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PART L

FOR RECORDS SECTION USE ONLY

20/1/88
Papers
Pse

1. MR POTTER *BHP 20/7*
2. APS/CHANCELLOR

FROM: R FELLGETT

Date: 20 July 1987

cc: PS/Chief Secretary
 Sir P Middleton
 Mr F E R Butler
 Mr Anson
 Mr Hawtin
 Mr Gilmore
 Miss Peirson
 Mr Turnbull
 Mr Sedgwick
 Mr Potter
 Mr A M White
 Mr Tyrie

RATE SUPPORT GRANT SETTLEMENT 1988-89

The Chancellor enquired about the year on year increases in AEG for Great Britain for 1988-89 and 1987-88.

2. Scotland has not yet been settled, but an agreement is unlikely to affect the following rounded figures for Great Britain totals of Aggregate Exchequer Grant:-

	1986-87 to 1987-88		1987-88 to 1988-89	
	cash (£bn)	%	cash (£bn)	%
At settlement ⁽¹⁾	1.4	10%	1.0	6%
At outturn ⁽²⁾	1.1	7%	0.8	5%

(1) announced or agreed RSG settlements, plus additions for teachers' pay in 1986-87 and 1987-88.

(2) assumes, in line with PSF forecasts of LA expenditure, grant underclaim in England and Wales will increase from £280m in 1987-88 to £500m in 1988-89. Assumes Scottish penalties for overspending are unchanged.

Robin Fellgett

R FELLGETT



FROM: CATHY RYDING
DATE: 20 July 1987

MR P DAVIS

cc Chief Secretary
Economic Secretary
Sir P Middleton
Sir G Littler
Sir T Burns
Mr Cassell
Mr Sedgwick
Mr Peretz
Mr Kelly
Mr Bottrill
Miss O'Mara
Mr Culpin
Mr Barrell
Mr Owen
Mr Norgrove - No.10

MAY TRADE FIGURES

The Chancellor has seen your minute of 17 July.

2. The Chancellor had a few comments on the press briefing:

Defensive 1, redraft as follows:

"Current account deficit largest ever? No. [Largest monthly deficit £680 million in August 1956]. Never sensible to draw conclusions from a single month's figures. Current account in surplus by £201 million so far this year."

CR

CATHY RYDING

Covering Secret And Personal.

RP Paper P₂

From: Paul Dain

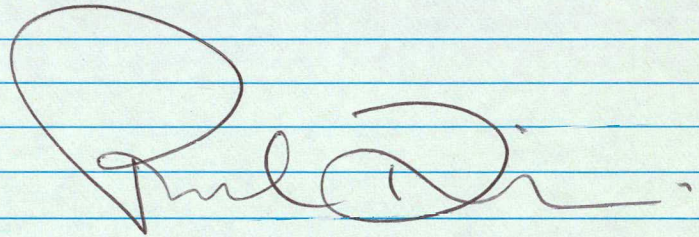
Date: 2017/87

PS/Chancellor of the Exchequer.

cc: As attached.
(Advance circulation only)

May Trade Figures.

1. I attach a revised version of the press briefing, taking on board the Chancellor's suggestions for defensive point one.



EAZ 35A/3 x 5384

~~Alex. OK.~~

~~EAI have just notice mofing deficit largest ever - they have incorporated this in briefing as at x. content?~~

or

DRAFT BRIEFING FOR IDT

Positive

1. Current account in surplus by £201 million in year so far, compared with deficit of £1347 million in second half of 1986. Largely reflects fall in non oil visible deficit.
2. CBI Survey for June shows export order books still buoyant.
3. Export volumes (excluding oil and erratics) in three months to May 6½ per cent higher than a year earlier - much stronger growth than in most other developed countries.
4. Manufacturing industry responding to competitiveness gains [Commons Trade and Industry committee report 'The UK Motor Components Industry', published 16 July gives evidence that market share of imports of cars may drop below 40 per cent next year.] Report shows that depreciation of sterling in 1986 and recovery of domestic car output contribute to optimistic outlook for components industry. Export volumes (excluding oil and erratics) 6½ per cent higher in three months to May than in previous three months.
5. Terms of trade (including oil) in three months to May improved by 2½ per cent over previous three months.

