believe you do, that we cannot simply let matters take their course on the basis of the rather compressed statement of the position in your minute. I realise that the time between now and the Budget is short, and that it would be difficult to re-open the whole range of programme decisions at this stage, but we are agreed, I hope, that the Treasury should nevertheless consider what proposals you can frame and how we can enlist the help of colleagues in order to head off the adverse reaction which the White Paper is otherwise likely to produce.

There are longer term issues here concerning the planning and control of expenditure, and there are immediate issues concerning these particular figures and their presentation. I will set out some thoughts on each aspect in turn, as an input into the work which is going on. Some of these comments confirm points of which the Treasury are already aware.

Planning and Control

I remain convinced that the present system of programming in volume terms plays a substantial part in the continued escalation of the expenditure figures. It is true that, for the year immediately ahead, by superimposing cash limits on many though not all programmes, we restrict our commitment to finance cost increases,

/and

and this may have the effect of producing a volume cut in programmes if cost increases exceed the allowance made for inflation in the cash limits.

However, as I understand it, this volume squeeze is not carried through into subsequent years, but the cut is in practice restored when the volume programme is rolled forward and revalued in the annual public expenditure exercise. If this is an accurate account of the position, in my view the least that we should now do is to change the procedures to stop this happening.

We should at the same time discontinue the degree of discretion which spending Departments have in putting forward their revaluations, and move on to a system of centrally determined figures for use in this operation. I believe that this would have a healthy effect on cost control. I realise that this change could not be put into effect until the 1981 public expenditure exercise, but it could have an important effect on opinion if we decided on the change now and announced it in the coming White Paper. I understand that the Treasury are already working on a proposal of this kind, and also on a slightly different one - though the effect would be similar - whereby the PESC figures would be revalued by the cash limit factors for the year in which the PESC review was being conducted.

This approach accepts that, if we are to have any forward programming, we cannot get away altogether from a constant price basis, and that adjustments for inflation will have to be made to the figures when the time comes; but it does not concede that the adjustment will always be sufficient to cover cost increases irrespective of their size. I should be grateful if you would consider urgently whether we could make even more radical moves in that direction.

/ To me

To me some of the merits of a <u>cash</u> approach for all years ahead are:-

(i) It is the only sound basis for conducting a Survey on the principle of "this is what we expect to be able to afford". A forward view of the economy for each of the years can provide an estimate of the amount of cash likely to be available for Public Expenditure. Provisional allocation of the total can take account of priorities as well as the historic pattern.

(ii) Of course, the estimates of cash available will not be spot on. But it is part of real life that the future is uncertain and planning should recognise this. It is not possible to guarantee that a given amount of cash will be available in the event, nor because of variable inflation how much it will purchase. Even if centred on a single figure, plans should cover a range of possible outcomes so that people work out priorities for deleting or adding items if the need or opportunities arises. Volume planning encourages a sense of spurious precision and the likelihood that people become dedicated to unrealistic expectations.

(iii) Planning in cash terms gives people a positive interest in achieving efficiency and low inflation. A reward for increased efficiency is automatic since something extra can be fitted into the cash total.

I recognise that an entirely cash approach may not be practicable at this juncture. But this need not prevent us now from endorsing the principle that the volume programmes for the later years will be subject, when the time comes, to the constraint of cash limits which would not necessarily compensate in full for

/price

price increases. I believe that this could deter spending Departments from committing their volume programme in advance up to the hilt, and that a statement of intent on these lines could, like the proposal set out in my previous paragraph, help to get a better reception for the White Paper.

We should have to consider carefully how to express this principle. On one formulation it would simply amount to extending into the future the approach which we have been adopting in practice so far. Taken a stage further, it could entail a continuing policy of price restraint for the public services irrespective of the rate of inflation in the economy. I can see that this would have important implications, but I am not at all sure that we need shrink from them.

Presentation of the Figures

If we cannot reduce the figures for individual programmes at this stage, the only apparent means of reducing the planning total is by adjusting the figures for the contingency reserve - though I should have preferred it if we were in a position to make a further adjustment by changing the treatment of borrowing by the nationalised industries. As regards the contingency reserve, I support the principle of setting it at a credible level. Nevertheless there seems to me a case for taking the line that the additions to programmes which have already taken place will make it necessary to adopt a more stringent view to further additions in the next financial year, and that Cabinet should accept now that they will have to find new savings when the time comes if they want to approve more than a limited number of new items. I should be grateful therefore if you would take a further look at the contingency reserve from this point of view.

Margaret Thatcher

30 January 1981

NM

CONFIDENTIAL

Qa 05236

To: MR LANKESTER
From: J R IBBS

29 January 1981

Public Expenditure

1. As you know I look at the planning of Public Expenditure from a simple 'trading' viewpoint. To me some of the merits of a cash approach for all years ahead are:

(i) It is the only sound basis for conducting a Survey on the principle of "this is what we expect to be able to afford". A forward view of the economy for each of the years can provide an estimate of the amount of cash likely to be available for Public Expenditure. Provisional allocation of the total can take account of priorities as well as the historic pattern.

(ii) Of course, the estimates of cash available will not be spot on. But it is part of real life that the future is uncertain and planning should recognise this. It is not possible to guarantee that a given amount of cash will be available in the event, nor because of variable inflation how much it will purchase. Even if centred on a single figure, plans should cover a range of possible outcomes so that people work out priorities for deleting or adding items if the need or opportunity arises. Volume planning encourages a sense of spurious precision and the likelihood that people become dedicated to unrealistic expectations.

(iii) Planning in cash terms gives people a positive interest in achieving efficiency and low inflation. A reward for increased efficiency is automatic since something extra can be fitted into the cash total. //

2. I am sending a copy of this minute to Sir Robert Armstrong.

C. Wharron
for JRI

CONFIDENTIAL

MR. LANKESTER

Public Expenditure White Paper

The draft minute to the Chancellor which I am letting you have will for the most part speak for itself. But as regards paragraphs 5 and 6, does attempt to formulate the ideas which the Prime Minister put to us, and she will have to judge whether the formulation corresponds to what she has in mind. If it does, I should point out that, on one interpretation, it comes close to a permanent incomes policy for the public services. I am myself not against that but I do not think that you can have indefinite pay restraint in the public services irrespective of what is happening in the economy as a whole. Certainly that is a point which the Treasury would make. So sooner or later you could be driven to something approaching an incomes policy for the private sector. I should not be against that either, but the Prime Minister may not care for these implications of the idea.

I understand that the proposal for a minute on these lines may now be overtaken by events, but I am letting you have the draft anyway.

Leo Pliatzky

28 January 1981

CONFIDENTIAL

CONFIDENTIAL

Draft Minute to the Chancellor of the Exchequer

PUBLIC EXPENDITURE WHITE PAPER

Thank you for your minute of 23 January about some of the difficulties involved in the public expenditure figures to appear in the White Paper. As you say, there are problems of both substance and presentation. Both are very serious and I feel, as I believe you do, that we cannot simply let matters take their course on the basis of the rather compressed statement of the position in your minute. I realise that the time between now and the Budget is short, and that it would be difficult to reopen the whole range of programme decisions at this stage, but we are agreed, I hope, that the Treasury should nevertheless consider what proposals you can frame and how we can enlist the help of colleagues in order to head off the adverse reaction which the White Paper is otherwise likely to produce.

There are longer term issues here concerning the planning and control of expenditure, and there are immediate issues concerning these particular figures and their presentation. I will set out some thoughts on each aspect in turn, as an input into the work which is going on. Some of these comments confirm points of which the Treasury are already aware.

Planning and Control

I remain convinced that the present system of programming in volume terms plays a substantial part in the continued escalation of the expenditure figures. It is true that, for the year immediately ahead, by superimposing cash limits on many though not all programmes, we restrict our commitment to finance cost increases, and this may have the effect of producing a volume cut in programmes if cost increases exceed the allowance made for inflation in the cash limits.

check last year

However, as I understand it, this volume squeeze is not carried through into subsequent years, but the cut is in practice restored when the volume programme is rolled forward and revalued

CONFIDENTIAL /in

in the annual public expenditure exercise. If this is an accurate account of the position - and I am open to correction if it is not - in my view the least that we should now do is to change the procedures so as to stop this happening. We should at the same time ~~to~~ discontinue the degree of discretion which spending Departments have in putting forward them ~~these~~ revaluations, and to move on to a system of centrally determined figures for use in this operation. I believe that this would have a healthy effect on cost control. I realise that this change could not be put into effect until the 1981 public expenditure exercise, but it could have an important effect on opinion if we decided on the change now and announced it in the coming White Paper.

(A)

This approach accepts that, if we are to have any forward programming, we cannot get away altogether from a constant price basis, and that adjustments for inflation will have to be made to the figures when the time comes, but it does not concede that the adjustment will always be sufficient to cover cost increases irrespective of their size. I should be grateful if you would consider urgently whether we could make even more radical moves in that direction. FP I recognise that an entirely cash approach ~~some methods of doing this - for instance by expressing programmes for the medium term as well as for the year ahead in at least provisional cash figures reflecting the scale of price increases which we envisage -~~ ~~are~~ may not be practicable at this juncture. But this need not prevent us now from endorsing the principle that the volume programmes for the later years will be subject, when the time comes, to the constraint of cash limits which would not necessarily compensate in full for price increases. I believe that this could deter spending Departments from committing their volume programme in advance up to the hilt, and that a statement of intent on these lines could, like the proposal set out in my previous paragraph, help to get a better reception for the White Paper.

[Ibbs]

(B)

We should have to consider carefully how to express this principle. On one formualtion it would simply amount to extending ~~extrapolating~~ into the future the approach which we have been adopting in practice so far. Taken a stage further, it could entail a continuing policy of price restraint for the public services irrespective of the rate of inflation in the economy. I can see that this would have important implications, but I am not at all sure that we need shrink from them.

/Presentation

CONFIDENTIAL

Presentation of the Figures

If we cannot reduce the figures for individual programmes at this stage, the only apparent means of reducing the planning total is by adjusting the figures for the contingency reserve and for shortfall, though I should have preferred it if we were in a position to make a further adjustment by changing the treatment of borrowing by the nationalised industries. As regards the contingency reserve, I support the principle of setting it at a credible level. Nevertheless there seems to me a case for taking the line that the additions to programmes which have already taken place will make it necessary to adopt a more stringent view to further additions in the next financial year, and that Cabinet should accept now that they will have to find new savings when the time comes if they want to approve more than a limited number of new items. I should be grateful therefore if you would take a further look at the contingency reserve from this point of view.

As regards the low shortfall figure, I wonder if this is designed, among other things, to cater for a continued over-run on defence spending. If so, would not the right response be to initiate measures to forestall the over-run rather than to resign ourselves to it in the low provision for overall shortfall.

I agree that the text of the White Paper will be important in securing acceptance for its contents. For instance, I feel that we should take credit for the turn-round in the relative price effect which we will secure next year rather than be unduly self-critical about the residual cost effects in future years of this year's exceptional pay increases arising from inherited commitments, or about the larger take-up of the special employment measures. However, these are purely drafting points. I await the advice which has been promised on the more substantial matters.

CONFIDENTIAL

1.

Generally I think the draft minute to the Chancellor is good and I am in favour of sending it. On a minor point, I am rather doubtful about including the last two paragraphs at all and I think they could be dropped without doing any damage to the impact of the minute.

29.

1) MR WHITMORE
2) PRIME MINISTER

Public Expenditure

The attached draft minute, which you might possibly send to the Chancellor, has been drafted mainly by Leo Pliatzky. Basically, it makes four points:-

i. Any cash limit squeezed on volume should be carried forward into later years.

ii. Volume figures should in future be revalued by a single, centrally imposed factor - rather than by the price and pay increases experienced by spending departments. (An alternative idea, which the Treasury are also considering, is to revalue the figures by the cash limit figures for year one of the PESC period: it would have much the same effect in terms of encouraging cost consciousness; and this is also referred to in the draft).

iii. Establishing the principle that in future years cash limit factors will not necessarily compensate in full for price increases.

iv. In order to get the public expenditure figures down in the forthcoming White Paper, the Contingency Reserve and the provision for shortfall should be reduced.

The draft also outlines the advantages of a total cash system (these have been provided by Robin Ibbs).

/You will

79 × 60

× 11

1000 73

81-82

81-82   82-3   83-4,

You will wish to consider whether, in the light of the fact that we now know that the Treasury are considering some of these ideas, you should still send a minute. An argument against is that it might divert attention away from the work that is already in hand. On the other hand, a substantive minute would serve to indicate how concerned you are, and there are one or two points in it - namely iii. and iv. above and also the thought that something needs to be said in the Budget statement - that the Treasury may not be considering. You may wish to have a word with me and Clive about this tomorrow morning before deciding.

I warned Sir Leo that you might not want to send it. He was still very keen that you should see his interpretation - with some elaboration - of your thinking.

R.

29 January 1981

CONFIDENTIAL

copy

MR. LANKESTER

Public Expenditure White Paper

The draft minute to the Chancellor which I am letting you have will for the most part speak for itself. But as regards paragraphs 5 and 6, does attempt to formulate the ideas which the Prime Minister put to us, and she will have to judge whether the formulation corresponds to what she has in mind. If it does, I should point out that, on one interpretation, it comes close to a permanent incomes policy for the public services. I am myself not against that but I do not think that you can have indefinite pay restraint in the public services irrespective of what is happening in the economy as a whole. Certainly that is a point which the Treasury would make. So sooner or later you could be driven to something approaching an incomes policy for the private sector. I should not be against that either, but the Prime Minister may not care for these implications of the idea.

I understand that the proposal for a minute on these lines may now be overtaken by events, but I am letting you have the draft anyway.

Leo Pliatzky

28 January 1981

CONFIDENTIAL

CONFIDENTIAL

raft Minute to the Chancellor of the Exchequer

PUBLIC EXPENDITURE WHITE PAPER

Thank you for your minute of 23 January about some of the difficulties involved in the public expenditure figures to appear in the White Paper. As you say, there are problems of both substance and presentation. Both are very serious and I feel, as I believe you do, that we cannot simply let matters take their course on the basis of the rather compressed statement of the position in your minute. I realise that the time between now and the Budget is short, and that it would be difficult to reopen the whole range of programme decisions at this stage, but we are agreed, I hope, that the Treasury should nevertheless consider what proposals you can frame and how we can enlist the help of colleagues in order to head off the adverse reaction which the White Paper is otherwise likely to produce.

There are longer term issues here concerning the planning and control of expenditure, and there are immediate issues concerning these particular figures and their presentation. I will set out some thoughts on each aspect in turn, as an input into the work which is going on. Some of these comments confirm points of which the Treasury are already aware.

Planning and Control

I remain convinced that the present system of programming in volume terms plays a substantial part in the continued escalation of the expenditure figures. It is true that, for the year immediately ahead, by superimposing cash limits on many though not all programmes, we restrict our commitment to finance cost increases, and this may have the effect of producing a volume cut in programmes if cost increases exceed the allowance made for inflation in the cash limits.

However, as I understand it, this volume squeeze is not carried through into subsequent years, but the cut is in practice restored when the volume programme is rolled forward and revalued

CONFIDENTIAL /in

Depts ~~assume~~ have come to assume that whatever their ~~[illegible]~~ costs - they are entitled to a certain volume of spending.

on the annual public expenditure exercise. If this is an accurate account of the position - and I am open to correction if it is not - in my view the least that we should now do is to change the procedures so as to stop this happening, to discontinue the degree of discretion which spending Departments have in putting forward these revaluations, and to move on to a system of centrally determined figures for use in this operation. I believe that this would have a healthy effect on cost control, and that it would help to change the attitude whereby // I realise that this change could not be put into effect until the 1981 public expenditure exercise, but it could have an important effect on opinion if we decided on the change now and announced it in the coming White Paper. I understand that the Treasury are already working on a proposal of this kind, and o.

This approach ~~accepts~~ assumes that, if we are to have any forward programming, we cannot get away altogether from a constant price basis, and that adjustments for inflation will have to be made to the figures when the time comes, but it does not concede that the adjustment will always be sufficient to cover cost increases irrespective of their size. I should be grateful if you would consider urgently whether we could make even more radical moves in that direction. I ~~recognise that some methods of doing this - for instance~~ // It may be that by expressing programmes for the medium term as well as for the year ahead in at least provisional cash figures reflecting the scale of price increases which we envisage - are not practicable at this juncture. /// ~~But~~ Even if a fully cash system is not practicable this need not prevent us now from endorsing the principle that the volume programmes for the later years will be subject, when the time comes, to the constraint of cash limits which would not necessarily compensate in full for price increases. I believe that this could deter spending Departments from committing their volume programme in advance up to the hilt, and that a statement of intent on these lines could, like the proposal set out in my previous paragraph, help to get a better reception for the White Paper.

But I should just like to point out that a fully cash approach would have some v. substantial advantages. Then on:

We should have to consider carefully how to express this principle. On one formualtion it would simply amount to extrapolating into the future the approach which we have been adopting in practice so far. Taken a stage further, it could entail a continuing policy of price restraint for the public services irrespective of the rate of inflation in the economy. I can see that this would have important implications, but I am not at all sure that we need shrink from them.

/Presentation

Presentation of the Figures

If we cannot reduce the figures for individual programmes at this stage, the only apparent means of reducing the planning total is by adjusting the figures for the contingency reserve and for shortfall, though I should have preferred it if we were in a position to make a further adjustment by changing the treatment of borrowing by the nationalised industries. As regards the contingency reserve, I support the principle of setting it at a credible level. Nevertheless there seems to me a case for taking the line that the additions to programmes which have already taken place will make it necessary to adopt a more stringent view to further additions in the next financial year, and that Cabinet should accept now that they will have to find new savings when the time comes if they want to approve more than a limited number of new items. I should be grateful therefore if you would take a further look at the contingency reserve from this point of view.

As regards the low shortfall figure, I wonder if this is designed, among other things, to cater for a continued over-run on defence spending. If so, would not the right response be to initiate measures to forestall the over-run rather than to resign ourselves to it in the low provision for overall shortfall.

I agree that the text of the White Paper will be important in securing acceptance for its contents. For instance, I feel that we should take credit for the turn-round in the relative price effect which we will secure next year rather than be unduly self-critical about the residual cost effects in future years of this year's exceptional pay increases arising from inherited commitments, or about the larger take-up of the special employment measures. However, these are purely drafting points. I await the advice which has been promised on the more substantial matters.

Prime Minister

I think we agree that a future squeeze, as suggested below, is not on. But I am told that the Chancellor is still considering coming back to colleagues.

29/1

CONFIDENTIAL

Qa 05235

To: Mr Lankester

From: J R Ibbs

Public Expenditure

1. Following today's lunch in the Treasury I explored further with Sir Anthony Rawlinson and Mr Littler the arguments for replacing 'volume' by 'cash' as the basis to be used in all years in the public expenditure survey.

2. The only serious objection raised is the difficulty of making a reliable estimate of future inflation when setting the annual totals; because of this it is thought that the figures for the later years are likely to be regarded as meaningless. But uncertainty is a practical reality; volume figures which it may be impossible in the event to afford and which encourage unreal expectations and undesirably high expenditure seem to me more objectionable. There is no doubt that insofar as the trading analogy is valid, 'cash' which relates to what you expect to be able to afford rather than what you want is the idea spenders have to grasp.

3. I was assured that the arguments for and against adopting cash figures as the basis for the survey will be fully set out in a submission to be prepared for the Chancellor which he should receive within about a week.

4. I also discussed what could be done to recapture some or all of those economies achieved in 1980/81 which have been lost through the way the 1981/82 cash limits were arrived at - a source of 'loss' which the Treasury are already taking steps to avoid in future.

5. It appears that although it would be untidy (e.g. the printing of estimates would be late), there is no reason administratively why the ground could not largely be regained by, for example, an average two or three per cent cut in cash limited expenditure for 1981/82. I am told that it is too late to impose this on local authorities' expenditure but that it would be possible on virtually everything else. The argument in presenting such a move could be that on an up-to-date assessment 'this is all we can afford'. This, of course, is what has to happen in the private sector in stringent circumstances.

6. I do not at present know the strength of the arguments for and against such a move in the context of the overall economic situation, nor whether it would be politically acceptable. But except for the local authority expenditure there appears to be no administrative barrier to it.

7. I am sending a copy of this minute to Sir Robert Armstrong.

JH

28 January 1981

cc Duguid
Walters
Vereker

CONFIDENTIAL

2

Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

28 January 1981

Prime Minister

This is in reply to the Soames letter about non-transferability: The Chancellor puts on record that, even if settlements are somewhat higher than 6%, he will need some convincing before agreeing to a higher pay cash limit. But Patrick Jenkin is going to press v. hard for this (See Flag B)

The Rt. Hon. Lord Soames, GCMG, GCVO,
CH, CBE,
Lord President of the Council

Dear Christopher

PAY AND CASH LIMITS

Flag A

Thank you for your letter of 23 January about the discussion in Cabinet of pay and price factors and the consequences of the decisions which we reached.

It is certainly true that:

(i) the total of all central government (including National Health Service) cash limits will be somewhat higher as a result of keeping to the factors of 11 per cent and 6 per cent, rather than shifting to 10 per cent and 7 per cent;

but (ii) most cash limits which include pay, including those for the National Health Service, will be lower. (Cash limits including a substantial proportion of procurement or capital expenditure will be higher.)

Our decision to stick to the original limits of 11 per cent and 6 per cent will provide less flexibility for pay negotiations within the limits than would have been the case if the factors had been changed, reducing the price factor and increasing the pay factor.

I was surprised when you said in your letter that you had assumed that the original factors (11 per cent and 6 per cent) would provide you with a degree of elbow-room comparable to that provided by 10 per cent and 7 per cent. You yourself had drawn attention in the earlier discussions to the smaller degree of flexibility within cash limits affecting the Civil Service.

You correctly say that if we were subsequently to decide to increase the cash limits, and so Estimates, there would need to be a significant number of Supplementaries. That was indeed

/implicit in

implicit in Cabinet's decision. We would rightly be in the position of having to justify the increases in the cash limits. But, before we come to that, I think that Cabinet will have to consider very carefully whether we cannot manage settlements of say 7 per cent or so within the cash limits based on the original factors of 11 per cent and 6 per cent, accepting that this will mean some further reductions in numbers.

I really cannot emphasise too strongly the critical need to keep down the actual cash expenditure next year. The problems of reconciling our November decisions on public expenditure with our overall economic strategy are worse than we then thought. The planning figure resulting from those decision will be nearly £1 billion at late-1979 prices higher than we then expected. The largest single element in this increase is the increase in the forecast of expenditure on short-time working schemes and redundancy payments of some £500 million (£300 million at 1979 prices) about which there has been the recent exchange of correspondence between Leon Brittan and James Prior. It now seems that there will only be a very slight decline in the volume of expenditure between this year and next.

This poor prospect on volume reinforces the need to do everything we can to keep down the cash cost of the programmes. Public service pay is a major factor in this. This year, 1980-81, the central government pay bill will be about 27 per cent higher than last year, £16 billion rather than £12½ billion. In contrast, the private sector pay bill will be only 12 per cent higher than last year, partly because of lower settlements, partly because of reduced employment and overtime. (In the last 12-month periods for which figures are available, employment in the economy as a whole fell by 3½ per cent and in the Civil Service by just under 2 per cent; in the hospital service it actually increased.) The prospects are that, even with the present cash limits, the public sector pay bill will still grow faster next year than the private sector pay bill.

Flag B

We shall need to come back to this as negotiations progress. As Patrick Jenkin says in his letter of 27 January to me, some difficult decisions will be required. I accept that pay settlements may have to be somewhat higher than 6 per cent, but shall need a great deal of convincing that it will be sensible to increase the provision in cash limits on that account.

I am sending copies of this letter to the Prime Minister, other members of the Cabinet, and Sir Robert Armstrong.

GEOFFREY HOWE

FILE VLB

CONFIDENTIAL

X ref

28 January 1981

The Chancellor minuted the Prime Minister on 27 January about the revised unemployment assumption which he proposes to use in the Public Expenditure White Paper. This is to confirm that the Prime Minister is content.

T P LANKESTER

A. J. Wiggins, Esq.,
H.M. Treasury.

CONFIDENTIAL

CABINET OFFICE
70 WHITEHALL
LONDON SW1A 2AS

01- 233 8224

28 January 1981

The Rt Hon Leon Brittan QC MP
Chief Secretary to the Treasury

Dear Chief Secretary:

PSA MAJOR NEW WORKS PROGRAMME

1. I have seen Michael Heseltine's letter to you of 8 January and your reply of 26 January. It may be helpful if I clarify my position.

2. I agree very much with the need to give Departments a much greater say over the money available for major new works. Recent Ministerial correspondence has revealed very clearly the problems that can arise when accommodation requirements are defined in the Departments but the budget is determined in the PSA. It can inhibit efficiency in departmental operations and impose a cost upon the taxpayer. As you say however in going for such a change it will be necessary to take into consideration the implications for PSA's management of the estate as a whole.

3. I agree also that a change in PES arrangements to overcome these problems is feasible whether or not repayment is introduced. I do believe however that it would lead to better decision making if Departments, when bidding for expenditure of a capital nature, were caused through repayment to have an eye to the on-going costs of their accommodation. Otherwise (for example) when determining priorities, Departmental managers would have regard only for a partial picture of the financial effects of their decisions as they would have no cause to include in their calculations the costs/benefits of their investment to other parts of the accommodation budget. They would take into account only the benefit to their own Votes and operations.

4. It was to avoid such distortions that I argued in my letter to Francis Pym of 19 December that repayment and a greater influence over new works expenditure should go hand in hand. Certainly if there was no repayment I believe that there would have to be clear guidelines to ensure that departments took all costs/benefits into account when deciding on new works programmes and this would probably have to be centrally monitored to watch that greater departmental freedom in this area did not undermine PSA's efforts to control its budget.

5. I therefore agree with what you say about the need to consider the two developments together. This would not be to hold up the study of the issues - and I see that the possible timing of a change (1982) fits in with what is proposed for repayment - but rather to ensure that the mechanics of the scheme are considered with two assumptions in mind, namely "repayment on" and "repayment off". For your information, my proposals on repayment have now been put to the Prime Minister.

6. I am copying this to recipients of the previous correspondence.

Yours ever
Derek Rayner

DEREK RAYNER

cc Mr Duguid
Mr Vereker

B

DEPARTMENT OF HEALTH & SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

CONFIDENTIAL

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Parliament Street
LONDON SW1

27 January 1981

Dear Geoffrey,

I have now had an opportunity of discussing with the Chairman of the Management Side of the NHS Ancillary Staffs Whitley Council the conduct of the pay negotiations which are due to start this coming Thursday, and I think I should let you and other colleagues know how things seem likely to go.

I am not at present in a position to let the Management or Staff Side know that a cash limit has been fixed for the NHS. In the absence of a cash limit, the Management Side may well decide that they are not in a position to make an offer, and in that event it would not be possible to get the negotiations off the ground. The most likely outcome then would be that I should be asked urgently to meet representatives from both sides of the Whitley Council, in order for them to protest about the Government's delay in fixing a cash limit and then making meaningful negotiations possible. I should feel obliged to agree to such a meeting if asked.

It is however possible that the Management Side will agree to make an offer of 6%. It is difficult to predict how the Staff Side might react. There is little doubt that they would refuse to conclude a final agreement, on that or any other basis, in the absence of a firm cash limit. But that in a sense is an academic point, because they will almost certainly make very clear that there is no prospect of a settlement at 6%. I would expect that, faced with such an offer, their immediate reaction would be to ask to see me and to say just that. If we then decided to stick on that figure for both their pay increase and the pay factor within the NHS cash limit, we should reckon on facing a period of industrial action, probably involving other groups of NHS staff, following which we might be forced to agree to a higher figure, very probably in excess of the 7% which in my view has at the moment a fair chance of securing agreement. To be pushed into a retrospective increase in the pay factor would be extremely damaging for us. The damage which would result from such a retrospective increase is indeed the main reason for not fixing and announcing a pay factor which we believe to be unrealistic.

E.R..

The prospects for Thursday's negotiations are thus uncertain. However things turn out, it seems likely - as Cabinet expected when we last discussed the matter - that I shall have to ask colleagues to consider how matters are to be taken forward, and some important and difficult decisions will be required.

I am sending copies of this letter to the Prime Minister, other members of the Cabinet and Sir Robert Armstrong.

Yours ever

Patrick

CONFIDENTIAL

2PPS

1

Prime Minister

Shall I confirm that you accept the 2.5m unemployment assumption?

cc/ Mr Walters
Mr Lyon

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

Yes MT

UNEMPLOYMENT PROSPECTS AND THE PUBLIC EXPENDITURE WHITE PAPER

27/1

As I mentioned to you on Sunday evening, we state (as illustrative) the assumptions used about price inflation and unemployment in the social security chapter of the public expenditure White Paper. The inflation assumption follows from our other decisions: we continue to use 11 per cent, as for setting cash limits, for 1981-82, and lower figures in the two later years.

2. For unemployment, I had hoped to use again the assumptions for 1981-82 we gave the Government Actuary last autumn and which were published in November in his report on the national insurance contributions. But the actual numbers are rising so fast that we look likely to have reached the level then assumed for the year by the time it begins.

3. I do not want the White Paper to be discredited on this account as soon as it is published and so I propose to have 200,000 added to the level assumed in it for 1981-82, making 2.5 million for the unemployed (excluding school-leavers in Great Britain. I shall retain the earlier

/assumption

assumption of 200,000 for the school-leavers, adult students and those temporarily stopped. The conventional assumptions for the later two years of the White Paper will continue to be 200,000 higher.

(G.H.)

27 January 1981

CONFIDENTIAL

MR. LANKESTER ~~P.~~ 27/1

NHS CASH LIMIT

We had a word about Mr. Jenkin's letter of today to the Chancellor about his negotiating difficulties following Cabinet's decision last week on the NHS cash limit. I understand that Mr. Jenkin will be having further discussions with NHS management tomorrow, and I think the Prime Minister should see his letter and be aware that Mr. Jenkin may end up raising the whole question again in Cabinet on Thursday.

There are in my view three questionable points in Mr. Jenkin's letter:

(i) That he is not in a position to let the negotiators know that a cash limit has been fixed for the NHS. Cabinet clearly decided that there was a 6 per cent pay factor in the NHS cash limit, that Mr. Jenkin and the Chancellor should discuss how pay negotiations in the NHS should be handled, and that if NHS pay could not be settled within the cash limit, after allowing for flexibility as between pay and non-pay elements of expenditure and for the possibilities of reducing numbers, Mr. Jenkin could come back to Cabinet. This does not seem to entitle him to come back to Cabinet before the negotiations have even started. I understand that there are some reservations in the Treasury about letting the NHS negotiators know the cash limit when Parliament has not been told, but I should have thought that the "broadly the same financial disciplines" formula used by the Prime Minister in November was adequate notice to Parliament.

(ii) That a settlement of 7 per cent is more likely to be achieved on the basis of a 7 per cent cash limit than on the basis of a 6 per cent cash limit. It is indeed

/ possible

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possible to imagine that industrial action would follow a 6 per cent, but not a 7 per cent offer, but I think the proposition is at least highly questionable.