Defensive

1. Current account deficit largest ever. No. [Largest monthly deficit £680 million in August 1986. However manufacturing deficit of £942 million worst ever (August 1986 £939 million)]. Never sensible to draw conclusions from a single month's figures. Current account in surplus by £201 million so far this year.
2. Strong domestic demand growth sucking in imports: Not surprising that there should be some rise in imports given strong growth in domestic activity. Imports of intermediate goods and semis manufactures rising as industry expands.

3. Trend in imports upwards: Recent figures very erratic. Too soon to say whether rise in imports in May reflects rising trend. In three months to May import volumes (excluding oil and erratics) unchanged on previous three months.

4. Imports rising faster than exports [In three months to May on a year earlier, import volumes (excluding oil and erratics) up $7\frac{1}{2}$ per cent, compared with $6\frac{1}{2}$ per cent rise for exports. Three months on three months, import volumes unchanged while exports down 4 per cent.] Not surprising given that UK economy is growing faster than most other major economies but exports likely to benefit from improvements in world demand and UK's good competitive position.

5. Capacity constraint threatens current account performance. [Phillips and Drew forecast 2 July 1987 stated export boom unlikely to last as competitiveness declines and imports likely to increase since industry facing capacity constraint. Reported by Philip Stevens, Financial Times 6 July.] Always expected imports to rise as economy grows strongly. FSBR forecast predicted 8 per cent rise in import volume (excluding oil and erratics) in 1987. Gains in competitiveness since end 1985 should help to restrain import growth. Evidence of capacity constraints not conclusive. Industrialists report capacity utilisation broadly unchanged over past year and still below 1973.

6. Exports no longer growing. In three months to May, export volumes (excluding oil and erratics) $6\frac{1}{2}$ per cent higher than same period a year ago.

7. Manufacturing exports falling in recent months. In three months ending May, manufactures volume only a little below very high levels recorded at end of 1986.

8. Industry Act forecast for growth in exports in 1987 too optimistic: Exports forecast to grow in 1987 as world trade rises and benefits of improved competitiveness continue to come through. Latest CBI survey show export orders still buoyant. Export volumes (excluding oil and erratics) still $6\frac{1}{2}$ per cent higher in three months to May than a year ago.

9. FSBR forecast of £2½ billion current account deficit in 1987 too optimistic: Current account of balance of payments shows surplus of £201 million so far this year.

10. Non-oil tradeable sector unable to respond owing to erosion of manufacturing base. [FT report on car components industry 30 June indicates many suppliers have disappeared although there is now some optimism following sterling's depreciation. Corroborated in Commons Trade and Industry select committee report on UK motor components industry]. Performance of manufacturing industry improving. No reason for pessimism. Volume of manufacturing exports (excluding erratics) 6½ per cent higher in three months to May than a year earlier.

11. Fall in exchange rate needed - sterling's recent strength threatens competitiveness: Non-oil visible trade responding to 1986 exchange rate adjustment. Period of stability in exchange rate desirable. Vital that pay settlements kept under control if existing gains in competitiveness to be maintained.

12. UK's external position precarious: Current account in surplus by £0.2 billion in five months of 1987. Current account deficit forecast for 1987 only ½ per cent of GDP, following cumulative current account surplus of some £19 billion between 1979 and 1986. With net overseas assets thought to be worth around £110 billion by end 1986, overall external position in any case strong.