(iii) That all NHS groups will have to be offered the same. This is the basis for Mr. Jenkin's conviction that there will be enormous difficulty if he cannot offer the NHS ancillaries something close to the 7½ per cent achieved by the local authority manuals; but again it is not proven that other NHS groups cannot be offered less.

The Chancellor will be advised to write to Mr. Jenkin and ask him to take negotiations forward on the basis of the 6 per cent cash limit; even if Mr. Jenkin does not come back in Cabinet, there can be little doubt that he will be coming back in correspondence before long. When he does so, it may be necessary for the Prime Minister to intervene in the correspondence.

J.

27 January 1981

PRIME MINISTER

PUBLIC EXPENDITURE

We are meeting tomorrow morning to discuss the Chancellor's latest depressing minute on the public expenditure figures.

It may help the discussion if I identify the reasons for the increases in some of the figures compared with earlier plans.

For 1980-81, the volume total is now expected to be £79.4 billion compared with £77.8 billion - an increase of £1.6 billion. The reasons for this increase are as follows:

£ billion	
0.6	Increase in spending on demand determined programmes which are not - and by definition cannot - be subject to cash limits. The principal overspends are on social security due to the faster rise in unemployment than had been forecast, and increases above forecast on the short-time working compensation scheme and on payments by the Government to the redundancy fund. There have also been minor increases - compared with the earlier forecast - on housing subsidies (because of high interest rates) and on agricultural support.
0.2	Local authority overspending.
0.3	Defence spending (this is the equivalent in 1980 survey prices - i.e. November 1979 prices - of the estimated £465 million excess on the original MOD cash limit).
0.2	Lower sales of assets.

/0.9 Loss of

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£ billion		
0.9	Loss of shortfall. Last year's White Paper included a shortfall provision of £1.15 billion at 1980 survey prices; the Treasury are now expecting shortfall to be only £0.25 billion. This is a major revision and arises because there will - by definition - be no shortfall at all on local authority and defence spending and because spending on other programmes now seems likely to come much closer to the original cash limits than had been predicted. This may be because Departments have been under greater pressure as a result of earlier "cuts" and because they have learnt how to cope with the cash limit system better - in earlier years, there was a tendency for greater under-shooting of the cash limits because Departments were less able to judge their rate of spend so as to keep it just within the cash limit.	
Sub-total 2.2		Note. Increased spending on nationalised industries was taken out of the Contingency Reserve and therefore does not feature in this table.
- 0.6	EEC refund	
Total 1.6		

For 1981-82, the latest figure is £79.1 billion compared with £76.8 billion in the White Paper - an increase of £2.3 billion (and this is after including the EEC refund of about £700 million).

When the Chancellor came to colleagues last July, he proposed that the planning totals for 1981-82 should be the same as in the White Paper less the EEC refund. By the autumn it was clear that, in order to achieve this, spending cuts of £2.7 billion would be required - largely because of increased spending on the nationalised industries (£1.1 billion) and because of revised economic prospects affecting social security spending, etc. (£700 million). The Chancellor decided that it was politically impossible to seek reductions amounting to the full £2.7 billion, and instead proposed a total reduction of £1.75 billion. In the

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/event,

event, Cabinet only agreed cuts of £0.7 billion - to a considerable extent, this was because they were unwilling to accept his proposals on defence and social security.

After taking into account the EEC refund, this left the planning total - as of November - about £1.3 billion above the figure in the White Paper. Since then there has been a further deterioration of £1 billion. The main reasons are as follows:

£ billion	
0.4	Higher spending on short-time working compensation scheme and on the redundancy fund.
0.2	Higher spending on unemployment benefit (the Treasury are now assuming a net average of 2.5 million unemployed in 1981-82 as opposed to 2.3 million in the Actuary's report).
0.1	Extra funding over what had earlier been set aside for BL.

I have not worked out the precise reasons for the excesses of £2 billion and £1 billion in 1982-83 and 1983-84; but they are probably on similar lines to those for 1981-82.

Based on the above, it seems to me that the reasons for the excesses are basically twofold. First, there have been substantial forecasting errors - partly related to the recession (but very few outside forecasters were expecting unemployment to rise as rapidly as it has, and in any case the Treasury are always under pressure to assume optimistic forecasts for public spending purposes), and partly relating to shortfall. The latter was clearly misjudged, although the loss of shortfall would have been very much less without the local authority and defence overspend. Second, there was the failure in November to take the necessary spending decisions.

/I do not

Soc Sec?
Nat. Ind?

I do not believe that the cash limit system as such can be blamed for the excess in 1980/81. Every cash limited programme, apart from defence, has stayed within its cash limit - and on defence, we have agonised at length.

The overspend by local authorities is a reflection of the inadequate control which central Government has on local authority borrowing. The Treasury and DOE have just set up a working group to see if control can be improved.

As regards the demand determined programmes, there is nothing that can be done to reduce spending on unemployment benefit - given the higher unemployment forecasts - without reducing the rate of benefit further. But the Chief Secretary has asked for a review of the Short Time Working Compensation Scheme and the Redundancy Fund with a view to seeing if the costs of these programmes can be reduced.

Paragraph 4 of the Chancellor's minute also includes figures in cost terms and cash terms. The figures in cost terms are the same as those in volume terms, but take into account also the change in pay and prices in the public sector relative to pay and prices in the economy as a whole. The figures in cost terms are higher than the volume figures basically because public sector pay has gone up faster than private sector pay over the last year.

The increases in cash terms from year to year look very large indeed, but they are not so extraordinary when account is taken of recent inflation and the increase in public service pay. The moral here surely is that we should have taken earlier steps to rein back public service pay - though this was perhaps easier said than done.

As regards the planning of expenditure, I know that you have been keen to see the demise of volume planning and its replacement by cash planning. This idea was looked at by an inter-departmental group last summer and rejected. The Treasury have been looking at it again, and at least at official level they still think it would be undesirable and unworkable. The main objections are:-

(i) There would be an enormous amount of argument about the inflation assumptions. It is difficult enough to reach agreement on inflation assumptions for one year in advance; it would be that much harder looking two or three years ahead. They argue that it is difficult enough to get collective agreement on the volume figures; for the Chancellor to put forward proposals in cash terms would simply add to the argument;

(ii) Cash allocations would not make a lot of sense to departments for later years until they had first worked them back into volume figures. This again would require agreement on inflation assumptions - including arguments as to how inflation would affect particular programmes (e.g. defence).

I believe the Chancellor has not fully made up his mind against moving entirely to cash planning: he believes that, if cash figures were used, the planning figures would look so frightening that colleagues might more easily acquiesce when he asks for reductions.

My own view is that - as long as inflation continues to run at more than just a few percentage points - volume planning will continue to be necessary. I understand that the only other country which plans expenditure in cash terms is Germany, but even they adjust their figures upwards for pay and social security payments. And their public expenditure people have told the Treasury that, if their inflation exceeded 5%, the system would soon collapse.

Nonetheless, the Treasury are looking at ways of improving the planning system. In particular, they are likely to propose that - from now on - the planning figures should be set in the prices prevailing during the year in which the PESC review is being conducted. Thus, the 1981 review would be in the same price terms as the 1981/82 cash limits; and not, as they would be under the existing system, at November 1980 prices.

/ The

The idea here is that the figures will have a greater reality; for when Ministers consider possible increases and reductions, they will be able to relate them directly to the cash limit figures for 1981/82. This proposal will be put to the Chancellor in the next few weeks.

The other change that has already been made is that the PESC review and White Paper will only look three years ahead, rather than four. It has been suggested that we do not need to look more than one year ahead; but spending departments do need to have an idea of the resources they will have for more than one year given the lead time on many kinds of expenditure; and of course we do review the figures each year.

I hope this does not all sound unduly defensive of the Treasury. But I do believe they are no less concerned than you at the overspending. Certainly, they would admit that there is scope for further improving their systems of monitoring, control and planning; and they are alive to the failure to forecast the full extent of the recession (though again, there has been a tendency for Ministers to assume a more optimistic path for output and unemployment than forecasters were predicting). But we do not want criticisms of the system as it is to divert attention from the need to make it work and from the basically political issue of getting Ministers to agree to restrain their spending. The latter includes the crucial issue of improving the efficiency of the nationalised industries and reducing their drain on the Exchequer.

TL

T. P. Lankester

26 January 1981

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Michael Heseltine MP
Secretary of State
Department of the Environment
2 Marsham Street
London SW1P 3EB

26 January 1981

Dear Michael,

Thank you for your letter of 8 January about the PSA expenditure on major new works for civil service accommodation.

I agree that the question of priorities and funding for the new works programme can be handled separately from the question of repayment, on which I understand Sir Derek Rayner will be advising the Prime Minister shortly. Apart from anything else, the timescale is shorter. But if the repayment idea is pursued, we should I think consider the two developments together.

I am sympathetic to the idea, which you and other colleagues have suggested, that at least some of the projects now in your programme should become a charge to the sponsoring departments' programmes, as specialised accommodation like courts and research stations already are. I see no objection in principle to enlarging the definition of specialised accommodation so as to relieve you of much of the task of judging beeween competing priorities.

A wholesale switch to include general purpose office building would be more difficult. We do not want to weaken PSA's responsibility, and capability, for efficient management of the estate.

The definition of which types of capital expenditure could be switched, the timing of the change and other details should, as you suggest, be discussed among officials of the interested departments, before we take a final view. Sir Anthony Rawlinson will be replying shortly to Sir Robert Cox on these points. If there can be general agreement, it should be possible to implement the changes generally from April 1982, perhaps earlier in certain cases.

The question of spending money in order to save it is not confined to PSA. It is something we have to consider against the background of the immediate need to constrain public expenditure. I am asking my officials to start discussions with yours without waiting for the formal PES round of discussions, to see whether there could be any alternative to a net addition to the PSA programme.

I am sending copies of this letter to the Prime Minister and other members of the Cabinet, Sir Robert Armstrong and Sir Derek Rayner.

Leon

LEON BRITTAN

ECON POL

Treasury Chambers, Parliament Street SW1P 3AG

Rt Hon David Howell MP
Secretary of State
Department of Energy
Thames House South
Millbank
London SW1

PL 26/1

26 January 1981

Dear Secretary of State,

Not on C/F file

DEPARTMENT OF ENERGY EXPENDITURE: THE FAST BREEDER REACTOR

Thank you for your letter of 13 January about your Department's Estimates.

It is disappointing that you are not able to identify any savings now to offset the cost of higher expenditure on coal social grants as a result of the welcome prospective increase in the closure of uneconomic pits. I hope that you will continue your search for savings and I welcome your proposal to include in the Supplementary Estimate for the Coal Social Grants any savings which may by then have been identified.

The figures quoted in John Moore's letter of 12 December suggest that there may have to be a bid for up to £20 million (1981 Survey prices) on the Contingency Reserve for 1981-82, less any savings identified in the meantime. Any such bid would have to be considered at the time it arises and I must reserve my position until then. I note that the additional bids in the later years are likely to be still higher.

You indicate in your letter the possibility of savings on the AEA's fast reactor R & D programme following the discussion in E Committee on 18 December (E(80)46th Meeting, Item 1). But you suggest that the identification of "significant savings" will not be possible until we can see the way ahead more clearly on fast reactor policy.

E Committee did, of course, conclude that funding of the present United Kingdom nuclear research and development programme should continue pending further decisions as a result of that review.

But as you indicated in your paper E(80)143, the AEA's fast reactor research programme (some £70 million a year at 1980 Survey prices) is working towards an independent UK fast breeder technology, which "is both too risky and too costly". And as the Prime Minister's summing up at E(80)46th Meeting makes clear, the main options now to be evaluated are "collaboration with the Europeans; collaboration with the Americans; and taking a holding position which would entail keeping a core team to act as informed purchasers of fast reactor technology when the UK needed it".

Since therefore the AEA's research is directed to an objective which is not one of our main options, there is a strong case for examining now the Authority's level of spending on fast reactors. I do not think there is any need to await the outcome of the evaluation by your Department and the CPRS of the main options, which could take several months.

This is not to suggest a rundown of the AEA's research effort, which would undermine our credibility as a potential partner in any possible collaboration with the Europeans or the US. But such an examination of the Authority's present programme might well reveal scope for some savings which did not prejudice our long-term objectives. The public expenditure situation makes it essential to take every opportunity to make such savings. I therefore suggest that the AEA's expenditure ought to be examined as part of the search for public expenditure savings for 1981-82. The later years can await a more fundamental review which would follow our decisions on the fast reactor later this year.

In view of the suggestions on the fast reactor made above, I am copying this letter to members of E, to Robin Ibbs and Sir Robert Armstrong.

Yours sincerely

T. Mattews

for LEON BRITTAN

[Approved by the Chief Secretary and signed in his absence]

CONFIDENTIAL

Prime Minister 2

To note that any savings on non-pay expenditure cannot be transferred to pay. T. 23/1

cc Mr Hoskyns
Mr Vereker

Civil Service Department
Whitehall London SW1A 2AZ
01-273 4400

23 January 1981

The Rt Hon Sir Geoffrey Howe, QC, MP
Chancellor of the Exchequer
HM Treasury

Dear Chancellor,

At Cabinet yesterday morning it was decided that we should reverse our previous decision to use a pay factor of 7% and a price factor of 10% in preparing the Estimates for central Government expenditure and for fixing the cash limits associated with these. Instead we would use 6% and 11%. We also agreed that we would not announce these decisions until Budget day.

This means providing for expenditure overall at a level which would be similar to (and indeed a little above) the level resulting from a pay factor of 7% and a price factor of 10%. We therefore assumed that this would provide us with a comparable degree of elbow room in the pay negotiations in the NHS and Civil Service. My understanding is that we also accepted that, if necessary, Cabinet would have to consider the possibility of Supplementaries to finance any extra cost of pay settlements which we eventually reach.

I must point out that where the costs of Government Departments are concerned, there is very little room for maneouvre. Staff costs are segregated into separate Votes for each Department. There are about 70 of these, and the great majority of them are predominantly for pay (80% is the typical figure). In consequence the Government cannot finance any excess in pay by raiding the provision made for non-pay expenditure without altering the Votes and in the process exceeding the cash limits of those which are being increased.

If therefore the assessment we made earlier of the forthcoming negotiations was right and we need to be prepared to accept an outcome of 7% or 7½% on pay then yesterday's decision means we shall have to face far greater procedural and presentational problems in providing for this. We shall not be able to do so on the new basis without a string of Supplementaries for most of the 70 or so Votes involved to redistribute the pattern of expenditure within the overall total for which we shall have planned. This would involve a wholesale resetting of the cash limits with some going up and others down. Colleagues should realise that this is the effect of our abandoning the framing of the Estimates with a price factor of 10% and a pay factor of 7%.

I am copying this letter to the Prime Minister, to other members of the Cabinet and to Sir Robert Armstrong.

Yours sincerely,

(Private Secretary)

SOAMES (Dictated by the Lord President and signed on his behalf)

Tim This is yet another example of Cabinet taking decisions on totally inadequate information. This cannot go on. MT.

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cc Mr Lankester
Mr Hoskyns

Prime Minister

As I warned you earlier this week, latest expenditure projections look bad. But the Chancellor does not seem to want to reopen November's public expenditure decisions prior to the Budget. This will inevitably make his task harder.

22/1

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

Tim - I cannot do nothing about this. We appear to have no control over expenditure. Will you discuss with Robin Ibbs first? We must go further later - some steps after the Chequers meeting. I am very tired of this - something has to be done without delay.
M.

PRIME MINISTER

PUBLIC EXPENDITURE WHITE PAPER

This minute is to amplify my warning of the picture which the public expenditure totals will present in the White Paper which we hope to publish on Budget Day. I shall be circulating a full draft to Cabinet early next month.

2. There may still be some changes in the figures, but it is clear that they will present problems both of substance in regard to the PSBR and the Budget, and of presentation. This was always inevitable after the last round of public expenditure discussions in Cabinet ended with the programmes so much higher than we hoped. There have been further increases since. The outturn in 1980-81 now looks like being about 2 per cent in volume terms above the plans of the White Paper of last March, rather than the 1½ per cent mentioned in my November statement, and the 1981-82 plans nearly 3 per cent above those in the March White Paper. Main reasons for the further increase this year are the larger take up of special employment measures and the increased scale of defence overspending, and lower sales of assets. Next year the main increases come also from the special employment measures, and from a lower estimate for shortfall.

/The table

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CHANCELLOR OF THE EXCHEQUER

... 3. The table attached compares the totals as they now stand with those of the March White Paper and with the plans of the previous Government. It also shows the totals in "cost terms", which take account of relative price changes.

4. There is no doubt that these figures are uncomfortably high and will disappoint our supporters. The cost terms increases are particularly striking. In 1979-80 prices in cost terms, the planning total compared with the projections underlying the medium term financial strategy has increased by about 3-3½ billion in both 1981-82 and 1982-83, and by 2-2½ billion in 1983-84. In actual cash, the planning total is likely to rise from £77 billion in 1979-80 to around £94 billion in 1980-81, (a rise of 22 per cent) and £102 billion (a further 9 per cent) in 1981-82, ie about £2 billion higher in the latter two years than the projections underlying the Medium Term Financial Strategy. Opposing forces have been at work: the volume of expenditure (at constant prices) has risen by about £2 billion in each of the years 1981-82 and 1982-83. In addition there has been an increased adverse relative price effect because of the faster than expected increase in public sector pay relative to the general price level, which has increased expenditure in cost terms by a further £1-2 billion. On the other hand the slower than expected inflation rate reduces the aggregate in terms of cash at current prices, with the result that - coincidentally - the increase in cash above the MTFS underlying figure is roughly the same as the increase in constant prices.

The MTFS figures were expressed in 1978/79 prices
TL

5. The figures in the table include the provision for the Reserve which I propose to ask Cabinet to endorse. These

/are (in the 1980

are (in the 1980 survey prices used for the detail of the White Paper) £1500 million for 1981-82 and £2000 million in 1982-83 and 1983-84. The figure for 1981-82 is somewhat higher than the Reserve of £1160 million (at 1980 survey prices) which we had last year for the year then next ahead, but we must include enough in the Reserve to avoid breaching it, that is, enough to cover those additional proposals, some foreseeable, which will come forward and which in practice Cabinet will consider inescapable. The £2000 million for the two later years is probably too small for realism, but it is not at this stage a control figure and we shall be reconsidering all the figures for those years in the next survey.

6. I am considering some changes in the way in which we operate the Reserve for next year, and will consult you about these later. They do not affect the volume figures here under consideration.

7. I propose to say frankly in the White Paper that we should have preferred lower expenditure totals. (The precise wording can be considered when we look at the draft.) We can point to the recession as one cause, but shall need to lay stress on the efforts we have made, and our success in reducing expenditure below the previous Government's plans.

8. I am sure, however, that these totals are not acceptable for the medium term and that we shall have to return to the question of how to get them down in the survey discussion next summer and autumn. But this need not be decided firmly now.

(G.H.)

23 January 1981

CONFIDENTIAL

£ billion, 1980 survey prices

	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
PROPOSED PLANNING TOTALS						
1. Public expenditure programmes (including finance for nationalised industries)	78.0	78.6	79.3	78.2 (1)	76.2 (1)	74.7
2. Special sales of assets	-	-1.0	-0.3	-0.1 (2)	-0.1	-0.1
3. Reserve	-	-	+0.4	+1.5	+2.0	+2.0
4. General allowance for shortfall	-	-	-	-0.5	-0.5	-0.5
5. PLANNING TOTAL	78.0	77.6	79.4	79.1	77.6	76.1
Percentage change on previous year		-0.5	+2.3	-0.4	-1.9	-1.9
PLANNING TOTALS IN EARLIER WHITE PAPERS (revalued)						
6. March 1980 White Paper, Cmnd 7841		78.4	77.8	76.8	75.4	75.2
7. Labour White Paper, Cmnd 7439		80.3	82.1	83.5	85.1	-
COST TERMS (1979-80 prices)						
8. Planning total (as now proposed)	77.0	77.0	79.2	78.0	76.4	75.0
(Planning total underlying MTFS)				(74.7)	(72.9)	
Percentage change on previous years		-	+2.9	-1.5	-2.1	-1.8

NOTES: (1) Including Corporate Plan figures for BL

(2) Net of unwinding of advance oil payments

aa

SECRETARY OF STATE FOR THE ENVIRONMENT

Econ Pol 2 P.P. 1

2 MARSHAM STREET
LONDON SW1P 3EB

My ref: H/PSO/19932/80
Your ref:

21 January 1981

PM

Dear Norman

Thank you for your letter of 20 December about the PSA major new works programme.

I am conscious of the importance you attach to the work at the Driver and Vehicle Licensing Centre. Our officials are in close touch about progress with the planning for this.

I note what you say about the driving test centres. Officials are following up with the Treasury the possibility of a further transfer of funds to enable work on further centres to be started in 1981/82. We should know the outcome shortly. I acknowledge your concern about the difficulties of decisions on common service programmes. There are indeed issues here that we need to consider further and I have written to the Chief Secretary about this.

Copies of this letter go to those who received yours.

Yours ever

Michael

MICHAEL HESELTINE

The Rt Hon Norman Fowler MP

Ref: A04058

PRIME MINISTER

Cash Limit Factors
(C(81) 7)

BACKGROUND

The Ministerial Committee on Economic Strategy decided on 14 January that the pay factor for the 1981-82 cash limits for the Civil Service and for the National Health Service should be 7 per cent. Cabinet decided on 15 January that the price factor for the same groups should be 10 per cent. The Cabinet agreed that it would be preferable for neither of these factors to be announced before the end of January although they noted that there was a risk that the figures would leak in the course of preparation of the estimates. The Chancellor of the Exchequer was invited to consider this problem, and the timing of the announcement, further with those Ministers concerned with the current pay negotiations in the public sector. (C(81) 2nd Conclusions, Minute 4.)

2. In C(81) 7 the Chancellor reports the outcome of these discussions which failed to resolve the issue. In paragraph 3 he reports that the Lord President and the Secretary of State for Employment are against announcing 7 per cent now and presenting it as rigid. They want to negotiate from the starting point of 6 per cent and then move to a higher figure to accommodate a settlement. They do not want an announcement before about 20 February. The Chancellor rejects this view and invites the Cabinet to confirm the earlier decisions and to agree to his making a statement, on the lines of the draft annexed to his paper, on Monday 26 January.

3. Although the Chancellor does not refer to in his paper, his draft Statement, in the last sentence of paragraph 5, revives a policy decision taken at an earlier stage. The summary of policy decisions published in Hansard with the Chancellor's economic policy statement of 24 November 1980 (column 337) stated that 'the cash limits for the RSG and for the universities' grant will include allowance for increases in earnings of 6 per cent in annual settlements due before 1 August 1981, and also provisionally of the same amount for annual

settlements due after that date'. (My underlining.) It is therefore necessary to say now for the NHS, which includes groups with settlement dates from December, that the provision is for 7 per cent in the present round and, provisionally, for either 7 or 6 per cent for settlement in the next round but payable in 1981-82. (The same problem does not arise for the Civil Service where the pay year coincides with the financial year.) When this was last considered Ministers were disposed to defer a decision on the pay factor to apply for the next round, and thus to let the figure for this round be assumed to run on for the next round. In recommending the announcement of a provisional figure for the next round of 6 per cent, the Chancellor is in effect inviting the Cabinet to take a new decision: to say that, for present purposes, the assumption about the pay factor for the next round should not be the same as this round but should be 6 per cent.

HANDLING

4. I suggest that you divide the discussion into two parts. You will first wish to dispose of the question of whether the cash limit is flexible or whether the decisions taken so far stand. You might then go on to the question of the timing of the announcement.

5. After the Chancellor of the Exchequer has introduced his paper the Lord President and the Secretary of State for Employment will wish to explain why they want flexibility in the cash limit with no announcement until 20 February. There seem to be strong objections to this course -

i. Cabinet has already decided on the factors after careful discussion.

ii. As the Chancellor argues in his paragraph 5, to set cash limits to accommodate rather than to influence pay settlements is completely contrary to present policy, would destroy the discipline of the cash limit system, and would inevitably set a pattern for dealing with public sector pay groups generally, including the local authorities, next year.

iii. The Estimates would have to be prepared using a pay factor of 6 per cent, and then there would have to be Supplementary Estimates with risks of leaks in the meantime.

iv. The Secretary of State for Social Services would be left in limbo for his negotiations with the NHS ancillaries whose settlement date was last December.

6. We are in this difficulty because the pay factor for cash limits has to be decided and announced before the pay negotiations for the groups concerned, and thus virtually destroys the freedom of negotiating manoeuvre: the unions will expect an offer not less than the cash limit, and management cannot afford to offer significantly more. It is not easy to see how this can be avoided unless either the effective date of pay increases is brought on to a common date of 1 January, or the completion of the Estimates can be delayed until after pay settlements have been reached. It could be that, while Cabinet reject any change in the arrangements for the current pay round, they see sufficient force in the doubts expressed by the Lord President and the Secretary of State for Employment to justify a further look at the arrangements for the next round. If so, this could be taken on board by the Chancellor of the Exchequer in the paper which E Committee invited him to prepare on 16 October on the longer term options for determining Civil Service pay (E(80) 37th Meeting, Item 4), though the remit would have to be extended to cover other public services, so far as this problem is concerned.

7. If Cabinet confirm that the cash limits are not negotiable, and that the factors for the remaining limits are 7 and 10 per cent, the next question is when those factors should be announced. The case for a statement on Monday 26 January, as proposed by the Chancellor, is -

i. It deals with the problem of leaks and allows for publication of the Estimates on 10 March without a need for Supplementary Estimates.

ii. It would suit the Secretary of State for Social Services who wants to give a firm figure to the NHS management side for their pay negotiations opening on 28 January.

iii. It has some advantages for the Civil Service pay negotiations - it could take some of the wind out of the sails of the militants at the special conferences beginning on 28 January; and it could be better to announce the decision now rather than to appear to be bowing to union pressure later on.

8. But is it really necessary to make an announcement? If no announcement is made, the NHS management side can be given instructions which enable them to start at 6 per cent and go up to 7½ per cent, without specifying a pay factor for cash limits. No doubt instructions have to go out for the preparation of Estimates: but how long can that be postponed? Can the instructions be given on a basis which suggests that the figure is still provisional - or even on the basis of two figures at this stage, both 6 and 7 per cent, so that no conclusions can be drawn? Is it intolerable if there is no announcement and the figures do emerge in the first instance by way of leak?

9. You will wish to hear the views of the Lord President and the Secretary of State for Social Services on all these points and also -

i. to ask the Secretary of State for the Environment whether there is any risk that an announcement on 26 January could upset the expected endorsement on 27 January by the local authority manuals of their 7½ per cent settlement, and

ii. to ask the Secretary of State for Education whether the timing raises any problems for pay negotiations for his groups.

I understand that at official level the timing is acceptable to the DOE and DES.

10. Finally you will need to deal with the reference in paragraph 5 of the draft announcement to the provisional factor of 6 per cent for next year. Given what was said previously (see paragraph 3 above) there seems no avoiding such a statement, but the Secretary of State for Social Services and other Ministers will wish to give their views on whether it should be provisionally 6 or 7 per cent.

CONCLUSIONS

11. In the light of the discussion you will wish to record conclusions with reference to paragraph 10 of the Chancellor of the Exchequer's paper -

i. Either confirming the earlier decisions for factors of 7 and 10 per cent for the remaining cash limits or agreeing that they should be flexible.

ii. If appropriate, inviting the Chancellor of the Exchequer to take account of any general points in the longer term paper which he is due to produce (see paragraph 6 above).

iii. Deciding whether there should be a statement; if so, whether the statement should be on Monday 26 January, and, if not, when it should be; and whether the draft annexed to C(81) 7 is acceptable.

iv. Specifically agreeing on whether the provisional pay factor to be announced for next year should be 6 per cent, as proposed by the Chancellor, or 7 per cent as this year (see paragraph 10 above).

D J Wright

ROBERT ARMSTRONG

(approved by Sir R. Armstrong and signed on his behalf).

21 January 1981

CONFIDENTIAL

Prime Minister
John Vereker and I have suggested some revisions to the draft statement — amended paras are sidelined
PL
21/1

REVISED DRAFT STATEMENT BY THE CHANCELLOR OF THE EXCHEQUER

With permission, Mr. Speaker, I would like to make a statement on the pay and price factors to be used in calculating cash limits for 1981/82.

As the House knows, we believe that negotiations between the Government and its employees should be conducted in the framework of the total amount of public expenditure the Government can afford to devote to pay; and that this amount should be established in the cash limits.

In my statement to the House on 24 November I set out the factors which were to apply in the cases where it was then operationally necessary to set the cash limits. The limit for the rate support grant provided for an increase in prices other than pay of 11 per cent between the average levels for 1980/81 and 1981/82. As had already been announced, the grant allowed for a 6% annual increase in earnings from due settlement dates in the current pay round. I said that expenditure in other parts of the public services would be subject to broadly the same financial disciplines. The same factors have been applied in a few other cases as the need has arisen, including the universities grant and the grant to the Arts Council.

It is now necessary to set the pay factor and confirm the price factor to apply to the remaining Votes and cash limits, including those for the National Health Service. Developments since November, and the somewhat different financial regimes, mean that slight adjustments are justified.

/ The prospect

CONFIDENTIAL

The prospect for inflation has improved somewhat. The remaining cash limits and Votes will accordingly provide for an increase in prices of 10% in the average levels between 1980/81 and 1981/82.

Local manual workers are now considering an offer, which is being recommended to them by their unions, of 7½%. In the absence of further manpower reductions, unless other local authority employees accept settlements of below 6%, there will have to be an increase in rates to accommodate that offer. Such an arrangement is not open to central Government. Furthermore, separate action, which we have taken, including the direct action already taken on management costs in the Health Service, and on numbers in the civil service, means that broadly the same financial discipline will be achieved for these groups by fixing the cash limit on the basis of a pay factor at 7% in respect of increases in annual earnings from settlement dates in the current pay round.

Because that cash limit cannot be exceeded, average settlements higher than 7% could be accommodated only by increased efficiency or a lower volume of the service concerned.

As for the next pay round, which of course begins in the middle of 1981/82, the provisional arrangement is that cash limits will allow for an increase of 6% in annual earnings from the settlement date.

As a result of these adjustments, the total cash limits for these Votes will on balance be slightly lower than if the same factors had been applied throughout.

21 January 1981

PRIME MINISTER

Meeting with the Chancellor
Wednesday 21 January at 1730

I believe the Chancellor will want to bring you up to date on public expenditure, which is apparently running ahead of the forecast which he gave colleagues in November. The Treasury's latest assessment is that expenditure will be some £2 billion higher each of the PESC years compared with the figures in the MTFS. This may mean yet another public expenditure exercise before the Budget.

I suggest you ask the Chancellor to take you through his paper - not yet received - on cash limits for Cabinet on Thursday. We need to be quite clear what he is trying to get Cabinet to endorse: Lord Soames, Mr. Jenkin and Mr. Prior will no doubt do their best to re-open the decisions taken last week.