TRADE FIGURES FOR MAY 1987

Advance circulation

Chancellor	Mr Peretz
Chief Secretary	Mr Kelly
Economic Secretary	Miss O'Mara
Sir P Middleton	Mr Culpin
Sir G Littler	Mr Barrell
Sir T Burns	Mr Owen
Mr Cassell	
Mr Sedgwick	Mr Norgrove - No.10

Circulation after 11.30 am on Wednesday 22 July

Financial Secretary
Paymaster General
Mr Monck
Mr Matthews
Mr Hacche
Mr Tyrie
Miss Roche - No.10

UNCLASSIFIED



FROM: N G FRAY
DATE: 20 July 1987

mp

MR D W OWEN

OVERSEAS TRADE STATISTICS FOR MAY 1987: EXPORTS

The Chancellor has seen and was grateful for your minute of 15 July.

Nigel Fray
N G FRAY

The surge in imports is not
 solely unexpected but
 it is particularly steep for
 a single month. *ARRAF*

FROM: PAUL DAVIS
 DATE: July 1987

1. MR BOTTRILL
2. CHANCELLOR OF THE EXCHEQUER

cc: See attached list

MAY TRADE FIGURES

Ch
Press briefs seen OK?
One or 2 pl's a m
AA 1st page

The May trade figures will be published at 11.30 am on Wednesday 22 July. They will show a deficit on visible trade of £1161 million. Combined with an unchanged CSO projection of the monthly invisibles surplus of £600 million, they give a projected current account deficit of £561 million in May compared to a surplus of £96 million in April. In the three months to May 1987 the current account was in deficit by £280 million compared to a surplus of £268 million in the previous three months. There are not thought to be any distortions to the May figures as a result of the customs strike.

Main points

2. Current Account

	£ million								1987 Q2 (est)
	1986 Year	Q2	Q3	Q4	1987 Q1	Mar	Apr	May	
Manufactures	-5397	-609	-1739	-1788	-736	-321	-418	-942	-1360
Oil	4153	772	646	846	1164	454	419	361	780
Other goods	-7009	-1714	-1780	-1660	-1563	-550	-505	-580	-1085
Total visibles	-8253	-1551	-2873	-2602	-1135	-417	-504	-1161	-1665
Invisibles	8133	1714	2111	2017	1802	601	600*	600*	1200
Current balance	-120	163	-762	-583	667*	184	96*	-561*	-465

* projection

3. The value of exports fell by 4½ per cent between April and May, from £6.6 billion to £6.3 billion. Imports rose by 5½ per cent in May (about £0.4 billion); hence the visible deficit in May was about £0.7 billion greater than in April. In the three months to May the visible deficit was £0.5 billion larger than in the previous three months, reflecting a £0.7 billion deterioration in the non oil balance partly offset by a £0.3 billion improvement in the oil

TRADE
 FIGURES

balance. Over the same period the manufacturing trade deficit widened by around £0.7 billion to £1.7 billion - similar to the rate in the latter part of last year.

4. Exports

	percentage change			1986 on 1985
	May on Apr	3 months to May on prev 3 mths	3 months to May on same period year earlier	
Total value	-4½	-2	9	-6½
Total value excl. oil and erratics	-1	-2½	9½	2½
Total volume	-6½	-3½	6	3½
Total volume excl. oil and erratics	-2	-4	6½	2½
Manufactures volume (excl.erratics, OTS basis)	-3	-1½	6½	1
Fuels volume (OTS)	-21	-1	6½	2
Basic materials volume (OTS)	-14	-19	16½	10½
Food, drink and tobacco volume (OTS)	3½	-8½	6	8½

5. Export volumes, excluding oil and erratics, fell by 2 per cent in May. Fuel exports fell by about 21 per cent (this fall was largely offset by lower oil imports), and there were falls in most other categories, though the volume of exports of food, drink and tobacco rose by 3½ per cent.