There are no other obvious topics for discussion, though you may need to discuss BL in the light of the meeting with Edwardes tonight.

20 January 1981

CONFIDENTIAL

10 DOWNING STREET

From the Private Secretary

19 January, 1981.

EC Contributions and the Public Expenditure White Paper

The Prime Minister has seen and taken note of your letter to me of 16 January on this subject.

I am sending copies of this letter to George Walden (Foreign and Commonwealth Office), and David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

A.J. Wiggins, Esq.,
HM Treasury.

CONFIDENTIAL

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CONFIDENTIAL

Prime Minister

To note the lower forecast of N. Sea revenue compared with the MTFS – even though we have ~~introduced~~ introduced the new oil tax.

cc Mr Walters
Mr Hoskyns
Mr Wolfson

Treasury Chambers, Parliament Street, SWIP 3AG
01-233 3000

19 January 1981

The Rt. Hon. David Howell MP
Secretary of State for Energy

Dear David

MT 19/2

NORTH SEA TAX TAKE

You should be aware of the latest Treasury estimates of Government take from the North Sea and the comparison with the earlier estimates. The figures are as follows:

TOTAL NORTH SEA TAX REVENUES*

		November Industry Act		£bn
	MTFS	Actual Fore-cast	Forecast rounded for publication	Latest Forecast (January 1981)
a) Current prices				
1980-81	4.0	4.1	4	3.8
1981-82	5.1	5.2	-	4.9
1982-83	8.0	6.5	-	6.1
1983-84	8.6	9.3	-	8.0
1984-85		12.1	-	11.1
b) Constant 1980-81 prices				
1980.81	4.0	4.1	4	3.8
1981-82	4.5	4.7	4½/5	4.4
1982-83	6.6	5.3	-	5.0
1983-84	6.6	7.0	-	6.0
1984-85		8.3	-	7.5

* The forecasts in the table do not assume the same tax regime. The Industry Act and the latest forecast assume the introduction of the new supplementary oil tax and some tightening in existing PRT reliefs.

/The further

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The further decline in Government take, shown by the latest forecast, is very worrying since as I know you recognise, the Government's proceeds from the North Sea are fundamental to our economic strategy in general and to the Medium Term Financial Strategy in particular.

One reason for the January forecast of lower revenues compared to the November Industry Act forecast is the assumption for 1982 (but not in 1981) of a lower real sterling oil price, mainly due to the effect of a higher exchange rate. But there are two other factors which are very relevant and it is about them that I am writing to seek your advice. These two factors are:

i) Lower oil production, particularly in 1981 and 1984, but also to a lesser extent in 1982 and 1983.

ii) The switch in forecast capital expenditure towards existing fields in 1981 and 1982, which has the effect of adding to the companies' PRT etc reliefs and so reducing their tax liability.

Tables I and II of this letter set out the forecasts for production and capital expenditure since June 1979. The effect of the lower production and higher capital expenditure shown there has, to a considerable extent, offset the beneficial effects on Government take of the higher oil price and the introduction of the supplementary tax.

The increase in capital expenditure raises a further point. Here there is some suspicion - and it can be no more than this - that one important reason for the increase in capital expenditure forecast for existing fields reflects the companies' reaction to the incentive in the present North Sea fiscal regime to increase expenditure for tax saving purposes. This is being considered in the review of the PRT reliefs, which I announced on 24 November, and I suggest that we return to this matter when officials report on the outcome of the review.

My purpose in writing now is first to acquaint you of the latest estimates but also to ask whether there is anything further to be done to make forecasts of production and capital expenditure more reliable. I know that you already see your Department's forecasts of production before they are sent to the Treasury. I recognise that your petroleum engineers, who have an important role in preparing the forecasts, are hard pressed. There are also enormous estimating uncertainties in this area. But so much of our economic policy depends on the North Sea revenues that I am sure that we must attach high priority to ensuring that the information used in the forecasts is as reliable as it

/can be

can be made. Could I suggest therefore that our officials' forthcoming review of the figures should be particularly intensive so that the forecasts of North Sea revenues for the medium term, published at the time of the Budget, are based on robust assumptions on oil production and capital expenditure.

Finally, I should be interested to know your plans for publishing the oil production ranges for the medium term. It is important that these ranges are fully consistent with the oil production assumptions used for the published estimates of North Sea take and that they are published on or before Budget date. Otherwise we would have the greatest difficulty in explaining the forecasts of take.

I am sending a copy of this letter to the Prime Minister.

GEOFFREY HOWE

CONFIDENTIAL

TABLE I : NORTH SEA OIL PRODUCTION FORECASTS* m.tonnes

	JUNE 1979	OCT 1979	MARCH 1980 MTFS	JUNE 1980	INDUSTRY ACT (NOV. 1980)	JANUARY 1981
1979	76	77	77	77	77	77
1980	94	95	83	81	81	80
1981	106	110	99	91	91	88
1982	125	122	110	103	103	102
1983	128	129	117	112	113	112
1984	131	131	126	119	121	118
1985	127	129	126	115	117	120

*including natural gas liquids, measured in million tonnes of oil equivalent.

TABLE II: NORTH SEA CAPITAL EXPENDITURE FORECASTS

£m constant prices

TOTAL CAPITAL EXPENDITURE‡ (1978 prices)

	June 1979	Oct 1979	MTFS Mar 1980	June 1980	November 1980 Total	November 1980 of which: existing oilfields*	January 1981 Total	January 1981 of which: existing oilfields*
1979	2100	2235	1715	1736	1804	1635	1844	1682
1980	1500	1887	2128	2298	2094	1904	1851	1706
1981	1300	1662	1652	1755	2043	1676	2049	1760
1982	900	1341	1373	1267	1902	1350	1850	1423
1983	900	1398	1150	935	1693	857	1600	887
1984	-	-	1253	1152	1706	576	1650	529
1985	-	-	1170	1089	1311	433	1452	394

‡ Inland Revenue definition, including upliftable exploration expenditure (ie exploration expenditure on wells drilled on or within 5,000m of fields subject to PRT).

* Oilfields in production or under development.

5

Civil Service Department
Whitehall London SW1A 2AZ
01-273 4400

19 January 1981

The Rt Hon Sir Geoffrey Howe, QC, MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON SW1P 3AG

P 22/1

Dear Geoffrey,

1981-82 CASH LIMITS: ALLOWANCE FOR PRICE INCREASES

I feel I should repeat to colleagues in writing what I said when we were discussing the reduction from 11% to 10% of the factor for price increases. This extra turn of the screw will reduce the provision for general administrative expenses. I am worried about the effect of this on the conduct of departmental business.

Total expenditure on these expenses is large - some £1.2 billion a year - but is distributed among more than 70 individual Votes. Mostly these cover only pay in addition to the administrative costs, so there is very little room for maneouvre.

At least 60% of these expenses are on services provided by the nationalised industries. Travel, postage, telecommunications and Post Office agency services are the main items which fall on departments' Votes.

In all these cases we have to face the fact that increases in cost between 1980-81 and 1981-82 will be substantially more than the 11% agreed earlier, let alone the 10% you now intend to include in the cash limits. We shall have to meet the full effect next year of the recent very large increases in rail fares (20%); telephone charges (22%); and the forthcoming increases in postage rates and the Post Office charges (15-16%). In addition we shall have to meet the 1981-82 portion of further increases in the pipeline. I understand you are forecasting lower increases in the next round, but the overall effect will be a further large increase in the bill for these items next year.

In your case, for example, Inland Revenue and Customs are heavy users of the postal service. DNS is in a similar position, and also relies heavily on Post Office counter service for savings transactions. You will need to look at ways of reducing the volume of postage.

In other departments too, administrative expenses loom exceptionally large for particular reasons. As you only raised this orally in Cabinet I was not sure that colleagues were able fully to assess what this would mean for their departments. This therefore is to ensure that they are aware that, for cash limits based on 10% for this type of expenditure to hold, in spite of the effect of nationalised industry price rises, it will be vital for all colleagues to take early action to plan for the extra squeeze, if we are not to be confronted later with a rash of supplementary estimates.

I am copying this letter to the Prime Minister, other Cabinet colleagues, and Sir Robert Armstrong.

Yours ever
Christopher

SOAMES

CONFIDENTIAL

MR. INGHAM

c. Mr. Lankester

Gen Pol

Announcement of NHS and Civil Service Pay Factors

Further to my minute yesterday and our subsequent discussion, I have now discussed again with the Treasury how they propose to deal with these pay factors in the light of Cabinet's discussion yesterday.

The Chancellor will be holding a meeting with his colleagues concerned on Monday evening, to consider the timing and form of the announcement and basis on which the decision ought to be defended. The Treasury are putting advice to him this afternoon. There are, I believe, two schools of thought in the Treasury, one saying that there should be a very full explanation (and implying an oral statement), the other saying that the decision is a difficult one to defend and should be passed off as quickly as possible (implying a written answer). But both schools of thought accept that there will have to be an early announcement because the decision will leak.

I asked the Treasury to ensure that the Chancellor was aware of our views (but I made it clear that I was not speaking for the Prime Minister) that there must be an announcement next week because it would be presentationally disastrous if the decision leaks in an unplanned way; that the arguments for holding the announcement back so that lower figures could be put forward in negotiation did not stand up; that there should be a written reply, available early in the afternoon and not on Friday; and that although we do not want to attract attention to the decision it must be defended broadly along the lines I set out in my earlier minute.

J.M.M. VEREKER

16 January 1981

CONFIDENTIAL

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Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

16 January 1981

(2)

M O'D B Alexander Esq
Private Secretary
Prime Minister's Office
No.10 Downing Street
LONDON SW1

Prime Minister
To note.
MAP
16/1

Dear Michael,

EC CONTRIBUTIONS AND THE PUBLIC EXPENDITURE WHITE PAPER

In agreeing to the proposals made by the Chancellor of the Exchequer in his minute of 22 October on the above subject, the Prime Minister asked to see the latest forecasts for our net contributions to the Community budget before they were finally included in the public expenditure White Paper. Your letter of 27 October refers.

I now enclose drafts of the passages in the forthcoming White Paper which present these figures.

As the table below indicates, the new financial year figures are close to those given in the Chancellor's earlier minute. The earlier figures are shown in brackets.

£ million at 1980 Survey prices

	1980-81		1981-82	
1. Unadjusted net contribution	942	(945)	1127	(1120)
2. Net refunds	515	(545)	677	(670)
3. Adjusted net contribution	427	(410)	450	(450)
4. 2 as a percentage of 1	55%	(58%)	60%	(60%)
5. Improvement in 3 since Cmnd 7841	+634	(660)	+750	(750)

The new calendar year figures "in respect of" successive Community budgets, which we undertook to provide in response to the PAC's Twenty-Eighth Report, 1979-80 Session, are likewise fairly close for 1981 to the figures in the Chancellor's earlier minute; but the net position on the

/1980 budget now

1980 budget now looks rather less favourable, mainly as a result of later information which has enabled us to allocate receipts to particular budgets. For ease of comparison the cash figures from table 2.2.2 of the White Paper draft have been converted in the table below to 1980 survey prices. The earlier figures are again shown in brackets.

£ million at 1980 survey prices

	1980	1981
1. Gross contributions*	1773 (1780)	1912 (2040)
2. Receipts		
a. negotiated refunds	632 (630)	683 (700)
b. other	706 (860)	799 (910)
3. Adjusted net contribution	435 (290)	430 (430)
4. Negotiated refunds (2a) as percentage of unadjusted net contribution (1-2b)	59% (68%)	61% (62%)

*excluding contribution towards our own refunds

For the later years, the Chancellor proposes that the White Paper tables should assume that our net contribution will continue at the same level in real terms as in 1981-82. The accompanying draft text makes clear, however, that this is no more than a stylised assumption; that our actual net contributions will depend on the outcome of the Community's budget restructuring review; and that the Government will do their utmost to achieve a fully satisfactory outcome in that review.

I am copying this letter to George Walden (FCO) and David Wright (Cabinet Office).

yours ever

John Wiggins

A J WIGGINS
Principal Private Secretary

PUBLIC EXPENDITURE WHITE PAPER, PART 1

DRAFT PARAGRAPH ON COMMUNITY BUDGET

European Community budget refunds

The European Council of Ministers agreed on 30 May 1980 that the United Kingdom's net contribution to the Community budgets for 1980 and 1981 should be reduced substantially by means of special refunds. These refunds are expected to amount to some £515 million in 1980-81 and some £675 million in 1981-82, the precise sums depending on our net contributions before refunds and on the exchange rate between the £ and the Community budget unit of account. Allowing for the refunds and other revisions, our net budget contribution is now expected to be some £450 million in 1981-82, a reduction of £750 million compared with the corresponding figure in Cmnd 7841. For the succeeding years, the White Paper tables assume that our net contribution will continue at the same level in real terms as in 1981-82. This is no more, however, than a stylised assumption. The actual net contribution will depend on the outcome of the Community's budget restructuring review provided for in the 30 May agreement. The Government will naturally do their utmost to achieve a fully satisfactory outcome in this review, negotiations on which are expected to begin later this year.

PUBLIC EXPENDITURE WHITE PAPER, PART 2

DRAFT CONTRIBUTION TO CHAPTER 2.2

Net contributions to European Community institutions

Since publication of the last public expenditure White Paper (Cmnd 7841), the Government have succeeded in negotiating large reductions in the United Kingdom's net contributions tothe European Community budget by means of special refunds. The net contributions figures from 1980-81 onwards in this White Paper are consequently much lower than those in the previous White Paper.

The figures for net United Kingdom contributions to European Community institutions in table 2.2 are made up of three components: net contributions to the European Community budget (excluding the United Kingdom share of the cost of overseas aid expenditure by the Community, which is included within the aid programme); contributions to the capital and reserves of the European Investment Bank (EIB); and receipts from the European Coal and Steel Community (ECSC). Figures for net contributions to the Community budget (including our contribution to the Community's overseas aid) are shown separately in table 2.2.1. Also included in that table are figures for our gross budget contributions, receipts other than negotiated refunds, and the negotiated refunds mentioned in the previous paragraph.

The Community budget finances all the Community institutions - the Council of Ministers, the Court of Justice, the Commission and the European Parliament - and also the Court of Auditors. The main Community policies, including the common agricultural policy, the Social Fund, the Regional Development Fund, aid and research, are financed from the Commission's sections of the budget, which accounts for some 98 per cent of the total.

/Table 2.2.1/

The United Kingdom's gross contributions to the Community budget are made under the 'own resources' system, established by a Council Decision of 21 April 1970. Under this system, which has applied in full to the six original member states since 1978 and to the United Kingdom, Denmark and Ireland since 1980, member states pay over monthly to the Community agricultural levies, customs duties and the yield of a value added tax not exceeding 1 per cent of the value of transactions included in a harmonised spending base agreed in 1977. The budget is financed almost entirely from these 'own resources'. The projections in table 2.2.1 assume that the existing basis of 'own resources' will be maintained, and in particular the 1 per cent limit on VAT own resources. The rate of VAT own resources provided for in the 1981 Community budget as adopted is just under 0.9 per cent. Gross contributions by the United Kingdom under 'own resources' are estimated to amount to about 21 per cent of total Community revenue in 1980 and 1981.

Gross receipts from the budget by UK public sector bodies (other than negotiated refunds) are listed in column 2 of table 2.2.1 and in the upper part of table 2.2.3. The main sources of these receipts are the agricultural Guidance and Guarantee Funds, the Social and Regional Funds, and refunds of 'own resources' collection costs. The expenditure by the Intervention Board for Agricultural Produce and other public authorities in the United Kingdom which gives rise to these receipts scores as public expenditure in the programmes concerned. Gross receipts by the United Kingdom (other than negotiated refunds) are estimated to amount to about 9 per cent of total Community expenditure over the two years 1980 and 1981 taken together.

With our share of gross contributions running at about 21 per cent, and our share of gross receipts at about 9 per cent, the excess of contributions over receipts would have amounted to some 12 per cent of the total budget over the two years 1980 and 1981. Yet the United Kingdom is less prosperous than the Community average, and we incur further resource costs outside the budget as a result of the CAP. Hence the Government regarded a prospective net budget contribution on the scale described as unacceptable and initiated a protracted negotiation with our Community partners to have it reduced. Agreement was finally reached at the Foreign Affairs Council of 29/30 May 1980.

The 30 May agreement provides for a reduction of about 60 per cent in our net contribution to the Community budgets for 1980 and 1981, by means of special refunds to the United Kingdom. As shown in Table 2.2.2, we expect to receive net refunds of some £700 million in respect of the 1980 budget and some £800 million in respect of the 1981 budget (both figures at estimated outturn prices). The precise amounts will depend on the level of our net contributions before these refunds and on the exchange rate between the £ and the unit of account.

/Insert table 2.2.2/

The presentation in table 2.2.2 is a new one, which the Treasury undertook to provide in its reply to the Public Accounts Committee's Twenty-Eighth Report, 1979-80 Session. It is intended to indicate the net financial obligations on the United Kingdom which result from successive Community budgets. It differs from the calendar year presentation in earlier White Papers (and from the other tables in this chapter) by bringing together as far as possible all the transactions in respect of successive annual Community budgets, irrespective of when the actual receipts and payments take place, and by showing the negotiated refunds against the annual budget in respect of which they are paid. It reflects the Community's budgetary system, under which the financial year corresponds to the calendar year and expenditure from each budget occurs partly in the following year. This was also the basis on which the reduction in our net contributions was negotiated. The new presentation makes use, as far as possible, of Commission figures.

The negotiated refunds in respect of each calendar year's budget will mostly be paid to us in the following calendar year. We are due, however, to receive the bulk of them before the end of March, and thus before the end of the United Kingdom financial year. Mainly as a result of the refunds, the United Kingdom's estimated net budget contribution on a cash-flow basis in the financial year 1981-82 is now reduced to some £450 million in 1980 survey prices (some £530 million in cash terms) - a reduction of £750 million compared with the previous White Paper. Table 2.2.1 gives the latest figures.

The 30 May agreement and the subsequent enacting Regulations provide for reduction of the United Kingdom's net budget contribution by two routes - (a) partial refunds of gross contributions under an amended version of the Financial Mechanism originally negotiated in 1975, and (b) Community contributions in respect of certain United Kingdom public investment programmes, principally in the regions, under a new scheme of 'supplementary measures' for the United Kingdom. The precise distribution of the refunds between the two channels depends on movements in the economic variables which determine our Financial Mechanism entitlement, but our total refund entitlement is fixed by the 30 May formula. The United Kingdom has to contribute to the financing of these refunds, as to other Community expenditure. Hence the gross payments to the United Kingdom will exceed the agreed net refunds and will be calculated to produce the correct net amounts. The gross payments which we expect to receive in 1980-81 are shown in the lower part of table 2.2.3.

[Insert table 2.2.3]

Community contributions under the supplementary measures scheme during 1980-81 are expected to relate principally to certain investment programmes of the central government and public corporations in the North, the North West, Yorkshire and Humberside and South West regions of England, and in Scotland, Wales and Northern Ireland. The Community is expected to contribute also to certain trunk roads schemes outside these regions. The main categories of investment expected to receive Community support are listed below.

	£ million (cash)
Roads	
Rail	
Water and sewerage	
Advance factories	
Telecommunications	
Housing in Northern Ireland	
[TOTAL]	

For the years after 1981, the Community is committed by the 30 May agreement to seek to avoid the recurrence of unacceptable budgetary situations for any member state by means of structural changes. The Commission is to produce a report by the end of June 1981, and negotiations between member states are expected to follow thereafter. If agreement on other means of reducing our net contribution has not been reached in time, the Commission is committed to making proposals for special refunds to the United Kingdom in respect of the 1982 budget on the lines of those for the 1980 and 1981 budgets.

The tables in this White Paper assume that our net contributions in 1982-83 and 1983-84 will remain at the same level as in 1981-82. This is no more, however, than a stylised assumption. As stated in Part 1, the Government will naturally do its utmost to achieve a fully satisfactory outcome in the forthcoming negotiations with other member states.

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UK CONTRIBUTIONS TO AND RECEIPTS FROM THE COMMUNITY BUDGET

£ million[1]

Table 2.2.1

	Gross contribution	Gross receipts other than negotiated refunds	Negotiated refunds (gross)	Net contribution
1975-76	370	354	-	16
1976-77	544	320	-	244
1977-78	941	387	-	554
1978-79	1323	569	-	754
1979-80	1665	781	-	884
1980-81	1801	808	566[2]	427
1981-82	2066	807	809[2]	450[3]
1982-83	2200	1750		450
1983-84	2200	1750		450

(1) 1975-76 to 1979-80 at outturn prices; 1980-81 to 1983-84 at 1980 survey prices.

(2) Gross figures. The net negotiated refunds after taking account of UK contributions are estimated at £515 million in 1980-81 and £677 million in 1981-82 (both figures at 1980 survey prices).

(3) The corresponding cash figure for estimated net contributions in 1981-82 is some £530 million.

UK CONTRIBUTIONS AND RECEIPTS ARISING OUT OF COMMUNITY BUDGETS[1]

Table 2.2.2

£ million cash

	1979	1980	1981
Gross contribution[2]	1625	1972	2220
Receipts other than negotiated refunds	661	784	928
Unadjusted net contribution	964	1188	1292
Negotiated refunds (net)	-	703	792
Adjusted net contribution	964	485	500

(1) The 1980 figures are calculated on the basis of the average exchange rate over the year of 1.67 units of account to the £. The 1981 figures assume an exchange rate of 1.78, the average rate for the last quarter of 1980.

(2) Excluding UK contribution to negotiated refunds.

GROSS RECEIPTS FROM THE COMMUNITY BUDGET

Table 2.2.3

£ million at outturn prices

	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81 (estimated)
Receipts other than negotiated refunds						
EAGGF Guarantee Fund	284	182	180	325	380	500
EAGGF Guidance Fund	7	13	32	24	38	40
Social Fund	14	28	44	65	117	110
Regional Development Fund	9	40	47	46	116	110
Refund of own resources collection costs	36	53	79	100	112	115
Other receipts	4	4	5	9	18	35
Total of above	354	320	387	569	781	910
Negotiated refunds						
Financial Mechanism	-	-	-	-	-	211
Supplementary measures	-	-	-	-	-	442
Total negotiated refunds	-	-	-	-	-	653

CONTRIBUTION TO TABLE 2.2	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
Net contributions to European Community institutions	16	281	632	774	826	380	392	392	393

3

Ref. A03993

PRIME MINISTER

The Price Factor in Cash Limits

The Ministerial Committee on Economic Strategy (E) agreed this morning that the pay factor in cash limits for the NHS and the civil service should be 7 per cent, and invited the Chancellor of the Exchequer to reconsider the prices factor in cash limits, and to come back to Cabinet tomorrow if he wished to propose a reduction in the 11 per cent already agreed for the prices factor.

2. I understand that the Chancellor will speak on broadly the following lines. Since the 11 per cent price factor was agreed in November inflation prospects have improved, and 11 per cent would now represent some relaxation of pressure and increased head room. If 6 per cent had been accepted for the pay factor he would not re-open the question, recognising that the room for manoeuvre was helpful. The 7 per cent pay factor will however cost an additional £120 million for the NHS and civil service combined. Reducing the prices factor by 1 per cent would offset that increase by about £100 million.

3. The price factor in the Defence estimates would also be put at 10 per cent. Cabinet have, however, agreed (as the price for securing the Defence cuts) that both the pay and the prices factors for Defence are open to revision. The Chancellor is not going back on that undertaking.

4. He will also agree to consider any exceptions which colleagues might propose on the ground that public faith is already pledged to outsiders. One likely example is the Arts Budget.

5. There will be no changes for the local authorities or the universities where the factors of 6 and 11 per cent have already been announced.

6. Other Ministers are likely to argue that the prices factor should be left at 11 per cent for all cash limits, on the ground that the revised forecasts for inflation do not suggest a figure significantly lower than that, and that departments will in any case still need head room in which to accommodate the difference between a 7 per cent pay factor and pay settlements inevitably not lower than 7½ per cent.

7. The Chancellor is also likely to reopen the question, discussed at E this morning, when the 7 per cent pay factor should be publicly announced. The Treasury's difficulty is that it has to be incorporated in well over 100 separate votes. This means that civil servants in all Departments will be seeing the figure and so it is bound to leak. The choice, as seen by the Treasury, is between announcing it or seeking some excuse (which they would not want to do) for deferring publication of the Estimates beyond Budget day. An early announcement would be undoubtedly welcome to the Secretary of State for Social Services, who wants to get on with his negotiations, but would mean making a statement in advance of the civil service conferences on 28th and 29th January and of the decision on the local authority manuals on 27th January.

HANDLING

8. After the Chancellor of the Exchequer has put his proposition on the prices factor, most of the main spending Ministers will want to comment.

9. If he also raises the question of the timing of the announcement of the 7 per cent pay factor you will wish to hear the views in particular of the Lord President, and of the Secretaries of State for the Environment, for Social Services and for Education and Science.

CONCLUSIONS

10. In the light of the discussion you will wish to record conclusions:-

(i) on whether the price factors in those cash limits yet to be finalised should be 10 rather than 11 per cent;

(ii) inviting Ministers to raise with the Chancellor any exceptions which might be made on the grounds that public faith is already pledged;

(iii) on whether it is necessary to advance the announcement of the 7 per cent pay factor in view of the probability of leaks during the preparation of the estimates.

Robert Armstrong

(approved by Sir R Armstrong and signed on his behalf)

14th January 1981

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Pub Exp

MS

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PRIME MINISTER
MS

CONFIDENTIAL PLGC (81)1.

A Brief for the debate on the Rate Support Grant Order 1980

Introduction

The Rate Support Grant for 1981-2 was announced on 16th December 1980. It is the first grant settlement to be made using the new block grant procedures of the Local Government Planning and Land Act. Also for the first time separate grant settlements were made for England and Wales.

The background: Public Expenditure Restraint

The settlement has been made against a background of continuing restraint on public expenditure. As the Chancellor of the Exchequer, Sir Geoffrey Howe, announced on 24th November, Local Government relevant spending in 1981-2 needs to be 3 per cent lower than the level of spending expected by the Government for 1980-1. In fact the actual cut in spending for 1981-2 will have to be closer to 5 per cent, because many councils have failed to reduce overspending.

Details of the local authority response to the request for revision of budgets showed that Conservative controlled councils are prominent among those councils which have made a major effort to reduce spending, for example Devon CC cut just over £6 million, West Yorkshire MCC £3.26 million, Hampshire CC £2.8 million, Nottinghamshire CC £2.8 million, and Surrey CC £2.28 million. Labour councils on the other hand dominate the list of councils overspending by more than 15 per cent. They include:- Bristol 51 per cent overspent, Scunthorpe 46.4 per cent, Crawley 30.7 per cent, Ipswich 28.4 per cent, Hull 26.1 per cent, Hackney 21.5 per cent, Peterborough 21.3 per cent, Harlow 21.2 per cent and Preston 20.7 per cent: 27 of the 49 councils still overspending by more than 10 per cent in 1980-1 are Labour controlled.

The need for a new grant system

The system of grant distribution used up to and including 1980-1 has been criticised widely for its inability to discourage overspending by councils.

The old system had four serious failings:

1. It encouraged extravagance: this happened in two ways. Need was measured in part by reference to past spending however wasteful. In addition authorities with low resources grant were paid additional grant to match their rate increases.

2. It was unjust: because RSG is a fixed sum, the extra money given to spendthrift Labour councils was paid at the expense of more prudent authorities. Thrift was penalised.

3. Grant distribution was arbitrary: it took money away from shire counties and gave it to shire districts on a crude and unscientific basis, which resulted in windfall gains for certain districts.

4. It was shrouded in mystery: informed public discussion of how the elements in the RSG formula were arrived at was impossible because they were selected by computer with random variations each year. The most notorious example was the appearance, disappearance and reappearance of unemployment as a factor to indicate local authorities' needs during Labour's years of office.

The decision to introduce block grant was primarily to remedy these defects.

What the Block Grant does

1. It is a single grant paid to every authority. Its object is to ensure that all councils of the same kind (shire county, London borough, etc) should be able to provide a similar standard of service if they levy a similar rate in the pound.

2. Block grant has moved away from the reliance on past expenditure as a measure of need. This has been replaced by what are called 'grant-related expenditures' for each authority. They are based as far as possible on an objective view of what a typical standard of service costs.

3. Block grant does not stop councils deciding their own spending, or determining the level of their rates. It is not, therefore, destroying local authority freedom as is claimed by Labour.

4. Block grant will, however, provide for the first time a powerful disincentive to overspending. It is not an open-ended grant like the old RSG. If a council's spending goes significantly above its GRE, the Government will progressively reduce the rate of grant, thus forcing the council to go to its ratepayers to finance increased spending. The grant they lose will be redistrubuted to all other authorities.

The settlement for 1981-2

Relevant expenditure. The total relevant expenditure at November 1980 prices will be £17,338 million (for England). This is consistent with the Chancellor's announcement on 24th November 1980 that the volume of local authorities current expenditure in 1981-2 should be broadly 3 per cent below the level provided for in the Government's expenditure plans for 1980-1 for local authorities.

The total of accepted relevant expenditure includes a forecast of rate fund contributions to local authority housing revenue accounts and other housing expenditure falling directly on the rate fund, which are consistent with the rent guidelines announced by Mr. Heseltine on 15th December 1980.

The Cash Limit. As announced on 6th November 1980, the RSG cash limit for 1981-2 will include a provision for increases in the level of earnings of 6 per cent for annual settlements from 1 November 1980 in the present pay round. For the purposes of grant calculation, a similar percentage has been provisionally announced for settlements in the pay round which will begin on 1 August 1981. As Mr. Heseltine said in his statement on 16th December 1980:

> "The Government cannot finance more than a 6 per cent average increase in earnings from pay settlements. If settlements are higher, then the cost will fall on the rate payer. I do not believe that it is fair to ask those rate payers who are not getting larger pay increases .... to finance larger rises for local authority employees."

Retail price inflation has slowed significantly. The cash limit includes an allowance for price increases consistent with an average of 11 per cent between 1980-1 and 1981-2, and an uprating of pensions by 11 per cent in December 1981.

On this basis, the total relevant expenditure in England to be taken into account for the settlement is £18,423 million at estimated 1981-2 outturn prices.

The Grant Percentage

The Exchequer grant percentage for England and Wales has been held at 61 per cent of relevant expenditure for 4 years since 1977-8. Grant can only be paid from national taxes or central Government borrowing. For 1981-2 the Government have made a moderate reduction in the grant for England and Wales from 61 per cent to 60 per cent. This means that the grant for England which was equivalent to 60.1 per cent when the combined grant stood at 61 per cent, should be reduced to 59.1 per cent. The grant in Wales will be 73.4 per cent. A change of one percentage point for England and Wales is equivalent to £196 million at 1981-2 estimated outturn prices.