6. In the three months ending May export volumes (excluding oil and erratics) were 4 per cent lower than in the previous three months but 6½ per cent higher than a year earlier. Within the total there were large falls in the latest three months in exports of non monetary gold, basic materials and food, drink and tobacco, the latter two items reflecting, respectively, the cessation of carousel trade in olive oil (which had temporarily boosted exports and imports around the turn of the year) and reduced disposals of excess grain stocks by IBAP. However the volume of exports of manufactures (excluding

erratics) also fell, by about 1 per cent, in the latest three months and DTI assesses that the underlying level of exports is now a little below the high level at the end of 1986. Recent quarterly figures however, have been volatile and it is difficult to judge whether the latest few months' figures represent anything more than a temporary pause in a generally upward trend.

7. Imports

	percentage change			
	May on Apr	3 mths to May on previous 3 months	3 mths to May on same period year earlier	1986 on 1985
Total value	5½	½	9	1
Total value excl. oil and erratics	9	0	10	7
Total volume	4½	-½	7	6½
Total volume excl. oil and erratics	10	0	7½	6
Manufactures volume (excl. erratics, OTS basis)	10	3	9½	5½
Fuels volume (OTS)	-28	-16½	4	8½
Basic materials volume (OTS)	-3½	-2½	15	6½
Food, drink and tobacco volume (OTS)	19½	-5½	-2½	8

8. Import volumes, excluding oil and erratics, rose by 10 per cent in May. Imports of manufactures and food, drink and tobacco rose sharply. Imports of fuels fell in May from the high level recorded in April, largely offsetting the fall in the export volume. The volume of basic materials imports also fell.

9. In the three months ending in May import volumes were unchanged from the previous three months, and 7½ per cent higher than a year earlier. Within the total, the volume of imports of food, drink and tobacco, basic materials and fuel all fell in the latest three months, but imports of manufactures rose. The latter reflected rises in imports of intermediate goods and semi-manufactures, consistent

With rising domestic output, but also some reversal of the earlier fall in imports of passenger motor cars.

Geographical area

10. The value of exports to the US has been declining and in the three months to May was 17 per cent lower than in the previous three months. Exports to the EC rose by 2½ per cent but exports to Japan fell by 1½ per cent. Exports to oil exporters rose by 12 per cent.

Trade prices

	percentage change			
	<u>Import prices (OTS)</u>		<u>Export prices (OTS)</u>	
	<u>May on Apr</u>	<u>3 mths to May on previous 3 months</u>	<u>May on Apr</u>	<u>3 mths to May on previous 3 months</u>
Manufactures (excl.erratics)	-½	-1½	0	1½
Food, drink, tobacco	-1	-2	-½	-1½
Basic materials	-½	0	½	1½
Fuel	-2	3½	-2½	2
Total (BOP basis)	-1	-1	0	½
Total less oil	-1	-1½	0	½

11. In the three months to April the total terms of trade, as measured by unit value indices, improved by 2 per cent compared to the previous three months, and the non-oil terms of trade improved by 2½ per cent. The favourable trend over the past few months reflects rises in the oil price and the exchange rate, only partly offset by rises in commodity prices in SDR terms. [NB: the published series are unit value indices, which can present a misleading picture over a period of time due to their use of 1980 weights.]

Comparison with the FSBR Forecast

12. In the first five months of 1987 import volumes have been around 7½ per cent higher than in the same period a year ago, compared with

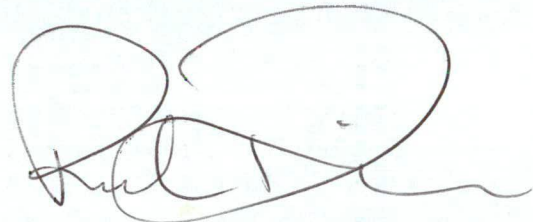
an FSBR forecast of 8 per cent growth for this year as a whole. The erratic path of imports recently makes it unusually hard to assess the underlying trend. But with most categories of manufactures imports now higher in the latest three months than the previous three months the figures do provide some support for the forecast of a rising trend through 1987. The FSBR forecast anticipated some fall in the volume of exports in early 1987, reflecting a projected fall in exports of non manufactures from the exceptional levels at the end of 1986. Although this has occurred, the fall in non manufactures has been somewhat less than expected while exports of manufactures have been weaker than expected. Nevertheless, even given the possibility of some further rise in imports of manufactures in the second half of the year, the manufacturing trade deficit, which was £2.1 billion in the first five months of the year, would need to remain at the high May level to exceed the FSBR projection of £8 billion for the year as a whole.