The aggregate Exchequer Grant for England will be £10,895 million at estimated outturn prices. The grant for Wales will be £871 million. After specific grants and transport supplementary grant are taken into account, the remaining amount available for the Rate Support Grant is £9,027 million. £663 million is taken by domestic rate relief which remained in England set at 18½ pence in the pound. This leaves £8,364 million at estimated outturn prices for distribution under the new Block Grant arrangements.

Block Grant

The grant will function as follows: An authority wil be assumed to be levying notional rate poundage "a grant related poundage " as its own contribution towards its expenditure. There is a schedule of these poundages which will be higher for higher spending councils as measured against the authority's grant-related expenditure. The grant will be the difference between the sum that would be raised by this grant-related poundage , and the authority's expenditure. In this way the grant equalises needs and resources by meeting the whole of the costs faced by the local authority over and above those that can be funded from the grant-related poundage.

In the old grant system the operation of needs and resources elements taken together meant that in 1980-1 any authority could fund expenditure in line with its assessed need for a rate percentage of 119 pence or less, and that for each extra £10 per head of population it decided to spend, it would have to charge an extra 5.6 pence rate. The new system will preserve these values for 1981-2 so long as an authority's total expenditure is not significantly above its grant-related expenditure. A national threshold of £36.60 per head has been set which is 10 per cent of the national average GRE per head. This has been apportioned between tiers of authorities in proportion to their share of GRE. Once an authority's expenditure passes that threshold level, however, it will have to charge more for further increases in expenditure. An extra £10 per head of expenditure above the threshold will cost not a 5.6 pence rate but a 7.0 pence rate.

Grant distribution

There are two important changes in the overall grant distribution:

First, there is a shift in resources from London to the counties. Under the last Labour Government, money was directed year by year away from the shire counties to outer and inner London. The Conservative Government stopped the drift, in the settlement announced last year under the old RSG system. Under the new grant system this shift of grant away from the shires will be reversed as illustrated in the following table.

Changing Shares of RSG:

Area	75/76 %	76/77 %	77/78 %	78/79 %	79/80 % %	80/81 %	81/82 %
Shire Counties & Districts	57.3	56.1	54.8	53.7	53.4	53.6	54.4
Met areas	29.4	29.6	30.1	29.6	29.6	29.7	29.8
London	13.3	14.9	15.1	16.7	17.0	16.7	15.8

Secondly, there will be a significant change in the first year in the distribution of grant to non-metropolitan or shire districts. This is because Peter Shore, then Labour's Environment Secretary, distributed grant to these districts on an artbitrary basis, and many of them received grant allocations which varied from their real needs.

As a result of their windfall gains, some authorities will lose considerable amounts of grant in the new settlement. In many areas this is compensated for by an increase in grant to the appropriate county. It is important to note that in the shire counties district expenditure amounts on average to only 15 per cent of total local authority spending.

Some districts, where historically they have charged low rents, and where there is a balanced housing revenue account may lose grant. This is because, in the process of needs assessment, housing factors have been related to a council's ability to increase revenue by making rent increases. As the system seeks to identify current need, authorities which have had heavy housing programmes in recent years which have led to a housing deficit have done relatively better than authorities with a smaller older housing stock; under the old system councils were rewarded for keeping rents low. This is no longer the case under Block Grant.

Conclusions

The main points of the settlement:

1. Because of unavoidable public expenditure cuts there is less grant to go round.

2. In recent years there have been arbitrary shifts of grant between classes of authority (eg shires to London) for which there was no objective justification.

3. Block grant corrects previous injustices by shifting a share of grant back to the counties, while still leaving London with a larger share than it received in 1977-8.

4. For the first time the grant introduces a real disincentive to overspending.

5. The distribution to districts has adversely affected some districts, but in many others county gains will offset these losses and ratepayers will not be adversely affected.

6. A major improvement in the new system, is that for the first time the formula upon which the grant distribution is based is open to public comment and debate, in contrast with the previous system which was incomprehensible.

Conservative Research Department,
32, Smith Square, LONDON, SW1.

TH/ab
13.1.81

Ref: A03978

CONFIDENTIAL

PRIME MINISTER

NHS and Civil Service Cash Limits
(E(81) 3 and 5)

BACKGROUND

In E(81) 3 the Secretary of State for Social Services recommends a pay factor of 7½ per cent in the NHS cash limit. The Chancellor of the Exchequer in E(81) 5 recommends factors of 6 per cent both for the NHS and for the Civil Service. In his letter of 9th January to the Chancellor, the Lord President advises that, if the NHS provision is for 7½ per cent then the Civil Service should get the same.

2. The Secretary of State for Social Services' main arguments for 7½ per cent for the NHS are:-

(i) NHS ancillaries have traditionally kept in step with local authority manuals who, it is hoped, will endorse by 27th January the 7½ per cent offered to them.

(ii) All NHS staff should get the same as the ancillaries - in his paragraph 5 he argues that the nurses would not accept less and that a settlement as low as 7½ per cent for the ambulancemen and the electricians would be a good outcome.

(iii) The NHS differs from local government in that it is not possible to settle for 7½ per cent within a 6 per cent factor for pay without making cuts in services.

3. The Chancellor of the Exchequer argues strongly that the decision should be 6 per cent both for the NHS and the Civil Service. He points out that this is what the public have been led to believe by the statement that the factors will be broadly within the same financial disciplines as imposed in the Rate Support Grant and for the universities; and that anything more would prejudice other settlements, including those for the teachers. On the figures in paragraph 4 of his paper, the additional 1½ per cent would cost around £180 million. He further recommends that for the purposes of the Defence

Estimates the same figure should be used for Armed Forces pay as for the Civil Service on the understanding, agreed by Cabinet, that the cash limit will be revised if necessary to accommodate the Government's decision on the recommendations of the Armed Forces Pay Review Body.

4. It is necessary to take decisions on these cash limits now to comply with the timetable for the 1981-82 cash limits and votes which are to be published on Budget Day. There is a separate question over when the decisions should be announced - see paragraphs 10 and 11 below.

HANDLING

5. The decisions on these two cash limits are inter-related. You will first wish to invite the Secretary of State for Social Services, the Lord President and the Chancellor of the Exchequer each to state their case. The Secretary of State for Employment will wish to comment generally and the Secretaries of State for the Environment and for Education on the implications for negotiations by the local authorities and on teachers in particular. The Secretaries of State for Scotland and for Wales each have responsibilities as Health Ministers.

6. The main questions on the NHS cash limit seem to be:-

(i) Is it accepted that there is a firm link between NHS ancillaries and local authority manuals?

(ii) If so, does this mean $7\frac{1}{2}$ per cent for all NHS groups, or could the rest get 6 per cent?

(iii) Is it accepted that there is no scope for further savings in the NHS to enable $7\frac{1}{2}$ per cent settlements to be accommodated within a 6 per cent increase in the pay bill?

(You will recall that in the public expenditure discussions the cut on the Health cash limit was limited to £25 million compared with the £120 million which would have resulted from application of the 2 per cent cut applied to all other cash controlled programmes.)

(vi) What is the likelihood, and what would be the consequences, of industrial action if the decision is for 6 per cent, and would the cash costs of such action outweigh those of giving $7\frac{1}{2}$ per cent?

7. For the Civil Service credit has already been taken for savings from manpower reductions and there is little or no scope for further offsetting savings. The main question is whether the Committee accepts the Lord President's argument that the factor for the Civil Service has to be the same for the NHS. There are no formal and recognised links similar to those between the local authority manuals and the NHS ancillaries - Civil Service clericals got more than NHS clericals last year. The Lord President's main argument for like treatment is that anything less for the Civil Service will increase the chances of costly industrial action. The Committee will wish to hear the Lord President's assessment of such action.

8. If it is accepted that the NHS and the Civil Service should be treated alike, the Committee will wish to consider whether, notwithstanding the arguments put forward by the Secretary of State for Social Services, this points to 6 per cent all round.

9. The proposed treatment of the Armed Forces in the estimates is acceptable to the Secretary of State for Defence, who will not be attending the meeting.

10. When the Committee has decided on the pay factors for each group, you will wish to turn to the question of the public presentation of this decision. The Secretary of State for Social Services will probably want to make an early announcement in advance of the next discussions of NHS ancillaries' pay at the end of the month. The Lord President will need to consider whether the decision on the Civil Service should best be announced before or after the special conferences on industrial action which the Civil Service unions are planning for the end of the month - since they are expecting 6 per cent, anything more could defuse these conferences.

11. The decision on timing and the problem of presentation will clearly turn very much on whether the factors are 6 per cent or 7½ per cent. If they are 6 per cent there is probably a good deal to be said for announcing them as soon as possible in order to influence other negotiations in train. If they are for 7½ per cent this will need very careful public presentation, though that is not a reason for deferring the announcements for too long. You may wish to invite

the Chancellor of the Exchequer to consider this further in E(PSP). Either way the Committee will wish to hear the views of the Secretary of State for the Environment on the case for announcements before or after 27th January when the local authority unions are expected to react to the offer made to them.

CONCLUSIONS

12. In the light of the discussion you will wish to record conclusions on:-

(a) the pay factors in the NHS and Civil Service cash limits and those to be used in the Defence Estimates for the Armed Forces;

(b) the timing of the public announcements of these decisions.

RtA

(Robert Armstrong)

13th January 1981

CONFIDENTIAL

cc:- Mr Walters
Mr Ingham
Mr Duguid

PRIME MINISTER

E, 14 JANUARY: NHS AND CIVIL SERVICE CASH LIMITS

In E(81)5 the Chancellor argues for a 6% pay factor in the cash limits for the NHS, the Civil Service and the Armed Forces. But Mr Jenkin, in E(81)3, says the NHS pay factor should be 7½%, and that all NHS groups should be offered the same; and Lord Soames, in his letter of 9 January, says that if the NHS get 7½%, the Civil Servants should get the same.

The case for 6% in the NHS is overwhelming. Even if Mr Jenkin is right in assessing that 6% would "certainly" involve industrial action, it would be far better to be forced to concede a higher pay settlement within the same cash limit, so that services have to be cut, than to go for a pay factor of 7½% which:-

(i) might not hold anyway: there is a risk of being forced up from any starting point; and

(ii) would make a 6% settlement with other groups - notably Civil Servants and teachers - much harder to achieve.

The feasibility of 6% for the NHS rests on whether cuts in services could be made if the outcome was a 7½% settlement. Mr Jenkin says there would be "extremely damaging cuts"; you may want to press him on that, and to weigh the damage against the other costs of going for 7½%.

Lord Soames does not argue for 7½% for the Civil Servants if the NHS get 6%, and no one else is likely to.

The 6% cash limit for the Armed Forces should be uncontroversial, since Ministers have already decided to revise it if necessary to accommodate the Armed Forces Pay Review Board award: meanwhile a 6% figure may bring some downward pressure to bear on the AFPRB.

J.

13 January,1981

J.B.

CONFIDENTIAL

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Treasury Chambers, Parliament Street, SW1P 3AG

12/1

Rt Hon James Prior MP
Secretary of State
Department of Employment
Caxton House
Tothill Street
London SW1

12 January 1981

Dear Jim,

On my arrival at the Treasury I have received a disturbing report of the increased estimates for disbursements under the Short Time Working Scheme and from the Redundancy Fund. I feel I should seek your comments on this serious development, and at the same time by this letter inform our colleagues of it.

I understand that work by your staff on improving the forecasts for this expenditure is still continuing, but there are now fairly firm new estimates of expenditure for this year and broad ranges for next year. They show that substantially more will be required in each case than the present provision in the public expenditure programme. In cash, expenditure under the Short Time Working Scheme is now forecast to be £415 million this year, compared with the present provision of £240 million. The range for next year is £390-550 million, compared with provision of only £120 million. For the Redundancy Fund the forecast for this year is now £320 million, compared with provision of £245 million; for next year £300-435 million, compared with provision of £230 million. That is a total of £250 million extra in the current year. Next year, if expenditure were in each case at the centre of the range, there would be a total increase of some £500 million in cash.

I am advised that it would be difficult at this stage to change the arrangements for these two schemes in a way which would significantly reduce these costs. Apart from any other considerations, certain changes have only recently been decided and announced. Equally I can understand that you would no doubt regard it as not practical to find offsetting savings on this scale within your other programmes.

If this is right, these increases will cause net increases in public expenditure, and will have to be financed by either taxation or borrowing, or some combination of the two, beyond what would otherwise have been necessary. £500 million is obviously significant in either context.

It is unfortunate that the likelihood of increases on this scale, which substantially affects the planning totals for public expenditure, and hence taxation and borrowing, was not apparent when Cabinet took its decisions on the new terms of the short-time working scheme and on public expenditure generally last autumn.

But now that it has become plain that the cost is likely to be so much more than was foreseen in November, I think we should not wait until next autumn for a further review. I therefore suggest an interim review in the early summer. I hope you agree, and that I may look to you then for proposals to contain this open-ended spending, which is mounting so alarmingly. Of course if you have any more immediate suggestions to this end, they would be most welcome.

I am sending copies of this letter to the Prime Minister, to the other members of E Committee, and to Sir Robert Armstrong.

Yours

Leon

LEON BRITTAN

MR. INGHAM

c.c. Mr. Lankester
Sir Harry Boyne CCO

CGBR

The Prime Minister asked this morning that we should have the best possible defensive brief available for when the CGBR figures are released at 2.30 this afternoon. The Treasury are preparing a brief, of which they will send us a copy, but since it is not at present available, you may care to have this note to reinforce the oral briefing I gave you this morning. Since the Prime Minister was keen that Sir Harry Boyne should also be fully briefed, I am sending him a copy of this note, although I understand that he will also receive briefing from the Treasury.

The facts are that the Central Government Borrowing Requirement in December was £2.3 billion, compared with £2.8 billion in November.

The two implications which the media may immediately draw are that:

(1) the PSBR for the financial year will be higher than expected - the heavies may conclude that it will exceed £13 billion; and

(2) the money supply figures for January (on the period ending 21 January, published in February) are likely to be bad unless the increased Government debt can be financed by substantial sales of gilts in the next week.

There are perhaps three defensive points to make:

(i) the CGBR is notoriously difficult to forecast, especially on a month-by-month basis, so no-one should be surprised that some months prove erratic;

/(ii)

(ii) the Borrowing Requirement is made up of items on both sides of the equation, i.e. payments and receipts, and in December about £400 million had been received but not transferred to the Consolidated Fund, so the picture is not quite as bad as it seems;

(iii) nevertheless, the underlying figures are indeed poor, and show how hard we must work in order to keep Government borrowing down.

JV

12 January 1981

c Mr Vereker.

Civil Service Department
Whitehall London SW1A 2AZ
01-273 4400

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PRIME MINISTER

Early warning of the argument in E next Wednesday.

The Rt Hon Sir Geoffrey Howe, QC, MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON SW1P 3AG

9 January 1981

MS.

MJS 9/1

Dear Geoffrey,

PAY FACTORS FOR CASH LIMITS

We shall be discussing in E on 14 January the fixing of pay factors for the NHS and the Civil Service and I understand you and Patrick Jenkin will both be putting proposals before us. It might be helpful for me to say ahead of the meeting how I now see matters.

I believe we must be realistic. We should not let the best become the enemy of the good. To fix the pay factor for the NHS and the Civil Service at 7½% (following on from the likely settlement for local authority manuals) should significantly reduce the level of industrial action we have to face in coming months even though we will not avoid it altogether. I gather that an attempt to enforce 6% on the NHS now will lead to a costly and damaging struggle. If with inflation still well into double figures we can settle pay in the NHS and the Civil Service at 7½% this time round, should we not regard that as a considerable achievement?

If we do decide to settle on a 7½% increase for the National Health Service, then we should go for the same for the Civil Service. Although this will not relieve us of industrial action in the Civil Service - even if only because the unions are determined to make their point about the suspension of pay research - we would stand a reasonable prospect of getting away without too much damage. But that would certainly not be the case if we were to fix a pay factor of 7½% for the NHS and a lower one for the Civil Service. This would produce widespread bitterness and alienation which would take a long time to heal. Coupled with the suspension of pay research it would look to the Civil Service like deliberate discrimination and would drive many moderates into the arms of the militants. I must tell my colleagues that the difference in union actions and attitudes between the same pay factor as the National Health Service and a lower one would be of a totally different order.

Finally, but most important, we really must stick by whatever figure we agree and put on the table. All the more reason to pitch it right.

I am copying this letter to the Prime Minister, to other members of Cabinet and to Sir Robert Armstrong.

Yours ever

Christopher

SOAMES

pm sees

B.

PRIME MINISTER

CGBR in December and Prospects for the rest of 1980-81

I am afraid that December's figure for the CGBR brings more bad news. The number which I have learned today and will be published on Monday is £2.3 billion. This follows £2.8 billion in November and is bound to be a shock. One implication is that the money figures for banking January - to be published in February and the last working figures before the Budget - are unlikely to show a reduction in the underlying rate of monetary growth.

We are pressing the revenue departments to get all the money they can to the Consolidated Fund, and the Bank to maximise gilt sales; we have till 21 January before the banking month ends (though Monday's figure will not make the Bank's task easier). There will also be some help from the raising of the ceiling on holdings of the 19th issue of national savings certificates on 14 January.

The enclosed note sets out the main reasons why the December CGBR has turned out so much worse than expected. It also gives a new appraisal of the PSBR as a whole for the year to end March - over £13 billion - in the light of it.

I went into this with officials on Friday afternoon and evening, probing the reliability of the latest assessment.

On the revenue side, the experts in both revenue departments hold to their present forecasts for the financial year, despite the shortfalls in December.

On departmental expenditure, the latest figures confirm the problems which we already know about defence and the costs of employment/unemployment. There do not appear to be any new problems.

/Finally,

Finally, I am, of course, stepping up the effort that is already being made to rectify the deficiencies revealed by these forecasts.

GH

9 January 1981

THE PROFILE OF THE CENTRAL GOVERNMENT BORROWING REQUIREMENT (CGBR) TO END MARCH AND THE PUBLIC SECTOR BORROWING REQUIREMENT (PSBR) FOR 1980-81: NOTE OF JANUARY 1981

A. Outturn of the CGBR in December

The provisional outturn of the CGBR in December, at £2,311 million, is seriously above the forecast of £1,450 million made at the beginning of the month. The outturn will be published on 12 January. Table 1 compares the outturn in December with the forecast made in Table 3 of last month's note.

2. A shortfall in receipts by Inland Revenue and Customs and Excise accounted for £500 million of this difference. About £400 million of the shortfall of £497 million shown next in the table had no implication for the CGBR: various receipts had not been transferred by the end of the month to the Consolidated Fund from other funds and accounts masking a shortfall in that line, which is explained below.

3. On expenditure, Supply Issues were just over £100 million above forecast. Issues for the Ministry of Defence did not fall £50 million as assumed; and the surge in expenditure under the temporary short term working compensation scheme meant that issues to finance it were some £50 million more than had been assumed. This is part of the extra finance that it is now known will be needed for the rest of the year. Local authorities continued to borrow heavily from central government in December (an indication of their total borrowing will be available shortly). In the last section of the table - other funds and accounts - a shortfall of about £100 million is masked, as described in the previous paragraph, by receipts not yet transferred to the Consolidated Fund. Two factors account for much of this. Interest liabilities of national savings rose more than had been allowed for and interest receipts from the Exchange Equalisation Account were below the path interpolated from the forecast for the year.

4. The first instalment of the refunds from the EC under the 30 May agreement, amounting to £98 million, was received as expected. The money was drawn from the EC balance at the Paymaster General's office.

5. The outturn of the CGBR in the December banking month (20 November to 10 December) at £1,890 million (£610 million after seasonal adjustment), had been £120 million below forecast. Almost all of this gain had been due to high Inland Revenue receipts in the early days of December. Thus, all the deterioration in calendar December, compared with the forecast, came after 10 December.

B. Rolling forecast for CGBR in banking - January

6. Banking January runs from 11 December to 21 January. For the period up to 31 December the CGBR was £1,770 million and the current figure for the banking month as a whole is a net repayment of £160 million, in both cases before seasonal adjustment. Banking January contains the annual peaks of receipts of mainstream corporation tax and Schedule D income tax and the quarterly peak of VAT receipts. After seasonal adjustment, therefore, the small surplus becomes a large borrowing requirement of £1,850 million.

C. Rolling forecast for CGBR in January - March and the whole year

7. With two successive months when the outturn of the CGBR has been significantly over the forecast, the latest estimate for the year as a whole, at £12,850 million, is over £2 billion higher than the CGBR forecast implicit in the Industry Act forecast of the PSBR published on 24 November. Most, though not at all of this raises the PSBR now expected.

8. Since November, Inland Revenue and Customs and Excise have each reduced their forecast of receipts for the year by £0.4 billion. In the case of Inland Revenue the subsequent shortfall in December absorbed much of this. Customs have, in effect, taken account of

monthly shortfalls between forecast and actual so far but assumed their previous forecast will be valid in coming months. The question is how far the recent shortfalls reflect a misjudgement of the trend or (especially in the case of Inland Revenue) of the timing effects of the long Christmas break.

9. On the expenditure side, the forecast of Supply Issues has increased by £0.4 billion. This allows for defence expenditure to be about £500 million above the revised cash limit and reflects extra provision for special employment measures. The unemployment situation has also led to a reappraisal of the speed of run down of the Redundancy Fund. The mis-forecast in respect of national savings interest in December is (pending further enquiry) assumed to have affected also previous forecasts for the remaining months of the year.

10. Extra net lending from the National Loans Fund of £0.5 billion is now expected to both local authorities and public corporations, but in both cases this is expected to be a switch in the sources of their finance and not an increase in their total borrowing or the PSBR.

11. Some of these excesses were allowed for in last month's note. The latest forecasts for January to March are as follows:

	£ million
January	- 850 (net repayment)
February	1,050
March	- 400 (net repayment)

12. Table 2 sets out the CGBR outturn since April 1979 together with the new forecasts to the end of the financial year. The cumulative excess over last year of the CGBR rose to £2.9 billion by the end of ~~the year.~~ December and is now forecast to reach £4.6 billion by the end of March.

13. The net repayment in January is smaller than previously

forecast, as a direct consequence of the latest view of the outturn for the whole year. In particular, the important changes are a reduction in Inland Revenue receipts, an increase in Supply Issues and an increase in net lending. The January surplus is below that of a year ago; receipts are forecast to be a little higher than last January whereas expenditure is considerably higher, partly because of the large payments due under Rate Support Grant Increase Orders. The latter should have an effect on what local authorities borrow. The second instalment of the EC refunds under the 30 May agreement is expected in the month and it is assumed that this will necessitate a transfer of £100 million across the exchanges from the EC.

14. The figure for February shows a slightly smaller borrowing requirement than was previously thought likely. This is due to a reduction in the forecast of net lending.

15. The forecast for March is a repayment of £400 million. This is larger than last March's repayment primarily because of the growth in petroleum revenue tax. PRT receipts of nearly £1,500 million are expected this year compared with £700 million in March last year. As last year, receipts by BNOC of advance payments for oil will bring in around £600 million which would otherwise have been received in 1981-82. Further receipts from the EC under the 30 May agreement are expected in March bringing total receipts for the year of £680 million. Of this £120 million has been assumed to be funded by a reduction in the balance on the EC account with the Paymaster General's office.

D. Forecast of the PSBR for 1980-81

16. Most of the upward revisions to the CGBR carry through to the PSBR. The forecast outturn for 1980-81 is now put at around £13¼ billion. This is some £1¾ billion higher than published in the Industry Act forecast on 24 November. Since then there has been no change in the view of total borrowing by local authorities or by public corporations although (as noted in para 10) both are now

expected to borrow more from central government than previously thought likely.

17. The new forecast outturn of £13¼ billion is above the Winter economic forecast of £12¾ billion. The larger figure reflects the consequences of the higher than expected CGBR in December. The major components of the PSBR are now forecast as follows:

	Industry Act[1]	Latest Forecast	£ billion
CGBR	10½	12¼	
CG borrowing for own account	6	7¾	
Local authorities' borrowing requirement	2¼	2¼	
Public corporations' borrowing requirement	3¼	3¼	
PSBR	11½	13¼	

1) Only the total for the PSBR was published.

18. Even at this stage of the year, there is a substantial margin of error around these estimates. Further updating of the forecast outturn for 1980-81 will take place before the Budget estimates are published.

CONFIDENTIAL

TABLE 1

CENTRAL GOVERNMENT BORROWING REQUIREMENT - DECEMBER

£ million

	Forecast	Outturn	Effect on CGBR
RECEIPTS			
Consolidated Fund			
Inland Revenue	2,350	2,047	-303
Customs and Excise	1,700	1,498	-202
Other	1,350	853	-497
National Loans Fund			
Interest etc receipts	350	349	- 1
Total receipts	5,750	4,747	-1,003
EXPENDITURE			
Consolidated Fund			
Supply services and Contingencies Fund	5,600	5,716	-116
Other	300	235	+ 65
National Loans Fund			
Service of the national debt	500	439	+ 61
Net lending	100	248	-148
Total expenditure	6,500	6,638	-138
Other funds and accounts	-700	-420	+280
(of which: changes in the European Community's balance at PGO)	(-76)	(-91)	
CGBR	-1,450	-2,311	-861

CONFIDENTIAL

TABLE 2

CENTRAL GOVERNMENT BORROWING REQUIREMENT

£ billion

			Cumulative		
	1979-80	1980-81	1979-80	1980-81	Difference
April	1.3	0.9	1.3	0.9	-0.4
May	1.5	2.4	2.8	3.3	+0.5
June	1.0	1.3	3.8	4.6	+0.8
July	-	0.8	3.8	5.4	+1.6
August	1.1	1.6	4.9	7.0	+2.1
September	1.7	0.8	6.6	7.8	+1.2
October	0.1	0.1	6.8	8.0	+1.2
November	1.8	2.8	8.6	10.7	+2.2
December	1.6	2.3	10.2	13.1	+2.9
January	-2.5	(-0.9)	7.7	(12.2)	(+4.4)
February	0.3	(1.1)	8.1	(13.2)	(+5.1)
March	0.2	(-0.4)	8.2	(12.8)	(+4.6)

Note: Some rows may not across add because of rounding. Each column is correctly rounded.

TABLE 3

CENTRAL GOVERNMENT BORROWING REQUIREMENT

£ million

	(1) April - December	(2) January Forecast	(3) February Forecast	(4) March Forecast	(5) Whole Year	(6) Budget Forecast for whole Year.
Receipts						
Consolidated Fund						
Inland Revenue	21,480	5,050	2,850	3,750	33,150	32,860
Customs and Excise	16,181	2,550	1,750	1,800	22,300	24,000
Other	6,003	1,250	1,000	1,950	10,200	8,555
National Loans Fund						
Interest etc receipts	3,552	200	300	900	4,950	5,050
Total receipts	47,216	9,050	5,950	8,400	70,600	70,465
Expenditure						
Consolidated Fund						
Supply services	48,458	6,250	5,950	6,650	67,300	64,765
Other	2,258	350	300	300	3,200	3,460
National Loans Fund						
Service of the national debt	6,858	1,450	650	1,050	10,000	10,000
Net lending	3,111	150	250	50	3,550	2,905
Total expenditure	60,685	8,200	7,150	8,000	84,050	81,130
Other funds and accounts (of which: changes in the European Community's balance at PGO)	+410 (-100)	- (+11)	+150 (+121)	- (-149)	+600 (-117)	+1,352
CGBR	-13,059	+850	-1,050	+400	-12,850	-9,313

Note: some rows and columns may not add due to rounding

Econ Pol
Public Exp

Prime Minister

2.

Mr Heseltine hopes to improve the planning of PSA capital expenditure, so that long term economies are not sacrificed to single year cash limits.

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

8 January 1981

MAP 9/1

Dear Leon

PSA MAJOR NEW WORKS PROGRAMME

I wrote to John Biffen on 17 November about the make-up of PSA's major new works programme in 1981/82. He replied on 18 December and there have also been replies from a number of our Cabinet colleagues. Most of these raised both Departmental points about their accommodation needs to which I am replying separately, and also some general issues about the scope and scale of the PSA programme and arrangements for deciding priorities within it. I thought it would be convenient if I wrote to you about the more general issues, copying my letter to colleagues.

The main questions are, firstly, whether there needs to be some better system for deciding the size of the PSA new works programme and priorities within it - ie the amount that the Government is prepared to allocate for these purposes in its expenditure plans; and, secondly, whether all or some of these projects would better be shown on the individual Departmental programmes rather than as part of PSA's programme. Sir Robert Cox has recently written to Sir Anthony Rawlinson about the second of these questions and has also sought the views of some other Permanent Secretaries. I think we can best resume consideration of this aspect when the response of Departments to that approach is known. The question of the scale of expenditure and priorities is one to which we will obviously have to return in the next PES round.

Rayner Pt 7 — with MAP

Sir Derek Rayner touched on some of these issues in his letter of 19 December to Francis Pym. He made the point that the proposals that he is considering on repayment for PSA services do not involve transferring major new works projects to Departments' PES and he urged that a decision should be taken on repayment before changes in the PES responsibility for major works are considered. In fact I believe that the two issues can be considered separately and that a change in the PES arrangements would be feasible whether or not repayment was introduced - and that the PES change could be made much sooner and more simply than the change to repayment. I do not wish to prejudge these issues but I think that colleagues should know that a change in the PES arrangements for major new works is not dependent on a change to repayment.

I agree very much, incidentally, with what Derek Rayner has to say about the need to spend money before you can save it. PSA will shortly have new evidence to put to the Treasury on the scope for highly cost-effective schemes of this kind.

I am copying this letter to the Prime Minister, Cabinet colleagues, Sir Robert Armstrong and Sir Derek Rayner.

Yours ever

MH

MICHAEL HESELTINE

Rt Hon Leon Brittan QC MP

2F.

3 PPs.

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB

My ref: H/PSO/19883/80

Your ref:

✓ MAP

8 January 1981

Dear John

Francis Pym wrote to me on 16 December about the proposed PSA major works programme for 1981/82. You will also, I am sure, have seen a copy of John Biffen's letter of 18 December to me in which he made it quite clear that there can be no increase in PSA's budget for 1981/82. That is the context in which we have to consider each individual scheme.

PSA are now reviewing the detailed programme of new starts for the coming year in the light of the latest assessments of work in progress and estimated expenditure. As a result of this review it seems probable that we will be able to undertake the Whitehall COMCEN and Ensleigh schemes in 1981/82 and I will confirm this as soon as possible. The cost of the computer design facility at Foxhill has been reduced and it may now be possible to accommodate that in the minor works programme. I am glad to know the start of work on the Old War Office scheme can be deferred for one year and this does not jeopardise our plan to surrender the Metropole building.

The PSA programme is always subject to revision as progress on other schemes and future commitments become clearer. There is some advantage in the flexibility that a broadly based programme allows. Several colleagues, however, in response to my letter of 17 November have raised questions about the scope of the PSA programme and I will be writing to Leon Brittan about this shortly. I will, of course, send you a copy and there are issues we may want to discuss before the next PES round.

Pt 12

I am copying this letter to Cabinet colleagues, Sir Robert Armstrong and Sir Derek Rayner.

Yours ever

Michael

MICHAEL HESELTINE

Rt Hon John Nott MP

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB

My ref: H/PSO/19913/80
Your ref:

8 January 1981

MAP

Dear Keith

not copied will request if required

Thank you for your letter of 19 December 1980.

You expressed concern that the cost of works to the buildings which will replace Abell House had not been included in Annex A to my letter of 17 November. The 2 buildings your Department are considering, Ebury Bridge House and 29 Bressenden Place, are currently used as government offices and there should therefore be no need to carry out major works before your Department moves into them. It is not yet known what minor work may be required: it must, obviously, be kept to an essential minimum.

You also raised the more general issue of the relationship between the size of the office estate and civil service numbers. This, as you suggest, is not straightforward. Not all civil servants are accommodated on the office estate - many are in specialised buildings or on the Defence estate; very few industrial staff are in offices. Also there is inevitably a time-lag between staff reductions and the sale or surrender of surplus space. Nevertheless PSA has already made savings and expects to achieve more in the future. Command paper 7841 forecasts a reduction from 7.123 million square metres in 1979 to 6.750 million in 1983.

I am copying this letter to those who had yours.

Yours ever

Michael

MICHAEL HESELTINE

Rt Hon Sir Keith Joseph MP

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB

My ref: H/PSO/19849/80

Your ref:

8 January 1981

Dear John

In his letter of 19 December 1980 John Nott expressed concern about the effect of the cuts in PSA programme on your Department's requirements.

You will recall that in your letter of 18 December as Chief Secretary you made it clear that there is no more money for PSA in 1981/82. If I accept more schemes for the programme now, I shall have to defer some other more vital schemes, which I cannot do. As regards the proposed relocation of your Export Services Division, I suggest that the first step is for your people and mine to follow up Sir Robert Cox's proposal of detailed discussions to see how the changes you want to make could be achieved with the minimum of works expenditure. If this can be done and the proposals could be phased so as to produce some early savings, it might just be possible to cover the costs within the year. As regards the AIB scheme at Farnborough, I will certainly bear it in mind when the programme for 1982/83 is being considered; but as it would involve works expenditure of some £800,000 it is not a minor scheme and has to compete for priority with the operational needs of other Departments.

John Nott also underlined the need for initial expenditure to achieve increased efficiency. I agree that it is often necessary to spend now to save later. As you well know, my problem is that the scale of cuts in the PSA programme, which were a necessary part of the last round of public expenditure cuts, leave little scope for expenditure of that sort, whether it is to save our clients' funds or our own. Looking to the longer term, PSA have recently produced a report, which they hope shortly to discuss with the Treasury, proposing that specific provision should be made to PES for cost-effective schemes of this kind - of which there are plenty of examples to be had.

On the wider question of the PSA programme and priorities within it, several colleagues have written to me following my letter of 17 November. I am writing to Leon Brittan about this subject and will be copying my letter to you and other Cabinet colleagues.

I am copying this letter to those whom John Nott copied his letter.

yours ever

Michael

MICHAEL HESELTINE

Rt Hon John Biffen MP

2

From: Richard M. Brew
Member of the Greater London Council for Chingford
Deputy Leader of the Council
Lea[der] Policy & Resources Committee

MEMBERS' LOBBY
THE COUNTY HALL
LONDON SE1 7PB

Pub Expend

6 January 1981

Prime Minister

To see this circular to conservative MP's about block grant impact on GLC

MT

MAP 8/1

Please excuse the formality of this note but it is the only way in which I can act in the time available.

I enclose a note to all Conservative London MP's expressing our concern at the arrangements being proposed for rate support grant in 81/82.

Richard Brew

From: **Richard M. Brew**
Member of the Greater London Council for Chingford
Deputy Leader of the Council
Leader, Policy & Resources Committee

MEMBERS' LOBBY
THE COUNTY HALL
LONDON SE1 7PB

6 January 1981

NOTE TO CONSERVATIVE LONDON MPs ON RATE SUPPORT GRANT 1981/82

This note is written on behalf of the Council and asks for your support for London's case in the debate on the rate support grant report. In our view this report is inequitable for London and is excessively harsh on Londoners as a whole. In particular it will be deeply resented by authorities which have supported in practice the Government's public expenditure policies.

The Council does not believe that any Government would ask for the support of the House if it were putting forward such harsh treatment over such a short period of time for any other part of the UK than London. It is for that reason that I am sending this note to all Conservative London Members of Parliament.

The GLC recognises that Block Grant is now enshrined in legislation and that the process cannot be fundamentally changed in the short-term, but we ask that Parliament should not approve the Report unless one change in particular is made.

The arguments are well known that the amount residents in London pay in rates is equivalently 40% higher than in the rest of the country. However if there is to be a shift of grant away from London this should only be at an amount in a single year that can be financed by London local authorities without a major disruption in their finances with the consequent unacceptable rate increase. It is our firm view that at a moment of change in Government grant for whatever reason that to set a safety net on such a change at 13 pence is far too high. This figure should be at the traditional level which has been set for a number of years at 2-3 pence. There is also an additive aspect of safety nets as now understood whereby with Government estimates of the GLC and Metropolitan Police gaining grant totalling 3.1 pence that this figure be added to the 13 pence so that for other authorities in London the safety net becomes in fact 16.1 pence. This factor only occurs in London but adds to the adverse affects of the distribution in general and the inadequacy of the safety net procedure in particular.

The threshold margins in London should also be at the same percentage for all areas. Recognising that expenditure assessments are imprecise the Government has set a threshold figure above these assessments at 10% before a higher rate of grant penalty arises. In London as a whole this threshold represents only an 8% margin and for some London authorities it will be as low as 4%. This

Rt Hon. Mrs Margaret Thatcher, MP
House of Commons
LONDON SW1A OAA

is because London needs, even at the Government's own expenditure assessments, an above average spending level, so in addition to inadequate basic expenditure assessments the higher rate of grant penalty will operate much earlier for London's local authorities.

I am particularly worried that if these proposals are accepted by Parliament much of the regeneration work in London will be undermined so that industry and commerce will find it progressively too expensive to operate from the capital city. In addition the owner-occupier of residential premises will find it far cheaper to live outside London so the tendency towards polarisation of London's population will continue.

RICHARD BREW

FILE

R H

CONFIDENTIAL

Pub Exp.

cc:-HO MOD NIO CO
LC LPO CDL
FCO DEmp DT
LPS MAFF DE
HMT DOE DES
DOI SO C.Sec, HMT
WO Pay.M.Gen
D.Trans

10 DOWNING STREET

From the Private Secretary

30 December, 1980

BF for E
checkdate? 14.1.81

NHS Cash Limit

When Cabinet discussed the Pay and Price Factors for 1981-82 Cash Limits on 6 November, they decided to postpone decisions about the pay element in cash limits to be applied to the NHS and the Civil Service until these were operationally necessary. One consideration in the minds of Ministers was that the outcome of the then awaited negotiations on the pay of local authority manual workers could have a direct bearing on the negotiations on the pay of NHS ancillary workers - who are, of course, the first major NHS/Civil Service group whose pay needs to be settled in 1981.

Although it is still subject to ratification, the local authority manuals' pay settlement has now been agreed. This seems to open the way for decisions on the other outstanding cash limit issues and in particular on that for the NHS. I have spoken to the Prime Minister about this, and she considers that it would now be appropriate for your Secretary of State - after consultation as necessary with the Chancellor of the Exchequer and the Lord President of the Council - to circulate a paper to his colleagues seeking a decision on the pay cash limit for the NHS. Although the RSG settlement was agreed in Cabinet the Prime Minister considers that there is no need for Cabinet as a whole to agree the NHS pay cash limit. Its discussions on 6 November laid down the broad lines of policy on cash limits and it should not be necessary for individual cash limit decisions to be taken by Cabinet at this stage. The Prime Minister therefore thinks that, although your Secretary of State is not a member of the Economic Strategy Committee, this would be the right forum for a discussion on the NHS Cash Limit. I should therefore be grateful if you could arrange for him to circulate a paper to the Economic Strategy Committee so that this subject can be discussed in the second week of January.

/I am

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I am sending copies of this letter to the Private Secretaries to all members of the Cabinet and to Sir Robert Armstrong.

T. P. LANKESTER

D Brereton, Esq
Department of Health and Social Security

CONFIDENTIAL

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Prime Minister

Agree that I should write as suggested?

Yes - unless it's not

TL 23/12

Ref: A03884

MR LANKESTER

NHS CASH LIMIT

When Cabinet discussed the Pay and Price Factors for 1981-82 Cash Limits on 6 November, they decided to postpone decisions about the pay element in cash limits to be applied to the NHS, and the Civil Service until these were operationally necessary. In taking this decision they were influenced, particularly, by the desirability of being able to take into account the results of the negotiations on the pay of local authority manual workers in settling the NHS cash limit.

2. Although it is still subject to ratification, the unexpectedly quick settlement of the local authority manuals' pay claim now opens the way for decisions on the other outstanding cash limit issues, and in particular the settlement for the NHS ancillaries. Cabinet Office officials have discussed this with the Department of Health and Social Security and have concluded that the best way to do this is for the Secretary of State for Social Services now to circulate a paper to his colleagues seeking a decision on the pay cash limit for the NHS. He could do this to Cabinet or to E. Cabinet took the decision on the RSG Cash Limit in November and this could be cited as a reason for Mr Jenkin seeking the Cabinet's approval of the NHS Cash Limit. However, at that November discussion, the Cabinet laid down the broad lines of policy on cash limits and, particularly following the local authority manuals settlement, it should be possible for the Economic Strategy Committee to agree on the approach which Mr Jenkin should take on the NHS. Mr Jenkin is not, of course, a member of the Economic Strategy Committee. But there should be no objection to him putting a paper to it, as an invitee, on the basis that E is the correct forum for the subject.

3. If the Prime Minister is content for this question to be tackled in the Economic Strategy Committee, you might write to Mr Jenkin's Private Secretary, copied to the Private Secretaries of the other members of the Cabinet, suggesting that Mr Jenkin should circulate a paper to E. I attach a draft.

D J Wright

D J WRIGHT

I understand the 7½% for manuals cannot be met within the 6% cash limit.

23 December 1980

CONFIDENTIAL

Draft Letter from

Mr Lankester, No 10

To Mr D Brereton
Private Secretary to the Secretary of State for
Health and Social Security

NHS CASH LIMIT

When Cabinet discussed the Pay and Price Factors for 1981-82 Cash Limits on 6 November, they decided to postpone decisions about the pay element in cash limits to be applied to the NHS and the Civil Service until these were operationally necessary. One consideration in the minds of Ministers was that the outcome of the then awaited negotiations on the pay of local authority manual workers could have a direct bearing on the negotiations on the pay of NHS ancillary workers - who are, of course, the first major NHS/Civil Service group whose pay needs to be settled in 1981.

Although it is still subject to ratification, the local authority manuals' pay settlement has now been agreed. This seems to open the way for decisions on the other outstanding cash limit issues and in particular on that for the NHS. I have spoken to the Prime Minister about this, and she considers that it would now be appropriate for your Secretary of State - after consultation as necessary with the Chancellor of the Exchequer and the Lord President of the Council - to circulate a paper to his colleagues seeking a decision on the pay cash limit for the NHS. Although the RSG settlement was agreed in Cabinet the Prime Minister considers that there is no need for Cabinet as a whole to agree the NHS pay cash limit. Its discussions on 6 November laid down the broad lines of policy on cash limits and it should not be necessary for individual cash limit decisions to be taken by Cabinet at this stage. The Prime Minister therefore thinks that, although your Secretary of State is not a member of the Economic Strategy Committee, this would be the right forum for a discussion on the NHS Cash Limit. I should therefore be grateful if you could arrange for him to circulate a paper to the Economic Strategy Committee so that this subject can be discussed in the second week of January.

I am copying this letter to the Private Secretaries to all members of the Cabinet and to Sir Robert Armstrong.

23 December 1980

MFJ

cc Cabinet
CO

10 DOWNING STREET

From the Private Secretary

22 December 1980

Public Expenditure White Paper: Local Authorities

The Prime Minister has read the Chief Secretary's minute of 18 December, and agrees that the present style of presenting local authority expenditure should be continued in the next public expenditure White Paper.

I am copying this letter to the Private Secretaries to other members of Cabinet and to Sir Robert Armstrong.

T. P. LANKESTER

T.F. Mathews Esq
Chief Secretary's Office
HM Treasury

220

Econ Pol
Pub Ex
Pt 13.

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

MINISTER OF TRANSPORT

CONFIDENTIAL

The Rt Hon Michael Heseltine MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON
SW1

23/12

20 December 1980

Dear Michael.

R
22/12

PUBLIC EXPENDITURE: IMPLICATIONS FOR PSA

Thank you for sending me a copy of your letter of 17 November to John Biffen about the effect of the reductions you have agreed in the PSA programme.

I am, of course, glad to see that you place the work at the Driver and Vehicle Licensing Centre, Swansea among the schemes that must go ahead. This is an essential requirement for the replacement of the main frame computers.

But I see that, once again, the provision for additional driving test centres has been cut from the PSA programme. Reducing the waiting list for driving tests which is unacceptably long particularly in London, is a high priority, and I have provided for extra recruitment of examiners within the manpower limits for my Department. We face a situation in which the examiners will be in post but there will be no accommodation for

CONFIDENTIAL

them. For the current year I transferred £1m from my PESC programme to the PSA to enable a start to be made on this work. Progress has been such that I understand that only about half will actually be spent this year on these centres. You offer to look again at the priorities suggested; I am bound to ask you to look at this matter again in view of the absurd situation that would result from stopping this programme. My officials will, of course, be glad to discuss the case with yours and to explore, with the Treasury, whether a further transfer of funds in 1981-82 would be possible.

I must say that I share the concern that Patrick Jenkin expressed in his letter of 4 December about the way that decisions have been reached on programmes such as this which provide common services affecting the operational needs and the efficiency of Departments. Similar problems have arisen during this year's public expenditure round on the Central Office of Information programme. I think that it would be worth considering, before next year's PESC discussions, whether the arrangements for determining such programmes can involve the Departments principally affected.

Copies of this letter go to those who received yours.

Yours ev.

Norman

NORMAN FOWLER

DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

From the Secretary of State

The Rt Hon Michael Heseltine MP
Secretary of State for the Environment
2 Marsham Street
London
SW1P 3EB

P
12/12

19 December 1980

Dear Michael

PUBLIC EXPENDITURE: IMPLICATIONS FOR PSA

With your letter of 17 November to the Chief Secretary about Property Services Agency savings, you enclosed a schedule for new starts in 1981/82 divided between those which are unavoidable (Category A) and those which you propose to defer (Category B).

There are two projects in Category B which are of concern to me. In terms of the overall efficiency of my Department the projected concentration of the Accidents Investigation Branch at Farnborough makes a good deal of sense and would release accommodation in central London. Nevertheless, in the circumstances you describe I am prepared to accept that this project should be left out of the 1981/82 starts. However, you are aware of the importance which I attach to this move, as part of my contribution to the savings, and I note what you say about the prospects for future years. I urge most strongly that the AIB move should be included in the programme for 1982/83.

My second and more immediate concern is with the proposals, in your letter of 17 November, and your subsequent letter of 3 December to John Biffen and Sir Robert Cox's letter of 17 November to Sir Kenneth Clucas, about the rationalisation of my Department's export work to implement the recommendations of our Rayner scrutiny. The plan to transfer the Export Services and Promotions Division from the City to Victoria Street involves giving up accommodation in the City and taking on a limited amount of further accommodation in the Victoria Street area. The Property Services Agency had suggested 7 St Martins Place which would have met our requirements, but this building is not now available. They have not been able to offer an alternative, but have suggested instead that we should accomplish our rationalisation plan within our existing accommodation. You in turn have proposed in your letters that this rationalisation project should go ahead only if it can be accomplished without major works expenditure, failing which it should be deferred.

These proposals place seriously at jeopardy my plans for the future organisation of our export work. They could lead to the total abandonment of Sir Derek Rayner's recommendations or alternatively result in an emasculated scheme perpetuating the present geographical and organisational division of staff, and greatly extending the timescale over which the new arrangements could be introduced.

Apart from the practicality of the proposals in Sir Robert Cox's letter, your letters and his raise two important points of principle. First, I thought it had been accepted that improvements in efficiency, savings in staff and the implementation of Sir Derek Rayner's recommendations are not going to be achieved without some expenditure. Indeed this is acknowledged in the recent correspondence from the PSA. Some of this expenditure, as in my case, is quite modest, but if we are to achieve our objectives such expenditure must be accepted. Secondly, I recognise your desire to produce savings in the PSA but the effect of the proposals in your letters of 17 November and 3 December is to achieve part of those savings in other departments for whom the PSA provides a service. I find this situation, which can lead to the frustration of essential improvements in an area so vital to the economy as export development and promotion, incompatible with the priorities we have set ourselves.

I think the issues which your recent correspondence has raised are important enough to warrant discussion in an appropriate group.

I am sending copies of this letter to the Prime Minister, Christopher Soames, Patrick Jenkin, John Biffen and Sir Robert Armstrong and Sir Derek Rayner.

Yours ever

John

JOHN NOTT

Treasury Chambers, Parliament Street, SW1P 3AG

R

Rt Hon Michael Heseltine MP
Secretary of State
Department of the Environment
2 Marsham Street
London SW1P 3EB

18 December 1980

R 19/12

Dear Michael,

PUBLIC EXPENDITURE: IMPLICATIONS FOR PSA

You wrote to me on 17 November outlining your proposals on how you propose to allocate the additional savings on PSA which Cabinet has now agreed. I have delayed a response because I wanted to clarify the picture on the effect on Treasury departmental interests.

So far as those interests are concerned I am pleased that you have been able to assure a place for the computerisation of PAYE within the revised list of major new works that can proceed in 1981-82 (Category A in the attachment to your letter). I can also confirm that I am content with the other projects which relate to Inland Revenue and Customs and Excise. I note however that one of the proposals in Category A is to house Customs and Excise staff in Empress State Building. I understand that the Department no longer feels that this is suitable for its operational requirements, and this is a matter which your officials will doubtless be pursuing with theirs.

On the provision for the Treasury/CSO computer, which you had allocated to Category B (projects to be deferred), you will now have seen Geoffrey Howe's letter offering a transfer of expenditure from the Cabinet Office programme which will go most, if not all of the way to meeting the cost of the project in 1981-82. This should enable the project to go ahead to the timetable originally envisaged, if the PSA programme can accommodate the modest residual cost.

On the more general aspects I trust that colleagues will similarly endorse the proposals you have circulated. You have a difficult task in assessing the relative priorities and I am sure that colleagues will appreciate the efforts you have made on their behalf. I must stress to them that, if Cabinet's decisions on public expenditure are to stick, those colleagues affected must either accept deferral of their schemes or make transfers from their own programmes so that their schemes can be brought forward. We must keep to the decisions on total public expenditure which we have arrived at with such difficulty.

I think therefore that, for 1981-82, your proposals (with any modifications that may be agreed very quickly) must be taken as the basis for the Estimates provision. We already face a tight timetable on the submission and approval of Estimates, and I do not think we can accept any longer delays.

I note that you have not sought to allocate the savings for later years of the PES period. I agree that we can defer consideration of the detailed PSA programme until the 1981 Survey. But we must keep to the public expenditure decisions that Cabinet have now taken. And therefore the tables in the Public Expenditure White Paper must show the full savings for the later years that Cabinet has approved.

I am sending copies of this letter to other Members of the Cabinet, Norman Fowler and Sir Robert Armstrong.

John Biffen

JOHN BIFFEN

Prime Minister

Content?

Yes MT

PRIME MINISTER

18/12

PUBLIC EXPENDITURE WHITE PAPER: LOCAL AUTHORITIES

At Cabinet on 27 November (5th item, 42nd meeting) I undertook to consider, with the Ministers who have local authority responsibilities, whether the next public expenditure White Paper should continue the practice of showing a service analysis of local authority expenditure (at least for the first future year). The alternative would be to give only aggregates of local authority current and capital expenditure.

I have consulted those of our colleagues mainly concerned, and the consensus is that the present style of presentation of this feature of the White Paper should continue, although we shall need to reconsider the drafting of the relevant general passages rather carefully. I therefore see no reason for us to have a further discussion on this point, until we have a White Paper text available. I am asking my officials to prepare this part of the White Paper quickly, consulting others in Whitehall about the exact terms of the presentation, so that we may decide then whether we need to discuss the matter further.

I am sending copies of this minute to the other members of the Cabinet and to Sir Robert Armstrong.

WJB

JOHN BIFFEN
18 December 1980

1 TPC
2 MAP
to see
MJ

DEPARTMENT OF HEALTH & SOCIAL SECURITY
Alexander Fleming House, Elephant & Castle, London SE1 6BY
Telephone 01-407 5522
From the Secretary of State for Social Services

The Rt Hon John Biffen MP
Chief Secretary to the Treasury
Parliament Street
London SW1

CONFIDENTIAL

17 December 1980

Dear Mr Biffen,

PUBLIC EXPENDITURE WHITE PAPER - LOCAL AUTHORITIES

Thank you for sending me a copy of your letter of 8 December to Michael Heseltine.

2. I recognise the difficulties for some colleagues of omitting from the White Paper national projections of expenditure on individual programmes. But particularly where levels of provision vary substantially between authorities, such projections are in practice I believe of very doubtful value. Patterns of spending and opportunities for economy vary widely from the national average and as you say the eventual service total may well turn out to be very different from the figures we have shown. Politically, we attract criticism for cuts that may not take place and - as happened with personal social services last year - cause ourselves embarrassment to no purpose.

3. In my view it would be more realistic to have a single local authority programme for future years. Individual programme chapters could show past expenditure trends and indicate key priorities, supported by projections and forecasts where they were well founded.

4. Having regard however to the views of colleagues, I am ready to accept the proposals in your paper, provided that the presentation of individual programme figures is realistic. In addition to making clear that the figures are tentative and subject to local authority discretion, we need to look again at the way in which they are described as reflecting national priorities. I accept of course that they do take account of and make allowance for certain agreed priorities but we have not attempted to assess in detail the precise balance between programmes and indeed there are substantial areas of local authority expenditure on which we have not formed, and do not need to form, a collective view on priorities.

5. I suggest that officials might consider possible ways in which my concern and those of colleagues could be met in the draft text of the White Paper and that we consider whether Ministerial discussion is necessary when we have a draft.

6. Copies go to recipients of your letter.

Yours sincerely
Don Brereton
(Approved by SofS & signed in his absence)

Econ Pol

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
DIRECT DIALLING 01-218 2111/3

MO 8/2/12

16th December 1980

Dear Michael,

R 17/12

Thank you for sending me a copy of your letter of 17th November to John Biffen setting out your proposals for further reductions in PSA works services and also your letter of 3rd December to Christopher Soames. I have considered the implications for the Ministry of Defence and, while as you know I fully recognise the need for cuts, your proposals give me cause for acute concern.

While I am able to agree, albeit with the greatest reluctance, to the further deferment for one year of the largest of those of our projects which you propose to defer - the relocation of the Defence Data Processing Service in the Old War Office building - I am unable to accept any delay to some of the works planned for the MOD Communications Centre. I understand that the savings which you propose to make under this heading in Annex B to your letter of 17th November include some £165K of works services associated with the replacement of certain critical power supplies in the Whitehall COMCEN. The precise nature of this requirement is known to your officials and it is imperative that this package remains in the programme as planned.

I am also very seriously concerned about the consequences for the Defence programme and budget of the proposed deferment of relatively minor works services at MOD establishments in Bath. At Ensleigh, this would delay the introduction of a computer based stores system to which I attach such priority that I recently exempted expenditure associated with it from the moratorium upon new commitments. The works services associated with this system are unlikely to cost more than £100K; but every month of slippage will result in more than this amount of additional expenditure on the Defence budget in terms of staff savings and improved efficiency foregone

The Rt Hon Michael Heseltine MP

and the running on of other more costly computer installations. Delays at Foxhill will prevent us from installing a computer aided ship design facility which will enable us to achieve further economies in staff and design costs. I understand that here also the works costs are likely to be less than £100K, a sum which could be saved in a year in staff costs alone if the project goes ahead.

It seems to me absurd that measures by the PSA to reduce spending by no more than £200K should result in a substantially greater increase in total Government expenditure and obstruct measures to improve efficiency and reduce staff numbers. I also find it extraordinary, given our existing accounting arrangements, that you should suggest to Christopher Soames in your letter of 3rd December that the discount which we in MOD have obtained on the purchase of our computer for Ensleigh should be used to permit savings to be made on your vote. I must ask you to reconsider whether alternative savings could not be found from within the resources of the PSA to permit at least the Ensleigh project to proceed as well as the essential works in the MOD Communications centre. You should be in no doubt that I regard it as highly desirable that the Foxhill installation should go ahead as planned for there are very real benefits to be had; but in view of your problems I recognise that you may not be able to reinstate it in 1981/82.

Quite apart from the projects to which I have referred above, your proposals clearly have serious implications for the works programme in 1982/83 and beyond. I intend to write to you again shortly on this subject but should like to take this opportunity to endorse Patrick Jenkin's remarks in his letter of 4th December about the need for early consultation with Departments concerned.

On a general point, I am becoming increasingly concerned about the way in which the present system of separating responsibility for identifying the requirement for works services from financial provision is inimical to proper planning - a view which both Jim Prior and Patrick Jenkin would presumably endorse in view of their letters to you of 28th November and 4th December. I am particularly struck by the fact that if any one of the projects I have described had been planned for an establishment within the defence rather than the civil estate, we would have been able to weigh the operational implications of deferment against other defence requirements. I understand that officials have been considering a suggestion from Sir Derek Rayner that, with effect from 1982/83, PSA services in the civil estate should be provided on a repayment basis. I would be disposed to welcome this proposal provided that under any such scheme Departments are responsible for their own decisions about how much should be spent on new works services in any particular year.

I am copying this letter to recipients of yours and to Sir Derek Rayner.

Yours ever

Francis

Francis Pym

Econ Pol
Pul Exp.

✓ MS

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

N J Sanders Esq
Private Secretary
10 Downing Street
LONDON

16 December 1980

Dear Nick,

STATEMENT BY THE MINISTER OF HOME AFFAIRS AND THE ENVIRONMENT, SCOTTISH OFFICE, ON RATE SUPPORT GRANT IN SCOTLAND, WEDNESDAY 17 DECEMBER 1980

I enclose a copy of the Statement to be made on behalf of my Secretary of State (in his absence that day in Scotland for the RSG settlement meeting with the Convention of Scottish Local Authorities) about rate support grant in Scotland for 1981-82 on Wednesday 17 December.

I am sending copies of this letter to the Private Secretaries of members of MISC 21, to Robin Birch, Murdo Maclean, Michael Pownell, Richard Prescott, Bernard Ingham and David Wright.

Yours ever,
John Wilson

JOHN S WILSON
Private Secretary

CONFIDENTIAL UNTIL STATEMENT MADE

ORAL STATEMENT ON 1981-82 RSG SETTLEMENT IN SCOTLAND - 17 DECEMBER 1980

My rt hon Friend the Secretary of State for Scotland is this afternoon informing the Convention of Scottish Local Authorities that the 1981-82 rate support grant for Scottish local authorities will be derived from total relevant expenditure of £2,458.5m (at November 1980 prices). The relevant expenditure figure is 2.7 per cent less than the figure on which grant for 1980-81 was based. That reflects my rt hon Friend's allocation of priorities within the Scottish block of expenditure in the light of the Government's public expenditure decisions announced to the House by my rt hon and learned Friend the Chancellor of the Exchequer on 24 November.

The new grant percentage represents an actual reducation (compared with 1980-81)of 1 per cent: a further 0.8 per cent adjustment replaces an ad hoc abatement made since 1978 in respect of rates on local authority properties and will have no net effect. That results in a grant percentage of 66.7. Aggregate grants for 1981-82, on expenditure at November 1980 prices, will be £1,639.8m of which rate support grant will be £1,503.1m.

There will be a cash limit of £94m on additional grant for 1981-82 towards pay and price increases beyond November 1980. It includes provision for increases of no more than 6 per cent on average in pay settlements in this round and provisionally for the next. It contains provision for price increases of no more than an average of 11 per cent between 1980-81 and 1981-82. Total grant payable in increase Orders may be above or below the cash limit to take account of variations in expenditure due to changes in interest rates, which are not subject to cash limits. My rt hon Friend intends to make additional grants in respect of increased costs of £24.5m for 1979-80 and £203.1m for 1980-81. Grants for 1980-81 may be increased again in a second increase order next year.

The main object of the grant distribution formula will be stability, as recommended by the Convention. Within this general objective, my rt hon Friend will reduce the ratio of resources element to needs element from 1:7 (as in 1980-81) to 1:9 in order to restrict the additional resources element payable to authorities striking comparatively high rate poundages. My rt hon Friend will lay the necessary Order for the approval of the House as soon as possible, together with a report of the considerations underlying his proposals.

PA
MS

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

16 December 1980

Dear Nick

RATE SUPPORT GRANT SETTLEMENT STATEMENT - Today

I enclose a copy of the revised draft of the statement which my Secretary of State is making this afternoon.

I am sending copies of the Private Secretaries to the members of MISC 21, Robin Birch, Richard Prescott, Murdo MacClean and Bernard Ingham.

Yours ever
David

D A EDMONDS
Private Secretary

Nick Sanders Esq
No 10

STATEMENT ON THE RATE SUPPORT GRANT

Local government is responsible for about a quarter of public expenditure and employs more than 2.5 million people.
Its financial decisions are an integral part of the national economy.
The Rate Support Grant Settlement must reflect this.

This Settlement is the first for England under the provisions of the Local Government Planning and Land Act 1980 and I therefore thought it right, exceptionally, to make a statement to the House.
Documents relevant to my statement to the Local Government Consultative Council are being placed in the Vote Office.
I am also laying before the House this afternoon copies of the RSG Reports and Orders, which will be debated in the House in the normal way.
My Rt Hon Friends will make separate statements today about Wales and tomorrow about Scotland.

As part of our policy on public expenditure the volume of local government current expenditure for RSG purposes will be 3.1% below the figure for 1980/81.

The cash limit on grant will provide for increases of 6% in earnings from annual pay settlements in this round after 1 November 1980 and provisionally for the next pay round beginning on 1 August 1980.

It contains an allowance for price increases of an average of 11% between 1980/81 and 1981/82.

The grant percentage for England and Wales will be reduced from 61% to 60%.

At 61% the effective grant for England is 60.1%

The effective grant for England in 1981-82 will be 59.1%

The aggregate Exchequer grant for England will be £10895 million at estimated out-turn prices.

Specific grants are estimated at £1447 million.

Transport Supplementary Grant will be £416.5 million.

A copy of my Rt Hon Friend's statement to the Consultative Council is being placed in the Library.

National Parks Supplementary Grant will be £4.5 million

The remaining amount available for the Rate Support Grant is therefore £9027 million.

There are two new features of the grant distribution this year.

First, the new system is based on a new method of assessing the needs of authorities, which relies on service by service appraisal of those factors which affect local authority expenditure.

The system is fair, rational and open to scrutiny.

The change leads to some significant alterations to the entitlements of some local authorities in the first year.

The second feature is the introduction of block grant which will replace the old system, with its inbuilt bias towards authorities who increase their spending at the expense of more prudent authorities.

These changes are both moderated by safety nets.

Authorities retain exactly the same freedom to reach their own expenditure decisions as at present but block grant ensures that a greater weight of the consequences of high spending is borne locally and not at the expense of other authorities.

For the first time there is a fair and consistent incentive not to overspend.

In particular, the recent drift of grant to London at the expense of the provinces is reversed.

The House will remember that pending the introduction of the new system next year, I took transitional powers, for this year only, to limit central government support to high spending authorities.

Of the original 23 authorities liable to penalty 14 have qualified under the waivers which I set out in my statement of 18 September.

There remain only 9 authorities liable to abatement of their grant.

They have only a limited time therefore to make the necessary reductions in their expenditure if they are to qualify for exemption and thus avoid imposing this unnecessary extra burden on their ratepayers.

I have repeatedly stressed the essential part local authority manpower levels have to play in meeting our public expenditure targets.

The Joint Manpower Watch figures for the year ending September are published today, and announced to the House in a Written Answer to my Hon Friend the member for Reading North.

These figures show a seasonally adjusted reduction over the last quarter of 15,446, making a total for the year of 36,500 on a full time basis.

Local government manpower is now back to its lowest level since the Manpower Watch began in 1975.

But although the annual and quarterly reductions are the highest ever achieved, the fall is still only 2% from the all time record level when we came to power.

4.

I re-affirm today that the volume of current expenditure particularly manpower levels must continue to drop.

I turn now to the question of rates.

The local authority current expenditure volume target is 5.6% below the spending in 1978/79.

If local authorities plan for that target, and budget in line with the cash limit assumptions, increases for ratepayers should be contained within reasonable levels and much lower than this year.

I shall be talking to the associations shortly about action to secure that the expenditure targets are met.

Mr Speaker, the announcement I have made this afternoon represents a significant contribution to the government's public expenditure policies.

It is a major challenge to distribute £9 billion to 413 authorities administering over 20 major national services.

The new system I have announced today achieves this through a system that is fairer, more visible and more comprehensible.

This is particularly important when the lower volume of expenditure and the reduction in grant percentage will in any case present local government next year with a major challenge.

Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SWIA 2ER
Tel. 01-233 3000 (Switsfwrdd)
01-233 6106 (Llinell Union)
Oddi wrth Ysgrifennydd Gwladol Cymru

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SWIA 2ER
Tel. 01-233 3000 (Switchboard)
01-233 6106 (Direct Line)
From The Secretary of State for Wales

PA MS

16 December 1980

Dear Nick

STATEMENT TO THE HOUSE : WELSH RSG AND HOUSING

... Further to my ~~earlier~~ letter ~~today~~ yesterday I now enclose three copies of the final version of the Statement which my Secretary of State will make in the House this afternoon. The changes from the draft which I circulated yesterday are largely accounted for by the need to bring it into line with the Secretary of State for the Environment's Housing and RSG Statements.

/ I am sending a copy to the recipients of my earlier letters, and 5 copies to the Government Chief Whip.

Yours ever

John Craig

J F CRAIG
Private Secretary

N Sanders Esq
Private Secretary
10 Downing Street
LONDON SW1

SECRETARY OF STATE FOR WALES' STATEMENT TO THE HOUSE

RSG AND HOUSING (WALES)

Mr Speaker, with permission I wish to make a statement about the Welsh Rate Support Grant Settlement for next year and about housing finance.

This is the first time that there has been a separate RSG settlement for Wales. At the same time this year's settlement sees the introduction of the new block grant system. My Rt Hon Friend, the Secretary of State for the Environment, and I have therefore thought it right exceptionally to announce to the House our decisions by way of oral statements on this occasion before I meet the Welsh Consultative Council later this afternoon.

The Government's decisions (in accordance with the policies already announced to the House by my Rt Hon and Learned Friend the Chancellor of the Exchequer) have to take account of the essential economic requirements to reduce public spending, of which local government spending forms such a large part.

The most important factor in determining the total amount of Exchequer Grant is the volume of local authority spending we are prepared to accept for grant purposes - which is termed relevant expenditure. Until now there has been no separate determination of the amounts of relevant expenditure and grant for England and Wales and in the preparations leading up to this settlement we have had to establish separate relevant expenditure shares. This has involved a comprehensive review of expenditure programmes with other Government Departments and I am satisfied that the results provide a fair basis for the start of the separate Welsh RSG system. In deciding the amount of Aggregate Exchequer Grant for Wales we have taken into account the average level of grant received by Welsh local authorities as a whole in recent years.

/I announce first

I announce first our decisions about housing rent subsidies and housing capital programmes. For Rate Support Grant purposes I am setting the increase in the local contribution for the purposes of housing subsidy at £2.95. In addition, local authorities have to meet housing costs which fall outside the subsidy system and on average these may require rent income of a further 30p per dwelling. The total resources available within my block for Housing next year will be £158.6 m at survey prices, of which £23 m will be available to the Housing Corporation and £87.4 m will be earmarked for local authorities. I am holding back from distribution £14 m to cover any possible overspend and to enable underspenders to have a further allocation when this year's final figures are known provided this year's cash limit is not breached. The reserve also covers pump priming for improvements for sales schemes. I am announcing today the housing capital allocations for individual local authorities at out-turn prices and the figures have been placed in the Library of the House.

Turning to the RSG settlement, I have decided to accept a total, at 1981/82 outturn prices, of £1,187 million for relevant expenditure. This figure is consistent with the level of expenditure set out in the last Public Expenditure Whkte Paper as modified by the expenditure reductions announced by my Rt Hon and Learned Friend the Chancellor of the Exchequer last month. It therefore provides for a volume of current expenditure which is broadly 3% below the level local authorities were asked to achieve in 1980/81.

The second decision I have to make is the grant percentage. As my Rt Hon Friend said earlier, the grant percentage, taking England and Wales together, is being reduced by 1% from the 61% level last year. In terms of grant for Wales next year this works out at 73.4%: the higher percentage of government grant for Wales reflects the substantially lower rateable values in the Principality.

The Aggregate Exchequer Grant will therefore be £871 million at 1981/82 outturn prices. In calculating the cash limit within this figure allowance has been made for a 6% increase in earnings on due settlement dates from 1 November 1980 and provisionally for the pay round starting in August next year. For non pay items allowance has been made for an increase of 11% between the average levels for 1980/81 and 1981/82.

/Within the

Within the Aggregate Exchequer Grant, specific grants are estimated at £85.14 million, the Transport Supplementary Grant at £40 million and the National Parks Supplementary Grant at £1.36 million. This leaves £744.5 million for the Rate Support Grant itself, including the domestic rate relief grant.

For 1981/82 I have decided that for the first year of the new block grant system, it would be sensible to maintain the domestic rate relief at its present level - 36p in the pound.

I turn now to the amount of money to be distributed to local authorities in Wales through the block grant - £696.7 million. I do not propose to go into any great detail about the new block grant system itself since Hon Members are familiar with the basic principles involved and can study the details from the Welsh Rate Support Grant Report I am laying today.

The principles underlying block grant are of course the same in both England and Wales although there are some differences in the detailed arrangements for Wales to take account of our particular circumstances and of views expressed to me by the Welsh local authority associations. The new system will ensure that authorities that increase their expenditure do not just do so at the expense of others, but that the consequences of the decisions are in large part borne locally.

There will be some substantial changes arising from the move to the new system based on a current assessment of need rather than on a system based on past patterns of expenditure, and I have decided to moderate these by applying safety nets and a ceiling on grant gains to provide protection for individual authorities and ratepayers. I must make it clear however that the safety net will not provide protection against the expenditure decisions of individual authorities.

/Expenditure decisions

Expenditure decisions remain the responsibility of individual local authorities who, in setting their rates, must consider the effect on ratepayers at large including of course industry and commerce.

I have confidence that local authorities will continue to respond to central government targets as they have in the past. The efforts already made by local authorities in Wales to reduce their manpower and expenditure are encouraging as the Manpower Watch figures published today, showing an annual reduction for general services of 3.8% with a 1.5% reduction in the last quarter, prove. Nevertheless sustained efforts will continue to be required if expenditure is to be brought down to our targets. I urge every local authority, every Councillor, to ensure the Government's volume reductions are achieved and that rate increases are kept to the absolute minimum.

O10

Original not received. This copy requested.

Treasury Chambers, Parliament Street, SWIP 3A
01-233 3000

Chief Secretary
Financial Secretar
Sir Douglas Wass
Sir Kenneth Couzen
Mr. Ryrie
Mr. Burns
Mr. Middleton
Mr. Monck
Mr. Bailey
Mr. Burgner
Mr. Britton
Mr. Kitcatt
Miss Brown
Mr. Riley
Mr. C. Ward
Miss Masters
Mr. Ridley
Mr. Hosker - T/So
Mr. George - B/E

15 October 1980

T. Lankester, Esq.
Private Secretary,
10, Downing Street

TL.
22/10

Dear Tim,

At the end of your letter of 18 September you said that the Prime Minister would like to have a note on the possibility of withdrawing Government guarantees from certain borrowing by the Nationalised Industries and th e local authorities with a view to excluding such borrowing from the PSBR. I enclose a note prepared by the Treasury in consultation with the Bank of England, which covers most of this remit; the further material about the possibility of reducing the extent to which the Government stands behind local authority borrowing will follow shortly.

Yours

John

A.J. WIGGINS

WITHDRAWING GOVERNMENT GUARANTEES

The Prime Minister has asked for a note on the possibility of withdrawing the Government guarantee from certain borrowing by the Nationalised Industries and local authorities. The idea behind this was that if guarantees were withdrawn, it might be possible to exclude such borrowing from the PSBR. A second question is whether the withdrawal of guarantees could be used as a way of increasing financial discipline. This aspect is considered in the attached note about the Nationalised Industries. A comparable note about the local authorities, whose position is rather different, will follow shortly.

2. So far as the first question is concerned, the test for deciding whether borrowing does or does not count as part of the PSBR is a simple one - whether or not the body doing the borrowing is part of the public sector. Local authorities and Nationalised Industries are clearly part of the public sector. In the case of the Nationalised Industries it is of course possible to transfer control to private sector owners, as is envisaged for British Aerospace and other industries. But until the transfer to the private sector is made, all borrowing by the industries counts as part of the PSBR, whether guaranteed or not.

WITHDRAWING GUARANTEES FROM CERTAIN NATIONALISED INDUSTRIES BORROWING

This note considers the possibility of withholding Government guarantees from certain borrowing by the Nationalised Industries with the aim of tightening financial discipline by raising the cost or reducing the amount of their borrowing. Any extra cost would add to the PSBR unless it was passed on in higher prices and the amount of their borrowing is already controlled through external financing limits (EFLs).

2. The Nationalised Industries at present borrow from the Government, international markets and, for temporary borrowing only, the domestic market. There is already some unguaranteed borrowing in the last two categories (about £700 million and £400 million respectively was outstanding last April).

3. Guarantees already given cannot be withdrawn unless the lender agrees. So what is at issue is withholding guarantees from future new borrowing. For this to have any impact, it would be necessary to convince both lenders and the industries of the reality of the risk that the Government would allow a default. There are many difficulties about this, both in relation to explicit guarantees and in relation to the well-founded implicit guarantees that Nationalised Industries enjoy.

4. The legal position on explicit guarantees is that although the Treasury's power is permissive, a refusal to give one could be challenged in the courts. Since implementation of Government policy would not be an adequate answer, specific legislation would be needed to avoid this legal risk.

5. The implicit guarantee reflects past practice and various public statements. The industries are not subject to companies legislation and their own statutes do not provide procedure for winding up, reflecting the expectation that the Government would "stand behind" them. The 1978 White Paper (Cmnd 7131) mentioned the fact that "these industries .... are not subject to the private sector discipline of the threat of bankruptcy ...." Earlier this year the Ministerial group on Nationalised Industry policy accepted that bankruptcy was not a realistic possibility, unlike liquidation or closure.

6. Specific statements point the same way. In June the Secretary of State for Industry told the House that he had asked:

> "BSC to continue trading as an on-going business. I have told it that in the last resort the Government would have to ensure that creditors of the corporation had their claims met in full."

In September he announced an increase of £400 million in BSC's EFL to enable it to continue meeting its debts until firm decisions about its future could be taken. If in the event a decision to wind up a corporation were taken, specific legislation would be essential to achieve an orderly run-down.

7. Nationalised Industries are creatures of Government over which the sponsor Minister has certain powers. It is therefore questionable how far HMG can disassociate itself from the actions of what are effectively its subsidiaries. In the private sector a Holding Company generally accepts liability forthe debts of its subsidiary companies whether or not such liability exists in law.

8. Because of the implicit guarantee and the analogy with a private sector Holding Company and because a default by a Nationalised Industry in UK or overseas markets could damage the Government's own credit rating it would be extremely hard for the Government to defend a refusal to stand behind the Nationalised Industries' debts unless a public warning to lenders had been given in advance.

9. Such a statement, covering either a decision to withhold explicit guarantees or a disclaimer of implicit guarantees for all or some industries would have far reaching financial consequences. Careful study of its scope and the precise effects on particular industries, on which sponsor Departments' advice would be needed, would clearly have to precede such a statement.

10. A statement that there would be no further guarantees and a categorical disclaimer of liability for the debts of all industries could suspend the market for Nationalised Industry borrowing at least until the

market had decided how seriously the statement was to be taken. It might also cause the ordinary creditors of the less viable industries to rush for early payment. It is likely that some industries eg the profitable monopolies would be able to continue to borrow without guarantee, though they would have to pay a somewhat higher rate of interest. (The possibility of market borrowing within the EFL in the industries' own name, perhaps on an unguaranteed basis, is shortly to be examined without commitment by the Chairmens' Group and the Treasury. The object of this from the point of view of the authorities would not be greater financial discipline but a widening of the range of public sector borrowing instruments.) If so, the increased interest costs falling on the public sector would conflict with the views recently expressed by the PAC in its 32nd Report.

11. The main problems would probably arise with the loss making industries, since their ability to borrow depends entirely on the existence of an explicit or implicit guarantee.

Conclusion

12. Some unguaranteed borrowing already takes place. But there are great difficulties in the Government withholding explicit guarantees or disclaiming implicit guarantees for Nationalised Industries' borrowing generally. Withholding explicit guarantees would be practicable for certain profitable industries; this would not strengthen financial discipline but would somewhat increase the cost of borrowing.

~~Press affairs~~ .

1.

Prime Minister

Content with Mr Heseltine's revised draft?

PA

Yes md

MAP 15/xii

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

15 December 1980

Dear Nick

RATE SUPPORT GRANT SETTLEMENT STATEMENT, Tuesday 16 December 1980

I enclose a copy of the revised draft of the statement which my Secretary of State proposes to make tomorrow. It is, of course, still subject to drafting amendment.

I am sending copies to the Private Secretaries to the members of MISC 21, Robin Birch, Richard Prescott, Murdo MacClean and Bernard Ingham.

Yours ever

David Edmonds

D A EDMONDS
Private Secretary

Nick Sanders Esq
No 10

STATEMENT ON THE RATE SUPPORT GRANT

Local government is responsible for about a quarter of public expenditure and employs more than 2.6 million people. Their financial decisions are an integral part of the national economy.

The Rate Support Grant Settlement must reflect this.

The settlement for 1981/82 is the first settlement for England under the provisions of the Local Government Planning and Land Act 1980 and I therefore thought it right, exceptionall to make a statement to the House before I meet the Consultative Council on Local Government Finance later this afternoon.

Copies of my full statement to the Council and supporting material are being placed in the Library.

I am also laying before the House this afternoon copies of the RSG Reports and Orders, which of course will as normal be debated in the House.

My Rt Hon Friend will make a separate statement today about Wales.

It is/an essential part of our economic policy that the volume of local government current expenditure should be reduced. The volume of current expenditure for RSG purposes will be just over 3% lower than the figure for 1980/81.

The cash limit on grant will include provision for increases of 6% in earnings from annual pay settlements in this round after 1 November 1980 and provisionally for the next pay round, beginning on 1 August 1980.

It contains an allowance for price increases of an average of 11% between 1980/81 and 1981/82.

The grant percentage for England and Wales will be reduced from 61% to 60%.

At 61% the effective grant for England was 60.1%

The effective grant for England in 1981-82 will be 59.1%

The aggregate Exchequer grant for England will be £10895 mill at estimated out-turn prices.

Specific grants are estimated at £1447 million.

Transport Supplementary Grant will be £416.5 million.

(A copy of my Rt Hon Friends's statement to the Consultative Council has been placed in the Library).

National Parks Supplementary Grant will be £4.5 million

The remaining amount available for the Rate Support Grant is therefore £9027 million.

There are two new features of the grant distribution this ye

First, the new system is based on a new method of assessing the needs of authorities, called grant related expenditure assessment, which relies on service by service appraisal of those factors which affect local authority expenditure. The system is fair, rational and open to scrutiny.
The change does mean some significant alterations to the entitlements of some local authorities in the first year. These are moderated by a safety net.

The second feature is the introduction of block grant which will replace the old system, with its inbuilt bias towards rewarding authorities who increase their expenditure, at the expense of more prudent authorities.

The change means an end to the injustice of the old system under which millions of pounds were shifted from the Shire counties to London, year after year.
Authorities retain exactly the same freedom to reach their own expenditure decisions as at present.
What block grant will do is to ensure that a greater weight of the consequences are borne locally and not at the expense of other authorities, thus providing them for the first time with a fair and consistent incentive not to overspend.

The House will remember that as an interim measure, pending th introduction of the new system next year, I took transitional powers for this year only to limit central government support to high spending authorities.

Of the original list of 23 authorities 14 have qualified under the waivers which I set out in my statement of 18 September. There remain 9 authorities libable to be subject to abatement of their grant.

I have notified these authorities it will reamin open to them to qualify for exemption and avoid imposing this unnecessary extra burden on their ratepayers by reducing their expenditure in 1980/81 in order to quality under either of the waiver provisions.

I have stressed the essential part that local authorities have to play in meeting our lower public expenditure targets. Control of manning levels is essential.

In June 1979 I asked local government - which was then employing an all-time record number - to limit their recruitment and to reduce manpower.

The Joint Manpower Watch figures for the year ending September are published today.

Full details are given in a Written Answer I am giving today to my Hon Friend the member for Reading North.

These figures show a seasonally adjusted reduction over the last quarter of 15,446, making a total for the year of 36,500 on a full time basis.

Local government manpower is now back to its lowest level since the Manpower Watch began in 1975.

But although the annual and quarterly reductions are the highest ever achieved, over the year the fall is still only 1.7%.

I reaffirm today that the volume of current expenditure must continue to drop.

We have to reverse the pattern whereby current spending grows and capital expenditure is cut.

If local government is to achieve the new expenditure targets the decreasing manpower trends must continue.

5

I turn now to the question of rates.

Last year, domestic rate increases were in a range from 9% to 60% and it is misleading therefore to talk in terms of national average figures.

The local authority current expenditure volume target is 5.6% below the spending in 1978/79.

If local authorities plan for that target, and budget in line with the cash limit assumptions, rate increases should be contained within reasonable levels.

I shall talk to the associations this afternoon about action to secure that the expenditure targets are met.

Mr Speaker, our aim is to secure a more efficient and a more cost effective system of local government in this country.

The announcement I have made this afternoon signposts a significant contribution to the government's public expenditu policies.

It is a major challenge to distribute £9 billion to 413 authorities administering over 20 major national services.

The new system I have announced today achieves this through a system that is fairer more visable and more comprehensible.

This is particularly important when the lower volume of expenditure and the reduction in grant percentage will in any case present local government with a major challenge.

PRIME MINISTER PA 1
Tomorrow's Welsh statement.
Content, subject to colleagues' views?
MJS 15/12

cc Mr Lankester
Mr Pattison
Mr Ingham

Yes
md

Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SWIA 2ER
Tel. 01-233 3000 (Switsfwrdd)
01-233 6106 (Llinell Union)

Oddi wrth Ysgrifennydd Gwladol Cymru

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SWIA 2ER
Tel. 01-233 3000 (Switchboard)
01-233 6106 (Direct Line)

From The Secretary of State for Wales

15 December 1980

Dear Nick

As you know it was agreed at Cabinet on 11 December that my Secretary of State should make an oral statement in the House tomorrow afternoon immediately following the Secretary of State for the Environment. My Secretary of State's statement will be principally concerned with the Welsh RSG settlement but will also cover the Welsh aspects of those elements of Mr Heseltine's statement on Housing (which is being made today) which require separate comment ie housing investment programme capital allocations and the determination of the local contribution (council house rent levels).

... I attach a copy of the draft statement; and I will, of course, let you know if any changes are made to it.

/ I am sending copies of this letter and the draft statement to the Private Secretaries to the Leader of the House, Government Chief Whips in both Houses, Chief Press Secretary at No 10, Secretary to Cabinet, Chief Secretary, Secretary of State for the Environment, Secretary of State for Scotland, Secretary of State for Education and Science, Secretary of State for Transport and the Secretary of State for Social Services.

Yours ever

J F Craig

J F CRAIG
Private Secretary

N Sanders Esq
Private Secretary
10 Downing Street
LONDON

SECRETARY OF STATE'S STATEMENT TO THE HOUSE

Mr Speaker, with permission I wish to make a statement about the Welsh Rate Support Grant Settlement for next year and about housing finance.

This is the first time that there has been a separate RSG settlement for Wales. At the same time this year's settlement sees the introduction of the new block grant system. My Rt Hon Friend, the Secretary of State for the Environment, and I have therefore thought it right to announce to the House our decisions by way of oral statements on this occasion but propose reverting to the practice that has been followed in the past on future occasions.

The Government's decisions (in accordance with the policies already announced to the House by my Rt Hon Friend the Chancellor of the Exchequer) have to take account of the essential economic requirements to reduce public spending, of which local government spending forms such a large part.

The most important factor in determining the total amount of Exchequer Grant is the volume of local authority spending we are prepared to accept for grant purposes - which is termed relevant expenditure. Until now there has been no separate determination of the amounts of relevant expenditure and grant for England and Wales and in the preparations leading up to this settlement we have had to establish separate relevant expenditure shares. This has involved a comprehensive review of expenditure programmes with other Government Departments and I am satisfied that the results provide a fair basis for the start of the separate Welsh RSG system. In deciding the amount of Aggregate Exchequer Grant for Wales we have taken into account the average level of grant received by Welsh local authorities as a whole in recent years.

/I announce

I announce first our decisions about housing rent subsidies and housing capital programmes. For Rate Support Grant purposes I am assuming that local authorities will increase average rents by £5.25 a week and that the local contribution differential determined for the purposes of housing subsidy will be £2.95. The total resources available within my block for Housing next year will be £   m at outturn prices, of which £25.6m will be available to the Housing Corporation and £79.3m will be distributed to local authorities. I am announcing today the housing capital allocations for individual local authorities and the figures have been placed in the Library of the House.

Turning to the RSG settlement, I have decided to accept a total, at 1981/82 outturn prices, of £1,187 million for relevant expenditure. This figure is consistent with the level of expenditure set out in the last Public Expenditure White Paper as modified by the expenditure reductions announced by my Rt Hon Friend the Chancellor of the Exchequer last month. It therefore provides for a volume of current expenditure which is broadly 3% below the level local authorities were asked to achieve in 1980/81.

The second decision I have to make is the grant percentage. As my Rt Hon Friend said earlier, the grant percentage, taking England and Wales together, is being reduced by 1% from the 61% level last year. In terms of grant for Wales next year this works out at 73.4%: the higher percentage of government grant for Wales reflects the substantially lower rateable values in the Principality.

The Aggregate Exchequer Grant will therefore be £871 million at 1981/82 outturn prices. In calculating the cash limit within this figure, 6% has been allowed for pay increases in the present pay round and provisionally for the pay round starting in August next year and 11% for non pay items.

/Within

Within the Aggregate Exchequer Grant, specific grants are estimated at £85.14 million, the Transport Supplementary Grant at £40 million and the National Parks Supplementary Grant at £1.36 million. This leaves £744.5 million for the Rate Support Grant itself, including the domestic rate relief grant.

For 1981/82 I have decided that for the first year of the new block grant system, it would be sensible to maintain the domestic rate relief at its present level - 36p in the pound.

I turn now to the amount of money to be distributed to local authorities in Wales through the block grant - £696.7 million. I do not propose to go into any great detail about the new block grant system itself since Hon Members are familiar with the basic principles involved and can study the details from the Welsh Rate Support Grant Report I am laying today.

The principles underlying block grant are of course the same in both England and Wales although there are some differences in the detailed arrangements for Wales to take account of our particular circumstances and of views expressed to me by the Welsh local authority associations. I am gratefulfor their cooperation in this work, though they remain opposed to the principle of block grant itself.

There will be some substantial changes arising from the move to the new system based on a current assessment of need rather than on a system based on past patterns of expenditure, and I have decided to moderate these by applying safety nets and a ceiling on grant gains to provide protection for individual authorities and ratepayers. I must make it clear however that the safety net will not provide protection against the expenditure decisions of individual authorities.

/Expenditure

Expenditure decisions remain the responsibility of individual local authorities who, in setting their rates, must consider the effect on ratepayers at large including of course industry and commerce.

I have confidence that local authorities will continue to respond to central government targets as they have in the past. The efforts already made by local authorities in Wales to reduce their manpower and expenditure are encouraging as the Manpower Watch figures published today, showing an annual reduction of 2.8% with a 1.5% reduction in the last quarter, prove. Nevertheless sustained efforts will continue to be required if expenditure is to be brought down to our targets. I urge every local authority, every Councillor, to ensure the Government's volume reductions are achieved and that rate increases are kept to the absolute minimum.

PR

Econ Pol.

Civil Service Department
Whitehall London SW1A 2AZ
01-273 4400

The Rt Hon Michael Heseltine, MP
Secretary of State for the Environment
2 Marsham Street
LONDON SW1P 3EB

15 December 1980

PM
17/12

Dear Michael,

PUBLIC EXPENDITURE: IMPLICATIONS FOR PSA

PT 12

Thank you for your letters of 17 November to John Biffen, and 19 November and 3 December to me. I am glad that you have been able to retain the Chessington Computer Centre in the revised programme for new starts in 1981/82.

Rayner PT 6.

I also welcome inclusion in your programme of other computer related schemes; the sooner the programme is formally endorsed the better. On PAYE, I am glad to see that you have made provision for 1981/82. It will of course be necessary to ensure that appropriate provision is made also for subsequent years.

Francis Pym will I am sure be writing to you concerning the Ensleigh works, and I will leave it to him to comment. You should be aware, however, that the substantial discount you refer to was not a real saving to MOD; they merely succeeded in getting ICL to offer realistic prices.

Patrick Jenkin wrote to you on 4 December and I fully endorse what he said about the importance of not allowing the major savings expected from the CAMELOT project to be prejudiced by problems over accommodation.

I shall leave it to my colleagues to comment on other computer project deferments; there is nothing further that I believe could not be coped with if needs must.

But what really disturbs me is the total disregard for the conditions in which we expect some civil servants to work. I don't want to repeat myself endlessly but I hope my colleagues who are responsible for those offices which have for long been in dire need of improvement are left in no doubt about the effect on the operational efficiency of their departments of staff reaction to the endless deferment of essential improvement schemes. I see no reason why we should expect our employees to work in conditions which no private enterprise firm could or would dream of accepting. You already have Jim Prior's view, which I fully support.

Copies of this letter go to other members of the Cabinet, including Norman Fowler, and to Sir Robert Armstrong.

Yours ever

Christopher

SOAMES

CONFIDENTIAL

Econ Pol

MS

NBM

Treasury Chambers, Parliament Street, SW1P 3AG

TL
15/12

Rt Hon Michael Heseltine MP
Secretary of State
Department of the Environment
2 Marsham Street
London SW1

15 December 1980

Dear Michael,

RATE SUPPORT GRANT STATEMENT

with TL?

Thank you for your letter of 10 December covering a draft of the statement you plan to make to the Consultative Council on Tuesday, and a draft letter to send to the leaders of the Local Authority Associations seeking their help in achieving our target for reduction in current volume next year.

Subject to the drafting changes my officials have discussed with you (of which two of the most important are given in the attached annex). I am content with your statement. Any progress you can make toward persuading local authorities to make the public expenditure reductions on which we are planning is of course welcome. Explaining exactly what is wanted is a desirable first step, especially in view of the misunderstanding about the cuts we sought for this year. There must be no misinterpretation of our target for 1981-82, and I am sure that you are right to seek the local authority leaders' co-operation in getting the message across. I appreciate your difficulties in linking your presentation of the cuts for 1981-82 with the needs assessment used for block grant purposes, and I am sure my officials will do all they can to help yours arrive at an effective and defensible line.

I am copying this letter to the recipients of yours.

Yours

John Biffen

JOHN BIFFEN

CONFIDENTIAL

1

cc Mr Lankester
Mr Sanders

PRIME MINISTER MS

Here is the current draft of Tuesday's RSG statement. It looks to me to be in better shape than the housing statement. Content to wait for the next draft? Yes MS 12/12

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

12 December 1980

Dear Nick

RATE SUPPORT GRANT SETTLEMENT STATEMENT, Tuesday 16 December 1980

I enclose a copy of the latest draft of the statement which my Secretary of State proposes to make on Tuesday. At this stage it is, of course, subject to amendment although this version has been broadly endorsed by the Secretary of State.

I am sending copies to the Private Secretaries to the members of MISC 21, Robin Birch, Richard Prescott and Bernard Ingham. I should be grateful if any drafting comments could reach me by noon on Monday, 15 December.

Yours ever

David

D A EDMONDS
Private Secretary

Nick Sanders Esq
No 10

DRAFT STATEMENT ON THE RATE SUPPORT GRANT

Local government is responsible for about a quarter of public expenditure.
Local authorities employ more than 2 million people.
Their financial decisions are an integral part of the national economy.
It is essential for the Rate Support Grant Settlement to reflect this.

The settlement for 1981/82 is the first settlement for England under the provisions of the Local Government Planning and Land Act 1980.
I therefore thought it right, exceptionally, to break with the tradition of informing the House by Written Answer.
I am informing the Consultative Council on Local Government Finance this afternoon.
Copies of my full statement to the Council are being placed in the Library.
I am also laying before the House this afternoon copies of the RSG Report and Orders, which of course, will be fully debated when the House resumes after the Recess.
My Rt Hon Friend will be making a separate statement tomorrow about Wales.

It is an integral part of our economic policy that local

government current expenditure should be reduced.
Our first decision is therefore that the volume of current expenditure for RSG purposes will be about 3.1% lower than the figure for 1980/81. The grant percentage for England will be reduced from 61% to 60%.
This means an effective grant of 59.1%.

The cash limit on grant will include provision for increases of no more than 6% in pay settlements in this round and provisionally for the next.
It contains an allowance for price increases of no more than an average of 11% between 1980/81 and 1981/82.

The aggregate Exchequer grant for England will be £10895 m at estimated outturn prices.
Specific grants are estimated at £1447 m.
Transport Supplementary Grant will be £416.5 m.
National Parks Supplementary Grant will be £4.5 m.
The remaining amount available for the Rate Support Grant is therefore £9028 m.
//P The distribution of grant next year is based on the new block grant system.
We are replacing the old system, which included

inbuilt bias towards increasing expenditure.

The new system incorporates a new method of assessing the needs of authorities: called grant-related expenditure assessment which relies on an appraisal of indicators which directly affect expenditure on services.

The change does mean some significant alten ations to the entitlements of some local authorities in the first year. These are moderated by a safety net.

But the change also means an end to the injustice of theold system which shifted millions of pounds from the shire counties to London, year after year.

While authorities are entirely free to reach their own expenditure decisions, grant related expenditure assessments for the first time give them a fair and consistent incentive not to overspend.

The House will remember that for this year I took powers to limit central support to high rating authorities.

23 authorities were caught within the limits I set.

14 of those authorities have subsequently qualified for exemption by complying with the rules for lower expenditure set out in September.

Within days of the last election I asked local government - which was then employing an all-time record number - to put a general ban on recruitment.

Local authorities are now meeting central government strategy at an increasing rate.

The Joint Manpower Watch figures for the year ending September are published today.

Full details are given in a Written Answer I am giving today to my Hon Friend the member for .

The September figures show a reduction over the last quarter of %.

Over the last year manpower has been reduced by .

Local government manpower is now back to its lowest level since the Manpower Watch began in 1975.

The annual and quarterly reduction figures are the highest ever achieved.

I reaffirm today: current expenditure must continue to drop.

We have to reverse the pattern whereby current spending grows and capital expenditure is cut.

If local government is to achieve the new expenditure targets the decreasing manpower trends must continue.

I turn now to the question of rates.

Last year, domestic rate increases were in a range from 9% to 60%, producing an average of 27%.

I t is misleading in the figures shwon to talk in terms of average figures.

But this year, for the vast majority of local authorities, large rate increases are not inevitable.

The local authority current expenditure target is 5.6% below the spending in 1978/79.

the Opposition will like this section

If local authorities plan for that target, and budget in line with the cash limit assumptions, rate increases should be contained within reasonable levels.

Certainly I expect to see large numbers of authorities with significant figure rate increase.to seucre

I shall talk to the associations this afternoon about action to secure that expenditure targets are met.

Mr Speaker, our aim is to secure a more efficient and a more cost effective system of local government in this country.

The announcement I have made this afternoon must be seen in that context.

CONFIDENTIAL

8

DEPARTMENT OF EDUCATION AND SCIENCE

Mr Wolfson? MS

ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH
TELEPHONE 01-928 9222
FROM THE SECRETARY OF STATE

TL

Rt Hon Michael Heseltine MP
Secretary of State for the Environment
2 Marsham Street
London
SW1

12 December 1980

Dear Secretary of State

Thank you for sending me a copy of your letter of 10 December to John Biffen enclosing a draft of your statement on 16 December about the RSG settlement.

If I may say so, I think the draft covers the ground extremely well. I have three comments only:-

PARAGRAPH 2
No doubt you will take account of the September 1980 JMW figures, which show a record year-on-year reduction.

PARAGRAPH 12
Would it not be better to omit the fourth and fifth sentences, given that we have not yet taken decisions in all cases about the division between central government and local authorities of the reductions recently agreed for 1982-83 and 1983-84?

PARAGRAPH 42
I take the point in paragraph 4 of your covering letter, but I do not think it would be right to suggest that all authorities, regardless of their needs and past record of spending, should make the same reduction between 1978-79 and 1981-82. Perhaps the second and third sentences might run. "If the Government's target is to be met in 1981-82, local authorities as a whole must reduce their current expenditure in real terms by 5.6 per cent compared with the actual outturn in 1978-79. Some should make bigger reductions than this."

CONFIDENTIAL

CONFIDENTIAL

If I may end on a personal note, I assume that your oral statement to the House will be VERY MUCH shorter!

I am sending copies of this letter to those who had yours.

Yours sincerely

R Turp

pp. MARK CARLISLE
(approved by the Secretary of State
and signed in his absence)

CONFIDENTIAL

H. M. TREASURY

Parliament Street, London SW1P 3AG, Press Office: 01-233-3415
Telex 262405

12.12.80

NORTH SEA OIL TAX

Attached is a copy of a letter sent today by the Chancellor of the Exchequer, the Rt Hon Sir Geoffrey Howe, QC, MP, to the Rt Hon Edward du Cann MP, Chairman of the Treasury and Civil Service Select Committee.

PRESS OFFICE
H M TREASURY
PARLIAMENT STREET
LONDON SW1P 3AG
01-233 3415

101/80

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

12 December 1980

The Rt. Hon. Edward du Cann, MP.,
House of Commons,
LONDON,
SW1

Dear Edward

In view of the article in yesterday's Times, which alleges that the picture I recently presented of raised taxes on North Sea oil is not correct, I thought I should write to you to set the record straight. My officials were in fact about to respond to a telephone enquiry on this subject from the Clerk of your Committee (as you know, no letter has been sent to me), but in view of the publicity I think it is right for me now to write to you. I understand that you said at the Press Conference this morning about the Committee's report on the merger of the Treasury and the Civil Service Department that you thought the Times report was not well-founded; and I am grateful for this.

First, my statement on 24 November, together with the Industry Act forecast published at the same time, made clear both the additional revenue expected in 1981-82 from the North Sea tax together with possible changes in the scheme of PRT reliefs, and our revised estimates of total North Sea revenue this year and next. In particular the Industry Act forecast explicitly pointed out that the current estimate of North Sea revenues for next year, including the new tax, would be "a little higher than forecast at the time of the Budget".

So, as I made clear to the House this afternoon, any suggestion that the picture I presented was not correct is completely unfounded. I presented the House with all the material that it needed at the time in conjunction with my statement.

I am, however, glad now to explain the more detailed background to the downward revision of the North Sea revenue forecasts which, as you know, are always unavoidably subject to great uncertainties and wide margins of error.

You will recall that the Industry Act forecasts for total North Sea oil and gas revenues referred to above were as follows:

/North Sea Oil

North Sea Oil and Gas Revenues*

£ billion, at 1980-81 prices

1980-81	4
1981-82	4½-5

The figure for 1981-82 includes the additional revenue to be raised by the supplementary tax and changes to the PRT reliefs. These account for around £1 billion at current prices. In 1980-81 prices, this is equivalent to about £900m. So total North Sea revenues at 1980-81 prices, ignoring the effect of the supplementary tax and the changes to the PRT reliefs, are forecast at around £3.6-4.1 billion in 1981-82. (The changes I announced do not affect receipts this year.)

At the time of the last Budget, total revenues in 1981-82 were forecast at £4½b, in 1980-81 prices. The figure was given in a written answer to Mr. Woolmer (Hansard, 22 April 1980, col. 127). So disregarding the measures in my 24 November announcement, total North Sea revenues are now expected to be up to £1 billion lower than they were then. In broad terms this downward revision is partly the result of lower than expected production and partly the result of upward revisions to forecasts of expenditures by the oil companies. The £ price at which North Sea oil is sold (in real terms) is not assumed to be very different from that assumed at the time of the Budget.

There has been a tendency in the past on the part of both official and outside forecasters to overpredict North Sea production. You will remember that when your Committee (which, in their Second Report following the Budget thought we had considerably underestimated the revenue arising from North Sea production) was sent the Department of Energy's "Brown Book" at the end of June attention was drawn to the substantial reduction in the ranges of forecast oil production compared to the 1979 Brown Book. Thus the 24 November Industry Act forecast of 81m tonnes for 1980 is some 1½m tonnes below the centre of the 1980 Brown Book range of 80-85m tonnes. The factors that have pushed the outturn for 1980 below the centre of the Brown Book range are still expected to contribute a downward bias in 1981.

There has also been a tendency on the part of forecasters to overpredict the volume of capital expenditure in the North Sea in the current year, but to underpredict it for later years. Since capital expenditure can be off-set against PRT and Corporation Tax, and is also taken into account in assessing royalty payments, subsequent upward revisions to expenditure forecast in years after the current year can obviously reduce the forecasts of revenue.

/I hope this

---

* Figures cover royalties, PRT corporation tax and (for 1981-82) the supplementary tax

I hope this is helpful in filling out for the Committee the detailed reasons for the downward revision to the previous forecast of North Sea revenues for next year. I hope also you will agree that my statement on 24 November, together with the published forecast, made the overall position perfectly clear. The fact remains that the changes announced in my statement are estimated to yield around £1bn more from the North Sea next year than would have been the case without them.

I am releasing this letter to the press.

GEOFFREY HOWE

Econ Pol

10 DOWNING STREET

PRIME MINISTER

1. I REPORTED TO YOU ON JOHN BIFFEN'S EXCELLENT OPENING STATEMENT AT LAST NIGHT'S FINANCE COMMITTE.

2. HEREWITH PETER CROPPER'S NOTE.

3. I LEFT AFTER THE STATEMENT AND BEFORE QUESTIONS.

4. GEOFFREY AND OTHERS ARE CONCERNED ABOUT JOHN BIFFEN'S REPLY TO WALDEGRAVE — LAST PARA ON THE THIRD SHEET.

[initials]
10/12/19[illegible]

CHANCELLOR
CHIEF SECRETARY
FINANCIAL SECRETARY
MINISTER OF STATE (C)
MINISTER OF STATE (L)
MR NEWTON
SIR DOUGLAS WASS
SIR KENNETH COUZENS
SIR ANTHONY RAWLINSON
MR W S RYRIE
MR T BURNS
MR UNWIN
MR RIDLEY
MR CARDONA

cc Sir Lawrence Airey - IR
Sir Douglas Lovelock - C & E

CONSERVATIVE PARTY FINANCE COMMITTEE - 9 DECEMBER 1980

Addressed by the Chief Secretary on the subject of "Public Expenditure" - about 80 present.

2. Peter Hordern hoped that in future the government's assumptions on nationalised industry deficits would accord more closely with the credible.

3. John Peyton had three wishes for 1981:

i) that the Treasury forecast of a bottoming out of the recession in mid 1981 would turn out to be true;

ii) that the Treasury (the Department, not the Ministers) would be able to persuade him that they had more knowledge of and sympathy with the wealth creating processes of this country than he believed they had - which was not very much;

iii) that it would be possible to settle on an attitude and stick to it - cf firemens pay, where he thought there had been grave vacillation.

4. Tim Eggar: There had been too much attention to the M3 figure. Would there be a variety of target figures in the MTFS?

5. Jock Bruce-Gardyne: If we took the range of PSBR possibilities for 1981-82 as £7 to £14 billion, which would give the higher exchange rate?

6. Maurice Macmillan: feared there was at least a possibility that the government's present policies would make it more difficult to control inflation later on. The destruction of parts of the industrial base would make it more difficult for the economy to respond to recovery.

7. Nigel Forman: Would it not be wise, in regard to the Party's election commitments, to say that circumstances change cases? Would the Chief Secretary agree that we should at all costs avoid any action on indexed pensions that might smack of retrospection.

8. James Hill: asked whether the Treasury really had any control over the Department of Industry.

9. Tony Marlow: Sterling has gone through the roof: what can we do to help industry through the intermediate period?

9. Ivan Lawrence: I thought we were told the interest rates would be reduced when M3 had come under control. M3 is not yet clearly under control but the MLR has been cut. This shakes confidence: better presentation is called for.

10. William Waldegrave: Worried by the apparent down-grading of the MTFS and by the fact that control of monetary growth is no longer absolutely at the centre of government policy. What replaces them?

PJC

P J CROPPER
10 December 1980

CONFIDENTIAL.

1. (In the course of introduction)

i) We have broadly stabilised expenditure: it is only revenue that will make an impact on the PSBR now. Save in respect of public sector pay - the one non-volume factor over which the Government can have an influence.

ii) The danger lies in borrowing to spend. We must never allow ourselves to let the PSBR approach the 9½% of GDP that it reached under Healey. There are arguments for allowing the PSBR to rise in a recession. You have a Chancellor and a Treasury that believe a balance is possible (such that the PSBR remains high during the recession but does not get out of hand).

2. (In answer to Tony Marlow.) There is only very limited scope for action re industry. Restrictions on capital inflow would at best provide a short breathing space. All we might do is to shift the balance of taxation from the corporate sector to the personal sector.

3. (In answer to William Waldegrave). I have never found the MTFS an easy concept to market. I understand people who nail their flag to the MTFS, but it is all a foreign tongue to me. It is liable to excite enthusiasm, too, and that is a very unConservative emotion. For the time being M3 has lost its credibility; until its credibility is re-established by the course of events there is nothing we can do about it. There are many difficulties that are more important and pressing than the behaviour of sterling M3. You are always at risk if you get too mechanistic about things.

CONFIDENTIAL

2

PRIME MINISTER

To see. The decisions (reported to Cabinet on Thursday) are summarised at paragraph 3 (flagged).

MJS 11/12

MJ

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

10 December 1980

Dear Chief Secretary

RATE SUPPORT GRANT STATEMENT - 16 DECEMBER 1980

I attach a first draft of the statement which I shall place before the Consultative Council on Local Government Finance (CCLGF) on Tuesday 16 December. I t will also provide the basis for the answer to a Parliamentary Question on the same day. Much of it is therefore purely for the record. I know you will understand that we are still working on this and are trying to balance their best interests. I thought colleagues would prefer an unfinished draft at the earliest moment.

I do not need to remind colleagues that the new block grant system is about redistribution of grant and does not guarantee delivery of a prescribed volume of expenditure. Furthermore, there is an inevitable conflict between GRE's and volume targets for individual authorities.

Nevertheless, colleagues will recall that in the CCLGF on 4 December, the associations represented to us the need to make clear to local authorities precisely what are the expenditure reductions which we are seeking. Clearly this is crucial if we are to secure compliance with expenditure targets and if we are to hope to avoid the need to call for revised budgets in May/June 1981.

I have considered whether we should formally issue individual volume guidelines to each authority but have decided not to do so at this stage. You will note, however, that in paragraph 42 of the statement I have firmly brought to the attention of authorities the need to secure the 5.6% reduction from the 1978/79 baseline. I believe that we cannot do less.

I further propose, if colleagues agree, to consult the associations at the CCLGF on 16 December about the steps which need to be taken to secure delivery of the volume targets. I believe that we can gain the initiative if we consult them on the basis that neither we nor they wish to endure a further call for revised budgets, while emphasising the need for them to make good their proud boast that local government always achieves the target which we set for them. If they fail to produce any proposals, we shall be in a better position to take whatever action may be required. I would expect to write to colleagues again shortly on this matter.

I attach a draft letter which I propose to send to the associations at mid-day on 12 December, unless I hear to the contrary.

I am copying this letter to the Prime Minister, all Cabinet colleagues, Norman Fowler, and to Sir Robert Armstrong.

Yours sincerely
David Edmonds
For MICHAEL HESELTINE
(letter approved by the Secretary of State and signed in his absence)

Rt Hon John Biffen MP

DRAFT LETTER TO LA LEADERS

VOLUME OF CURRENT EXPENDITURE

When we discussed the Government Proposals paper on 4 December you represented your concern to me that the Government should make clear to local authorities the precise implications of the volume reductions which we shall be seeking in 1981-82. This I propose to do. I am, however, concerned to secure the delivery of those reductions.

I fully accept that until this year local authorities have been able to claim with justice that they have always complied with the Government's expenditure plans. The outcome of this year however is still uncertain, which demonstrates the difficulty which authorities face at a time of reducing expenditure targets. Nevertheless, neither you nor I can contemplate with any equanimity the prospect of our having to repeat the call for revised budgets which we were forced to undertake this year and I am anxious to ensure that this should not be necessary.

I should be grateful, therefore, to have the views of the associations when we meet on 16 December, about what steps can be taken to secure delivery of the volume targets.

I am copying this letter to Jack Smart (AMA), Ian McCallum (ADC), Peter Bowness (LBA) and Richard Brew (GLC).

CONFIDENTIAL

DRAFT 8.12.80

RATE SUPPORT GRANT SETTLEMENT 1981/82: ENGLAND

STATEMENT BY THE SECRETARY OF STATE FOR THE ENVIRONMENT TO THE CONSULTATIVE COUNCIL ON LOCAL GOVERNMENT FINANCE ON 16 DECEMBER

INTRODUCTION

1. I am today announcing the full details of the Rate Support Grant (RSG) Settlement for England in 1981/82. This embodies the Government's financial support for the services which local government provides for the community. This settlement is the first to be made under the new financial arrangements introduced by the Local Government Planning and Land Act 1980, and will be subject to the approval of Parliament. It is also the first time separate settlements have been made for England and for Wales. /The Secretary of State for Wales will be making a statement about the settlement for Wales today/.

ECONOMIC SITUATION

2. The country faces a grave economic situation. Central to a solution is the battle against inflation. This is crucial for a better future. The key to a continuing deceleration in the rate of inflation lies in a reduction of the demands of government - local as well as central - on the wealth producing sector of the economy. I know that it may be difficult for the individual local authority to accept that its own level of spending has any effect on the national economy. But the combined financial decisions of all local authorities have a powerful effect on interest rates, other prices and the economy in general. At June 1980, local government in England and Wales employed 1,715,000 full time and 910,000 part time workers - equivalent to 2,080,000 full time workers. This represents an increase of about /60%/ since 1960, and is about % of the current labour force. Estimated direct current expenditure - which is largely consumed by pay - in 1979 was £ m - an increase of about /100%/ since 1960; this big increase was at the expense of capital expenditure, which at an estimated £ m in 1979 was no higher than in 1960. An institution of this size and importance cannot opt out of the country's problems. And in consequence this year's Rate Support Grant Settlement

must be realistic.

KEY DECISIONS

3. It is against this background that the Government has taken the key decisions which will affect local authorities when they draw up their budgets and fix their rates for 1981/82. These decisions - which I shall deal with more fully later in this statement - are as follows:

- The amount available for the First Increase Order for 1980/81 will be reduced by £200m in case the target for the volume of public expenditure by local government is exceeded; and the transitional arrangements for abating grant of overspending authorities in 1980/81 will be applied.

- The volume of current expenditure for England implicit in the calculation of relevant expenditure for the purposes of RSG is about 3.1% lower than the agreed targets for 1980/81.

- The grant percentage for England and Wales taken together will be reduced from 61% to 60%.

- The RSG cash limit for 1981/82 will include provision for increases of 6% in the level of earnings for annual settlements between 1 November 1980 and 31 July 1981 and provisionally for 6% for settlements in the pay round beginning on 1 August 1981.

- A fairer distribution of the grant available to equalise resources and spending needs will be achieved through the new block grant system, based on the new system of grant related expenditures.

4. Before I turn to the details of the settlement I should re-emphasise the concept of block grant. It is a grant of financial support from central government placed at the disposal of each local authority.

Central government can and do seek the responsible co-operation of local authorities on how much they spend. My colleagues and I also seek their co-operation in spending efficiently to meet national priorities. But it is to their own electors that each local authority is and must be primarily responsible for what it does and does not do with the money it receives from grant and from rates. The new system establishes clear links between spending, grant and rates; these links will be strengthened by the increased flow of comparative information which will result from provisions of the 1980 Act. This high degree of visibility should enable the local electorate to reach a more informed judgement of the performance of their authority. For the first time it will also be possible to see the principles on which central government have distributed grant; in that respect central government will also be open to more searching scrutiny as to how grant has been distributed. I welcome this opportunity for a more informed debate.

THE RSG SETTLEMENT

5. I shall now deal with each component of the Settlement in turn.

INCREASE ORDERS

6. RSG settlements under the / Local Government Act are made at the price levels of the November preceding the financial year to which they apply. Additional grant to take account of increases in pay and prices which occur during the year to which the settlement applies is paid through two Increase Orders. One of these is made in each of the two successive years following the announcement of the settlement.

SECOND INCREASE ORDER 1979/80

7. Payments under the Second Increase Order for 1979/80, which will wind up the settlement for that year, will be subject to a new cash limit of £150m (£148m for RSG and £2m for Transport Supplementary Grant (TSG). The sums in

that it will still be possible for them to qualify for exemption until the Order is approved, by demonstrating that they have made exceptional efforts to hold down expenditure in 1980/81.

RSG SETTLEMENT 1981/82

11. I have already briefly listed the main elements of the RSG settlement for 1981/82. The details are as follows.

RELEVANT EXPENDITURE

12. The total of relevant expenditure at November 1980 prices will be £17,338m. This is consistent with the Chancellor's announcement on 24 November that the volume of local authority current expenditure in 1981/82 will be broadly 3% below the level provided for in the Government's expenditure plans for 1980/81 for the local authorities in Great Britain. This compares with a figure of just over 2% sought in the last White Paper on public expenditure (Cmnd 7841). And as indicated in that White Paper, we must continue to look for a further reduction of 1% in both 1982/83 and 1983/84. These reductions add up to a cut in the volume of current expenditure of 7½% by local authorities in Great Britain between 1978/79 and 1983/84. This will place severe demands on local government - on councillors, on local government management and on local government employees. Although of course local government provides a complex range of services essential for economic as well as the social health of the community, there is no alternative but to ensure that it plays its part in the reduction of public expenditure.

RATE FUND CONTRIBUTION - HOUSING

13. The total of accepted relevant expenditure contains a forecast of rate fund contributions to local authority housing revenue accounts and other housing expenditure falling directly on the rate fund, consistent with the decisions I announced yesterday on these matters.

CASH LIMIT

14. Under the new block grant system, the grant calculations are expressed in estimated outturn prices, and therefore incorporate the Government's provision for changes in pay and prices affecting local government in the period November 1980 to March 1982. This is a clearer and more logical way of making the grant calculations than was

possible under the old system.

PAY

15. As announced on 6 November, the RSG cash limit for 1981/82 will include a provision for increases in the level of earnings of 6% for annual settlements from 1 November 1980. For the purposes of grant calculations a similar percentage has been provisionally assumed for settlements in the pay round which will begin on 1 August 1981. Allowance has also been made in the calculation of relevant expenditure at outturn prices for the full effect in 1981/82 for all settlements made before 1 November 1980, including the effects of staging and comparability awards known at that date, together with the amount of the employers' final offer where settlements were then still subject to arbitration.

16. The Government cannot finance more than 6% average increase from pay settlements. Nor is it fair to ask these ratepayers who are getting no larger pay increases - and there will be many of them - to finance larger rises. Retail price inflation has slowed significantly; it can and must be slowed further. Individual settlements will no doubt vary in level - in local government as in the rest of the economy. But it is the average I am concerned with, and it would not be right to finance more than an average increase in earnings of more than 6%.

17. The cash limit also includes an allowance for price increases consistent with an average of 11% between 1980/81 and 1981/82, and an uprating of pensions by 11% in November 1981.

18. As before loan charges and certain elements in the Housing Revenue Account will be treated as variable items outside the cash limit.

19. On this basis, the total relevant expenditure in England to be taken into account for the settlement is £18423m at estimated 1981/82 outturn prices.

GRANT PERCENTAGE

20. The Exchequer grant percentage for England and Wales has been kept at 61% of relevant expenditure for 4 years since 1977/78. A change of one percentage point is equivalent to £196m at estimated outturn prices for 1981/82. Grant can only be paid from national taxes or central government borrowing. But after consulting the local authority associations we have decided, having regard to the importance of keeping down the average level of rate increases, to make only a modest reduction in the grant for England and Wales - from 61% to 60%. This means that the grant for England, which was equivalent to 60.1% when the combined grant stood at 61%, should be reduced to 59.1%.

21. The aggregate Exchequer grant for England will be £10895m at estimated outturn prices. Specific grants are estimated at £1447m. Transport Supplementary Grant will be £416.5m. National Parks Supplementary Grant will be £4.5m. The remaining amount available for the Rate Support Grants is therefore £9027m.

DOMESTIC AND RATE GRANT

22. The first claim on RSG is the amount provided for domestic rate relief grant (formerly called the domestic element). We propose to keep domestic rate relief in England at 18½p in the pound. This will cost £663m.

DISTRIBUTION OF BLOCK GRANT

23. This leave a sum of £8364m at estimated outturn prices for distribution under the new block grant arrangements.

24. The objective of rate support grant is to supplement authorities' own finances so that they can provide similar standards of service for a similar rate in the pound despite differences in need for the services they provide and in the rateable resources they can draw on. The old system tried to do this by two grants compensating in separate stages for differences in needs and differences in resources. But it was unfair in two crucial respects. First the calculation of "needs" was based wholly on past expenditure patterns, so that if a group of similar authorities spent a lot, they were automatically assumed to have high needs. Secondly, the way the resources grant operated meant that

there was no disincentive to increasing spending levels so as to take a bigger share of the grant. The new system will confront these problems directly through assessments that take more account of real needs and a grant distribution machinery that contains an inbuilt disincentive at high expenditure levels.

GRANT RELATED EXPENDITURES

25. The old method of assessing "needs" is being replaced by grant-related expenditures (GREs). The old system was defective not only because of its equation of needs with actual spending, but also because it produced only a partial and very rough assessment for non-metropolitan districts; no separate assessment at all for metropolitan counties; and only a single figure for the whole of London local government. There was widespread dissatisfaction with the old needs assessment, which led to development work on relating spending need to numbers of people catered for by each service, and to costs of a 'unit' of service. The new system of GREs builds on much of this past work. The principal distinguishing features of the new system are:

- numbers of people catered for or other units - 'the indicators'- are related only to the service or services to which they are relevant, not to expenditure on all services indiscriminately;

- indicators for a service are selected on the basis of commonsense and judgement informed by experience; there is no longer a process of automatically rejecting those which do not correlate with past expenditure;

- in consequence, the costs attached to each unit of the indicators are more intelligible;

- the sums for the individual indicators add up to comparable GREs for each individual authority

Unlike the old needs assessments, the make-up of grant-related expenditures is available for all to see; and it can be steadily improved in future years. /But we need informed discussion and debate; and to stimulate this debate I am making available today a separate paper as a supplement to material contained in the Report, setting out further information on the main elements in the GREs relating to each service7.

BLOCK GRANT

26. As for grant, a single block grant for each authority will replace the confusing double grant (resources and needs elements).

27. The mechanics work as follows. An authority will be assumed to be levying a notional rate poundage - a "grant-related poundage" - as its own contribution towards its expenditure. There will be a schedule of these poundages, which will of course be higher for higher spending levels as measured against the authority's grant-related expenditure. The grant will be the difference between the sum that would be raised by this grant-related poundage and the authority's expenditure. In this way the grant equalises needs and resources by meeting the whole of the costs faced by the local authority over and above those that can be funded from the grant-related poundage.

28. Grant-related poundages will be the same for all authorities spending at the same level. This was in practice the way the old grant system worked. The operation of needs and resources element taken together meant that in 1980/81 any authority could fund expenditure in line with its assessed expenditure need for a rate poundage of 119p, and that for each extra £10 per head of population it decided to spend it would have to charge an extra 5.6p rate (or of course, for a £10 per head cut in expenditure it could save its ratepayers 5.6p). The new system will preserve these values for 1981/82 so long as an authority's total expenditure is no more than 10% above its grant-related expenditure. Once its expenditure pases that threshold level, however, it will have to charge more for

further increases in expenditure. An extra £10 per head of expenditure above the threshold will cost it not a 5[illegible] rate but a 7.0p rate.

DISTRIBUTION

29. Two important changes in the overall grant distribution flow from the distributional package.

30. First, the major shift of grant away from the shires to London which we halted last year will now be reversed, as illustrated in the following table:

Needs and resources element/block grant shares 1974/75 to 1981/82

Area	75/76	76/77	77/78	78/79	79/80	80/81	81/82
	%	%	%	%	%	%	%
Non-met areas	57.3	56.1	54.8	53.7	53.4	53.6	54.4
Met areas	29.4	29.0	30.1	29.5	29.6	29.7	29.8
London	13.3	14.9	15.1	16.7	17.0	16.7	15.8

31. Secondly, to the extent that authorities choose to spend in excess of a threshold of 10% above their GRE this will be at a higher cost to their own ratepayers.

MEASURING GRANT CHANGES

32. Measuring the changes in grant in the first year of a completely new grant system is inevitably a complicated business. Because authorities' grant entitlements under block grant will depend upon what they actually spend, grant gains and losses must at this stage be calculated on the basis of projections of authorities' expenditure for the coming year. We also need a "base position" corresponding to grant entitlements in the previous year against which the gains and losses can be measured. In this first year of the new system we have had to construct this by re-calculating the grant authorities got in 1980/81 on a basis consistent with their estimated block grant entitlements for 1981/82. We have made allowance for such things as

separate payment of grant for the first time to each tier of local government which have no net overall effect on the ratepayer.

SAFETY NETS AND CEILINGS

33. In the first year of the new grant distribution system, there are quite a lot of changes. There are three main reasons. First, there are changes that follow from the improved approach to estimating expenditure needs. These are especially pronounced in the non-metropolitan districts and London because of the lack of proper arrangements for assessing needs in these areas under the old system. Second, there is of course an across-the-board loss for all authorities arising from the cut in the grant percentage - this is roughly the equivalent of a 3p rate. Third, there will be losses for high-spending authorities because of the effects of the grant taper above the threshold.

34.We did not think it would be right to allow the full effect of all these changes to come through in the first year of the new system. So we have decided to use 'safety nets' - as in previous years - to limit the speed of change and so to dampen down the effects on ratepayers. And it is important to remember that the effect on the ratepayer is the net result of decisions by two tiers of local government, so we have to consider not just the effect on individual authorities but ultimate effect on ratepayers after adding up grant changes for each tier.

35. The safety net will apply in two stages. Stage 1 will put an 8p limit on losses arising not from spending decisions of individual local authorities but solely from the change to the new system. 3p of this is due to the reduction in the grant percentage. This leaves 5p arising from changes to the new system. This is roughly equivalent in real terms to the safety net of 4p used in 1979/8) when the needs element was paid to non-metropolitan districts for the first time. Stage 2 will put a 5p limit on losses arising because authorities are spending above the threshold; and of course such authorities can reduce the pressure on their

ratepayers by adjusting their expenditure so that a smaller proportion of it lies above the threshold. The safety net has been calculated to limit losses based on projections of authorities' expenditure for 1981/82, consistent with the Government's overall volume targets for local government and the inflation assumption implied by the cash limit. The safety nets will not limit losses arising from any change in authorities' expenditure from those projections, eg if they spend more than is estimated in the projections.

36. The two stages of the safety net will be split between the different authorities to which a ratepayer in any area pays his rates in a way that will limit the numbers of authorities affected by the safety net and so reduce the disturbance of the grant distribution arising from the safety net "override". In practice, ratepayers in only /four/ authorities will suffer the maximum possible loss of 13p.

37. Grant gains for any authority will be limited by a ceiling to a maximum equivalent to a 7p rate for the authority concerned.

LONDON

38. In the previous grant system, London was subject to special arrangements which (among other things) provided for some of the high rateable resources of the capital to be retained and shared between inner and outer London under a within-London distribution scheme. London will now be brought within the scope of the national arrangements, but will be allowed to retain the same resource advantage as implied by last year's settlement. This advantage will be distributed between inner and outer London so far as practicable in conformity with recommendations made by the London Boroughs Association and the Greater London Council.

RATES 38A Local government has a crucial role in the struggle to conquer inflation. It can play its part next year if every authority reduces the volume of its current expenditure in line with the Government's targets and keeps rate increases down to a minimum.

39. Ratepayers - whether they be industrial, commercial or domestic - themselves face a difficult financial year, and they will be justified in making vigorous protests against any demands for extra rate payments that reflect a less stringent approach to economy by their local council than they themselves are being forced to adopt. Local authorities must therefore be prepared to exercise self-discipline in relation both to the provision of services and the allowance for pay and price increases.

40. I do not believe that there is any inevitability about large rate increases for the majority of authorities. Local government as a whole rated above that was necessary in 1980/81 to meet this year's volume target. ~~and~~ If local authority budget within the volume guidelines and for a level of inflation within the cash limits, then the national average domestic rate increase should be well below the figure of [20%] in 1980/81, despite the modest reduction in the grant percentage. Block grant should not add overall to average rate increases - provided that authorities who gain pass on the benefit to the ratepayers - because it merely redistributes a given total of grant among all authorities.

41. The new block grant system does not of course guarantee delivery of any given aggregate volume of expenditure, since it is primarily concerned with the fair distribution of grant and leaves local authorities free to reach their own spending and rating decisions. This means, however, that the Government must look to local authorities to deliver, as they have done in the past, the reductions in the volume of expenditure prescribed in our expenditure plans. At this stage I do not propose to issue formally a guideline for each authority but I am seeking urgently the views of the local authority associations about what steps

need to be taken to secure the delivery of the national target. The Government certainly hopes that it will not be necessary to call for revised budgets again in 1981/82.

42. Local authorities cannot therefore escape from the uncomfortable arithmetic which I offered them when we called for revised budgets this year. If the Government's target for the volume of current expenditure is to be met in 1981/82, then every authority would need to reduce its current expenditure in real terms - after allowing for certain minor technical adjustments - by 5.6% compared with the actual outturn in 1978/79. And as I pointed out last time, to the extent that any authority exceeds such a volume target, then another authority will have to make deeper economies if the national target is to be met.

43. Of course, the cash cost of any given volume of current expenditure turns on the rate of inflation and I know it will be said that the overall increase in costs will be higher than allowed for in our cash limit. But the largest component of those increased costs is pay. We have set out quite clearly what we believe the country can afford in terms of pay settlements for local government employees. It will be for local authority employers and employees alike to ensure that settlements are made at levels which take account of that. If local government negotiate pay settlements above the overall allowance of 6% then of course costs will increase above the resources available and individual authorities will be hard pressed unless compensating cuts in manpower are made beyond those already implicit in the volume targets.

44. The estimated total Aggregate Exchequer Grant for England in 1981/82 is equivalent to 14p on the basic rate of income tax. Since the taxpayer provides support of this magnitude, the Government cannot ignore the extent to which local government is willing to conform with the broad social and economic policies for which it was given a national mandate and secures Parliamentary approval. So local authorities should be in no doubt that the £200m which has been withheld in the First Increase Order for 1980/81 will not be restored unless the volume target for that year is met. Further, it is not in our interests to make any adjustment to the inflation assumptions embodied in the Settlement, when we present the Supplementary Report next November. Finally, authorities should also bear in

mind that if rate increases are excessive or the volume targets for 1981/82 are exceeded, the rate poundages schedules can be adjusted differentially at Supplementary Report stage.

45. The message the therefore clear. Local authorities must plan to meet the Government's expenditure targets; they must also respect the cash limit. If they do so, they will, in the majority of cases, not be compelled to call for high rate increases and they will have played an essential part in helping to defeat inflation. I urge every councillor in every council in the country to do everything possible to achieve these objectives.

File

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Econ Pol

CONFIDENTIAL

cc D/Trans DHSS D/M
CO HO CALO
PGO LCO
CSO FCO John Vereker
DES SO
D/N WO
DOT D/Ind
DOE NIO
MAFF MOD
LPSO LPO

10 DOWNING STREET

From the Private Secretary

10 December 1980

Dear John,

1981/82 CASH LIMITS AND VOTES: AGRICULTURAL WORKERS

The Prime Minister has seen the Chancellor's letter of 28 November to the Minister of Agriculture in which he proposes that the agricultural departments' Votes should provide for a 6% increase in earnings for agricultural workers employed by them. She has also seen the Secretary of State for Employment's letter of 8 December proposing that a decision on this be postponed for the time being.

The Prime Minister suggests that this particular issue, and the wider question of setting cash limits for Government workers who have single outside analogues, should be discussed at an early meeting of the Ministerial group on public service pay.

I am sending copies of this letter to Private Secretaries to members of the Cabinet and to David Wright (Cabinet Office).

Yours ever,

Tim Lankester.

John Wiggins, Esq.,
HM Treasury.

CONFIDENTIAL

ds

CONFIDENTIAL

Prime Minister
Agree that this issue should be discussed by the new Ministerial committee?

1

MR. LANKESTER

Agricultural Workers' Pay

In his letter of 28 November, the Chancellor suggested to the Minister of Agriculture that the 1981/82 cash limit should provide for a 6 per cent increase in earnings for employees on the Vote of the agricultural departments where pay has in the past been linked to that of agricultural workers. The Secretary of State for Employment, in his letter yesterday, has intervened in the correspondence to say that this decision should be postponed.

TL
9/12

The official monitoring group has identified the problem~~s~~ of the setting of cash limits for Government workers who have single outside analogues as being a suitable subject for early discussion in the new Ministerial Group on Public Service Pay. Difficult issues are raised: on the one hand, industrial unrest may well be caused if long-standing links with outside groups are broken, and the application of a 6 per cent norm to these groups is a substantial extension of existing policy in the direction of a pay norm; but on the other hand, it is difficult to envisage groups of Government employees being offered large settlements before the cash limits have been set for the rest of the public service.

If the Prime Minister agrees, I think it would be appropriate for you to write at Private Secretary level saying that it is her view that this issue should be explored at an early meeting of E(PSP).

Agreed MT.

J.V.

9 December 1980

CONFIDENTIAL

Confidential

PM seen

TL 9/12

Treasury Chambers, Parliament Street, SWIP 3AG
01-233 3000

8 December 1980

Tim Lankester Esq
Private Secretary
Prime Minister's Office
No.10 Downing Street
LONDON SW1

Dear Tim,

MONTHLY NOTE FOR THE PM ON THE CGBR

... I am enclosing this month's note for the Prime Minister, ahead of Tuesday's publication of the CGBR in November (and the Bank's coincident publication of the first money figures for banking November - my separate letter of today's date refers).

As you know, expectations about borrowing for the whole year changed during November. The Industry Act forecast of £11½ billion for the PSBR as a whole assumed some overshoot in November for the CGBR alone, compared with the beginning month forecast of £2,150 million. Thus the excess of over £500 million shown in Table 1 is not entirely news. Part of it, almost certainly, will have a counterpart, either in local authorities' borrowing in the market or later in the year.

Looking ahead, the forecasts for December and January together are worse by £300 million compared with last month's projection, and fairly high borrowing is thought to be in prospect for February.

The line for press briefing on the November CGBR is that it was allowed for in the Industry Act forecast.

Yours

John

A J WIGGINS
Principal Private Secretary

(1) Eligible liabilities include foreigners sterling deposits

(2) M3 includes notes and coin.

THE PROFILE OF THE CENTRAL GOVERNMENT BORROWING REQUIREMENT (CGBR)

FEBRUARY: NOTE OF DECEMBER 1980

A. Outturn of the CGBR in November

The provisional outturn of the CGBR in November is £2,699 million. This will be published on 9 December. The result is £549 million above the forecast of £2,150 million made at the beginning of the month: some excess was, however, allowed for in the Industry Act forecast of the PSBR published on 24 November. Table 1 compares the outturn with the forecast in Table 3 of last month's note.

2. Consolidated Fund revenue was below forecast. The shortfall on Customs and Excise may be significant in relation to the year as a whole. That on Inland Revenue includes an element of £100 million that will be recouped in December. The apparent excess on interest receipts reflects an intra-government transaction, with a counterpart in other funds and accounts and no net effect on the CGBR.

3. On the payments side, local authorities suddenly borrowed heavily in the middle of the month. Estimates of their market borrowing are due this week and may help to explain this odd event. |4

4. Table 2 sets out the CGBR outturn since April 1979 together with new forecasts to the end of February. The cumulative excess over last year of the CGBR jumped back to £2.1 billion at the end of November.

5. The outturn of the CGBR in the November banking-month was £1,700 million (£1,970 million after seasonal adjustment), some £350 million above forecast. The main reason for this excess was the lending to local authorities referred to in paragraph 3 above.

B. Rolling Forecast for CGBR in banking December

6. Banking December runs from 20 November to 10 December. For the period up to 30 November the CGBR was £1,290 million and the current figure for the banking month as a whole is £2,010 million, in both cases before seasonal adjustment. Banking December is a short month and has relatively light receipts of PAYE income tax. Thus after seasonal adjustment the forecast is only £730 million.

C. Rolling forecast for CGBR in December-February

7. The latest working figures for the CGBR until the end of February are as follows:

	£ million
December	1,450
January	-1,450 (net repayment)
February	1,100

8. The forecast of the CGBR in December has increased slightly since last month but is still below the outturn in December last year. There are a number of presentational differences in the revised forecast; the main changes which affect the CGBR are an increase in the National Insurance Fund deficit in the month and a small reduction in Customs and Excise receipts. As usual the forecast for January shows a net reduction in central government borrowing. This forecast, too, has worsened a little since a month ago, with more lending to public corporations now thought likely. The January surplus is put well below that of a year ago, partly because of the large payments due under Rate Support Grant increase orders. They should have an effect on what local authorities then borrow.

9. February is expected to be a month of fairly heavy borrowing. Supply Issues are forecast to continue high; as in January large payments will be made under the Rate Support Grant increase orders. The estimate of net lending is also high: low repayments are due in the month from public corporations.

10. A reappraisal of the CGBR (and PSBR) in the year as a whole will be available in January.

TABLE 1

CENTRAL GOVERNMENT BORROWING REQUIREMENT - NOVEMBER

£ million

	Forecast	Outturn	Effect on CGBR
RECEIPTS			
Consolidated Fund			
Inland Revenue	2,100	1,899	-201
Customs and Excise	1,950	1,875	- 75
Other	800	730	- 70
National Loans Fund			
Interest etc receipts	300	699	+399
Total receipts	5,150	5,203	+ 53
EXPENDITURE			
Consolidated Fund			
Supply services and Contingencies Fund	5,600	5,644	- 44
Other	250	235	+ 15
National Loans Fund			
Service of the national debt	1,250	1,208	+ 42
Net lending	300	510	-210
Total expenditure	7,400	7,597	-197
Other funds and accounts	+100	-305	-405
(of which: changes in the European Community's balance at PGO)	(-15)	(-17)	(-2)
CGBR	-2,150	-2,699	-549

TABLE 2

CENTRAL GOVERNMENT BORROWING REQUIREMENT

£ billion

			Cumulative		
	1979-80	1980-81	1979-80	1980-81	Difference
April	1.3	0.9	1.3	0.9	-0.4
May	1.5	2.4	2.8	3.3	+0.5
June	1.0	1.3	3.8	4.6	+0.8
July	-	0.8	3.8	5.4	+1.6
August	1.1	1.6	4.9	7.0	+2.1
September	1.7	0.8	6.6	7.8	+1.2
October	0.1	0.1	6.8	8.0	+1.2
November	1.8	2.7	8.6	10.7	+2.1
December	1.6	(1.5)	10.2	(12.1)	(+1.9)
January	-2.5	(-1.4)	7.7	(10.7)	(+3.0)
February	0.3	(1.1)	8.1	(11.8)	(+3.7)
March	0.2		8.2		

Note: Some rows may not across add because of rounding.
Each column is correctly rounded.

TABLE 3

CENTRAL GOVERNMENT BORROWING REQUIREMENT

£ million and %

	April - November	December forecast	January forecast	February forecast	11-months to end February	% change of col (5) on year earlier	Budget forecast for whole year
Receipts							
Consolidated Fund							
Inland Revenue	19,433	2,350	5,250	2,850	29,900	+ 17	+ 17
Customs and Excise	14,683	1,700	2,550	1,750	20,700	+ 26	+ 33
Other	5,150	1,350	950	1,000	8,450	+ 26	+ 5
National Loans Fund							
Interest etc receipts	3,203	350	250	250	4,050	+ 16	+ 19
Total receipts	42,469	5,750	9,000	5,850	63,100	+ 21	+ 20
Expenditure							
Consolidated Fund							
Supply services	42,742	5,600	6,000	5,900	60,250	+ 25	+ 20
Other	2,023	300	300	250	2,900	+ 5	+ 12
National Loans Fund							
Service of the national debt	6,419	500	1,450	650	9,000	+ 19	+ 19
Net lending	2,863	100	50	350	3,350	+ 46	+ 27
Total expenditure	54,047	6,500	7,800	7,150	75,500	+ 24	+ 20
Other Funds and Accounts	+ 887	-700	+250	+200	+650		1,352(1)
(of which: changes in the European Community's balance at PGO)	(-9)	(-76)	(+11)	(+121)	(+47)		(..)
CGBR	-10,691	-1,450	+1,450	-1,100	-11,800		

(1) £ million

Note: Some rows and columns may not add due to rounding

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Caxton House Tothill Street London SW1H 9NA

Telephone Direct Line 01-213 6400
Switchboard 01-213 3000

Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury
Great George Street
LONDON SW1

8 December 1980

Dear Geoffrey

1981/82 CASH LIMITS AND VOTES : AGRICULTURAL WORKERS

I have seen your letter of 28 November to Peter Walker; and have some doubts about what you propose.

It will obviously be difficult, though it may prove essential, not to pay the new rates set by the Agricultural Wages Board to Government employees. More generally, however, if we set a separate pay factor for this group now it is likely to reduce our freedom of action when we come to set a pay factor, or pay factors, for the rest of the civil service.

Also I fear that to set separate pay factors for small groups of workers would reduce an important element of flexibility in our cash limit policy by making it more difficult to pay some groups less and others more.

Unless therefore Peter Walker sees an urgent need to set a separate pay factor for Government agricultural workers, I think it would be sensible to postpone taking a decision about this group until we have taken a decision about the NHS, which I understand is shortly likely to be necessary; and had a further discussion, which the NHS decision will prompt, about the civil service generally.

Copies of this go to Peter Walker, to other members of the Cabinet, and to Sir Robert Armstrong.

Yours
Jim

DD

Econ Pol
Public Expn
TL 4/12

✓ MAP

cc Mr Duguid

DEPARTMENT OF HEALTH & SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

The Rt Hon Michael Heseltine MP
Secretary of State for the Environment
2 Marsham Street
London
SW1

4 December 1980

Dear Michael,

PUBLIC EXPENDITURE: IMPLICATIONS FOR PSA

You sent me a copy of your 17 November letter to John Biffen about the cuts in the PSA's programme which enclosed a schedule of new starts proposed for 1981/82 and indicated schemes which you have suggested should be deferred for at least one year. Of course I fully appreciate the need to reduce public expenditure and understand very well the pressures on PSA votes, but it seems to us that we are in danger of losing more by staff and other savings foregone in the Departments that PSA serves than you are gaining by your cuts.

I know that you recognise the importance of many of these schemes for Departmental operations, but there has been little inter-Departmental discussion of the priorities, and thus little real opportunity for an assessment of the cost to Government as a whole of the effect of cuts and deferments. It seems wrong that there should be such little scope for meeting the needs even where failure to go ahead means serious operational (or financial) loss to a Department. Perhaps the situation will be better if we move to a "repayment system" which gives Departments real control over their expenditure on rents, supplies, maintenance and new works, with power to switch funds if savings can be achieved on the programme through timely investment in another. At present, of course, I have no funds under my control in the social security programme for such purposes.

Turning now to particular schemes, I was pleased to see the inclusion of the key computer scheme for dealing with unemployment benefit among the new starts schedules for 1981/82 (although the savings of about £23 million per year will accrue to James Prior and not to myself). However your officials will now be aware that I may be able to defer the completion of the new building at Livingston provided that the modification to the present building to house the 5th sub-centre is completed by September 1981.

I am concerned to see that you have not been able to make provision among the new starts for the Camelot project which I mentioned in my 5 November letter. It offers a potential saving of about 3000 staff when fully implemented and about £17 million a year. The earlier we are able to move from the pilot scheme to a national scheme operated from 12 centres the earlier these important savings will be achieved. We hope to be able to place orders for computer equipment in 1981 and to take delivery of four systems in 1982 and seven in 1983, with the first staff savings of some 500 posts in 1984. But if we are to achieve this we will require the accommodation during 1982 and 1983. I would be happy for my officials to consider with yours any propositions which you may have for reducing costs, but in view of the prospective manpower and cash savings expected from the Camelot project I must press most strongly for the provision during 1982 and 1983 of 11 centres to house the installations.

As far as the North Fylde project is concerned, use of the new ICL 2966 machine will enable us to continue with our current computer programs and I no longer need to press for the new building to be ready by mid 1983. But as the existing equipment was delivered in 1973 our latest date for completion of the new building must be mid 1984, and I could agree to the deferment of the start provided that this target is met.

I am grateful that you are proposing to make a start on three of our local office buildings where the landlords have served notice to quit, though it is disappointing yet again to see that it has not yet been possible to find places for three improvement schemes or for the joint project with DE at Houghton-le-Spring.

Perhaps I can take this opportunity to mention an item which may not feature under this particular programme. We must have accommodation during 1981/82 for our scheme of Automated Credit Transfer (ACT), which promises prospective savings of £7 million per annum. I understand that the renting of Cheviot House and restoration of some accommodation at Long Benton in Newcastle are being examined by your regional people. However authority has not yet been given for this and I hope the matter can be carried forward quickly.

Finally, I welcome your remarks about more time being given to considering the implications for later years, and hope that there will be full consultation with Departments. I would certainly welcome early involvement by my officials in such discussions. In the meantime I would be grateful if you could let me know what the position will be on the projects to which I have referred.

Yours ever

Patrick

YD

Econ Pol.

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB

My ref: H/PSO/18253/80

Your ref:

3 DEC 80

Dear John

PUBLIC EXPENDITURE: IMPLICATIONS FOR PSA

John Nott wrote to you on 29 October about his Department's wish to move staff engaged on export promotion work from the City to his Headquarters Building in Victoria Street, so that they can be lodged together with other divisions engaged on export work, in accordance with the recommendations of a Rayner study.

This is just the sort of scheme that I would want to be able to support; it produces staff savings and improved efficiency, and also produces savings on PSA costs. It does, however, involve quite substantial adaptations and other building work costing about £150,000, and you will have seen that it is not in the programme circulated with my letter of 17 November. It is one of a number of highly desirable and cost-effective schemes that cannot be undertaken within the level of funds now available, following the latest round of expenditure cuts.

Clearly, with our commitment to reduce the size and cost of the office estate, we must aim to meet such requirements within the existing estate and I have asked my officials to investigate how this can be done without incurring major works expenditure. If this proves impossible, then I am afraid this move will have to wait until the funds are available. We certainly cannot consider hiring additional accommodation in a high cost area like Victoria.

I am copying this letter to John Nott, other members of the Cabinet, Sir Derek Rayner and Sir Robert Armstrong.

Yours ever

MICHAEL HESELTINE

The Rt Hon John Biffen MP

Econ Pol
Public Expenditure
Cash Limits

CONFIDENTIAL

dle JFH

bc Mr Vereker

10 DOWNING STREET

From the Private Secretary

3 December 1980

NHS Cash Limits

The Prime Minister and the Chancellor had a word this evening about the announcement of the NHS cash limits. They agreed that the Chancellor should not press the Secretary of State for Social Services to agree to make the announcement this week. However the Chancellor said that he thought it would be important to announce this cash limit and possibly those for other parts of the public service soon - particularly if the impression continued to gain ground that, as a result of the firemen's settlement the Government was relaxing its stance on public service pay. He proposed to discuss with Mr. Jenkin and Lord Soames the timetable for further announcements. In addition, he would include in one of his weekend speeches a general statement on public sector pay, which would restate the Government's position in general and would attempt to put the firemen's settlement into perspective. The Prime Minister agreed that the latter would be helpful.

I am sending a copy of this letter to David Wright (Cabinet Office).

T. P. LANKESTER

John Wiggins, Esq.,
HM Treasury.

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CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Minister of State (C)
Minister of State (L)
Sir Douglas Wass
Sir Anthony Rawlinson
Mr Bailey
Mr Littler
Mr Middleton
Mr Bridgeman
Mr Dixon
Mr Kemp

NHS CASH LIMITS

Since you sent the Prime Minister the paper which Mr Littler submitted through me last night, the firemen's settlement has supervened. This does not cause us to alter our advice that you should not press, at the moment, for a decision and announcement on the NHS cash limits. But in the light of the firemen's settlement, we would suggest a somewhat different approach. The settlement may create an impression that Government policy for pay in the public services is being undermined. If so, the Government would have to move quickly and firmly to correct that impression.

2. We suggest that you should send the Prime Minister the attached draft of a short paper for Cabinet. It has been drafted with the assistance of Mr Littler.

W.S.R.

W S RYRIE

2nd December 1980

Mr. T.P. Lankester, 10 Downing St.

The Chancellor accepts that this draft correctly identifies the issues; but he remains worried that the settlement achieved by the firemen will have a damaging effect elsewhere, and would like to discuss the problem with the Prime Minister before putting any paper to Cabinet (or before formally minuting the Prime Minister on these lines.

JW 2/12

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DRAFT CABINET PAPER

NHS CASH LIMITS

At Cabinet on 27th November I suggested that it might be sensible to decide and announce the cash limits, including the relevant pay factor, for the hospital and community health services, and was invited (CC(80)42 Conclusions, Item 4(B)) to put in a paper in consultation with the Secretary of State for Health and Social Services.

2. After further exchanges between our two Departments, I am content to accept the view of the Secretary of State that it is not at this moment operationally necessary to take a decision on the pay factor for these cash limits. Although negotiations for the NHS ancillaries and ambulancemen have been adjourned ostensibly until the cash limit it known, I understand that the real reason for adjournment is that both sides wish to await progress in the negotiations for local government manuals. Operationally, therefore, we can afford to wait for the moment and I am content to do so, although I believe we must be ready to take a decision quickly, as and when operational need arises.

3. We may also have to be ready to move in the light of developments elsewhere. I have considered whether the outcome of negotiations between the local authorities and the firemen points to the need for any further move by government on the cash limits affecting pay of public services. At the moment I think it is generally understood that the firemen's settlement does not undermine the 6% limit on cash available. But if any doubt were to emerge on this, it would be necessary, I believe, both to reaffirm the 6% limit for local authorities promptly; and also to reinforce this by some early 6% announcements for other parts of the public service,so that local authority employers are not put under more pressure through being isolated.

CENTRAL GOVERNMENT BORROWING REQUIREMENT

BACKGROUND BRIEFING

1. <u>Why was the CGBR so high in November?</u>

The CGBR is usually high in November. Particular features of this November compared with a year ago are the low Inland Revenue and Customs and Excise receipts. This partly reflects receipts of PRT of £460 million in November last year and the high Customs figure in November 1979 due to some catching up in the collection of the higher rate of VAT. Another feature of last month's figure was high borrowing from central government by local authorities.

2. <u>Is the CGBR figure consistent with the Industry Act forecast?</u>

Yes. The Industry Act forecast took account of high borrowing in November. A good deal of the information for November was already known when the Industry Act forecast was being prepared.

3. <u>What is the forecast of the CGBR for the year?</u>

It is not the practice to provide a detailed breakdown of the PSBR shown in the Industry Act forecast. It is difficult to be precise as the forecast of the CGBR depends on the extent to which local authorities and public corporations borrow from central government rather than the markets.

4. <u>What is the future path of the CGBR?</u>

As last year a surplus is expected in the final quarter of the financial year. Factors influencing the path include high corporation tax and Schedule D tax receipts in January, some EC refunds, the proceeds from some special sales of assets and the second receipt this year of PRT.

5. Are receipts up to forecast?

Receipts in November in comparison with November 1979 look low. This reflects the change in timing of payment of PRT and the high inflow of VAT last year.

6. Why was expenditure high in November?

Supply expenditure in the year as a whole is now expected to be higher than forecast at Budget time, part of the increase resulting from the effects of the recession. Full details of Winter Supplementary Estimates were published on 2 December. These indicated areas where higher expenditure is occurring.

7. Is defence expenditure being reined back?

Yes, there are signs of a beginning of a downturn. The economy measures taken by MOD this summer are expected to take effect in the next few months.

8. Why was lending to local authorities so high in November?

This lending is often erratic from month to month. To the extent that this borrowing replaces market borrowing, the PSBR is unaffected.

9. Government Strategy not working?

CGBR should be in surplus in Q1 in 1981. Judgment on public borrowing for 1981-82 must wait for the Budget but my rt hon Friend, the Chancellor, made clear the Governments' determination to keep public borrowing in check when he announced on 24 November measures to reduce public spending plans and to raise extra revenue.

PT

2 MARSHAM STREET
LONDON SW1P 3EB

My ref: H/PSO/18689/80

Your ref:

28 November 1980

Dear Nigel

LOCAL AUTHORITY BORROWING

Thank you for your letter of 14 November.

I look forward to discussing this with you and others concerned in the very near future. In the meantime I confirm that my officials would be ready to take part in a Treasury-chaired official working party to set out and evaluate for Ministers the options for further action including possible measures to restrain market borrowing by local authorities.

I am copying this to the Prime Minister, George Younger and Nicholas Edwards.

Yours ever

MICHAEL HESELTINE

Nigel Lawson Esq MP
Financial Secretary
Treasury
Parliament Street
LONDON
SW1

Mr Wolfson

To see

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

MAP

pa

MAP

28 November 1980

Dear Mike

You asked me about the line in the annex to my Secretary of State's letter of 17 November about the PSA public expenditure programmes relating to operational requirements for DVLC at Swansea.

I attach a short note which I hope explains adequately the work involved and the reasons for it.

Yours sincerely

David

D A EDMONDS
Private Secretary

M A Pattison Esq

DVLC SWANSEA

1. All the computer and associated data processing equipment at DVLC has to be replaced between now and 1985. D/Transport propose to take the opportunity at the same time to re-organise the way the work is done to produce substantial staff savings and improve the speed and efficiency of their service to the public and PSA intend to undertake improvements to electrical distribution and plant on site which are essential if the reliability of DVLC's operations is not to be put at unacceptable risk.

2. The scheme thus includes work

a) to house replacement main frame computers in the existing halls in the computer block;

b) to provide services for the input data processing equipment in the 18 storey input block and to create a computer hall to house additional computers required for the proposed new method of working,

c) to provide services for replacement output equipment in the output block; and

d) to improve the electrical on-site system

3. PSA are still working on the development of the various elements in the scheme in close liaison with DTp and CCTA. The estimates of total cost and spread are necessarily provisional at this stage and the scheme is still subject to Ministerial approval.

4. It has been proposed as Category A because as a minimum some work to enable the main frame computer and input operations to continue is essential. This is expected to require £500,000 in 1981/82 whatever decisions are reached about procurement or about the change of method of working.

Econ Pol

Mr Walker

Pr..

Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000 28November 1980

The Rt Hon Peter Walker MBE MP
Minister of Agriculture
Ministry of Agriculture, Fisheries and Food
Whitehall Place
LONDON
SW1A 2HH

Dear Peter

1981-82 CASH LIMITS AND VOTES: AGRICULTURAL WORKERS

On November 13 Cabinet agreed - CC(80)40th - that decisions on the pay factor for cash limits should be deferred until they were needed for operational purposes. We now face such a case with agricultural workers.

I understand that the Agricultural Wages Board has imposed a 10.3% increase on the minimum rates of agricultural workers. There are a small number of employees on the Votes of the agricultural departments where pay has in the past been linked to that of agricultural workers. Forestry Commission industrial workers have been similarly linked. It seems likely that these groups will start pressing for a settlement and it is necessary to set the cash limit framework for discussions with them.

I propose that the 1981-82 cash limits and Votes should provide for a 6% increase in earnings for these groups, and for any others similarly linked to the Agricultural Wages Board, on the basis agreed by Cabinet on November 13. I do not consider that any different figure can be used. Anything lower would be unrealistic and anything higher would give the impression of a lack of resolve on our part.

I am copying this to other members of the Cabinet and to Sir Robert Armstrong.

GEOFFREY HOWE

Ref: A03664

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PRIME MINISTER

Public Expenditure 1982-83 and 1983-84
(C(80) 73)

BACKGROUND

At their meeting on 19th November Cabinet invited the Chancellor of the Exchequer to circulate, in time for discussion if necessary at their meeting on 27th November, a memorandum summarising his proposals for each programme in 1982-83 and 1983-84 (CC(80) 41st Conclusions, Minute 5, Conclusion 14).

2. The Chief Secretary's memorandum (C(80) 73) fulfils that remit. He reports that the figures have now all been agreed with Ministers. In particular he has reached agreement with the Minister of Transport who had raised questions in his letter of 18th November; and he has accepted that, subject to review in next year's Survey, the Secretary of State for Scotland cannot save more than £10 million a year by way of specific cuts in addition to the percentage reductions applying generally.

3. Table 1 annexed to his paper lists those policy reductions from the March White Paper, Cmnd 7841, which have been agreed during the Survey exercise. The list excludes the figures for the nationalised industries. Sponsor Ministers have not yet signed up on the proposal, in paragraph 12 of E(80) 121, that the figures for 1982-83 and 1983-84 should be those agreed in July. I understand that the Chief Secretary is still considering how best to deal with this. If a paper is necessary, it can come to E in due course, but there is no need to discuss the question at Cabinet tomorrow.

4. Before the next White Paper is published, further decisions will have to be taken on changes to take account of revised economic assumptions, and on the provisions for shortfall and for the contingency reserve.

5. Table 2 records the agreed policy additions since Cmnd 7841.

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HANDLING

6. Subject to any points which the Chief Secretary, or any other Minister, wishes to make, it will be sufficient to endorse the figures in the tables for incorporation in the next Public Expenditure White Paper.

CONCLUSIONS

7. You will wish to record conclusions:-

(i) Endorsing the figures in Tables 1 and 2 for incorporation in the next Public Expenditure White Paper.

(ii) Noting any further points which may be raised in discussion.

RA

(Robert Armstrong)

26th November 1980

PART 12 ends:-

P. General Office CAW

~~CST~~ to ~~HEEdA~~ 24.11.80

PART 13 begins:-

C(80)73 25.11.80