Market expectations

13. The market expectation is for a visible deficit of around £600 million in May and a current account broadly in balance. The May figures are considerably worse than expected, and may not be received well by the City.

Press briefing

14. I would be grateful for clearance of the attached press briefing.



PAUL DAVIS
EA2

DRAFT BRIEFING FOR IDT

Positive

1. Current account in surplus by £201 million in year so far, compared with deficit of £1347 million in second half of 1986. Largely reflects fall in non oil visible deficit.
2. CBI Survey for June shows export order books still buoyant.
3. Export volumes (excluding oil and erratics) in three months to May 6½ per cent higher than a year earlier - much stronger growth than in most other developed countries.
4. Manufacturing industry responding to competitiveness gains [Commons Trade and Industry committee report 'The UK Motor Components Industry', published 16 July gives evidence that market share of imports of cars may drop below 40 per cent next year.] Report shows that depreciation of sterling in 1986 and recovery of domestic car output contribute to optimistic outlook for components industry. Export volumes (excluding oil and erratics) 6½ per cent higher in three months to May than a year earlier.
5. Terms of trade (including oil) in three months to May improved by 2½ per cent over previous three months.

Defensive

Never sensible to draw conclusions from a 5/6 month's figs.

1. Current account deficit ~~second~~ largest ever. ^{2 (No.)} [Largest monthly deficit £680 million in August 1986]. Monthly figures erratic. Current account in surplus by £201 million so far this year
2. Strong domestic demand growth sucking in imports: Not surprising that there should be some rise in imports given strong growth in domestic activity. Imports of intermediate goods and semis manufactures rising as industry expands.
3. Trend in imports upwards: Recent figures very erratic. Too soon to say whether rise in imports in May reflects rising trend. In

Three months to May import volumes (excluding oil and erratics) unchanged on previous three months.

4. Imports rising faster than exports [In three months to May on a year earlier, import volumes (excluding oil and erratics) up $7\frac{1}{2}$ per cent, compared with $6\frac{1}{2}$ per cent rise for exports. Three months on three months, import volumes unchanged while exports down 4 per cent.] Not surprising given that UK economy is growing faster than most other major economies but exports likely to benefit from improvements in world demand and UK's good competitive position.

5. Capacity constraint threatens current account performance. [Phillips and Drew forecast 2 July 1987 stated export boom unlikely to last as competitiveness declines and imports likely to increase since industry facing capacity constraint. Reported by Philip Stevens, Financial Times 6 July.] Always expected imports to rise as economy grows strongly. FSBR forecast predicted 8 per cent rise in import volume (excluding oil and erratics) in 1987. Gains in competitiveness since end 1985 should help to restrain import growth. Evidence of capacity constraints not conclusive. Industrialists report capacity utilisation broadly unchanged over past year and still below 1973.

6. Exports no longer growing. In three months to May, export volumes (excluding oil and erratics) $6\frac{1}{2}$ per cent higher than same period a year ago.

7. Manufacturing exports falling in recent months. In three months ending May, manufactures volume only a little below very high levels recorded at end of 1986.

8. Industry Act forecast for growth in exports in 1987 too optimistic: Exports forecast to grow in 1987 as world trade rises and benefits of improved competitiveness continue to come through. Latest CBI survey show export orders still buoyant. Export volumes (excluding oil and erratics) still $6\frac{1}{2}$ per cent higher in three months to May than a year ago.

9. FSBR forecast of £2½ billion current account deficit in 1987 too optimistic: Current account of balance of payments shows surplus of £201 million so far this year.

10. Non-oil tradeable sector unable to respond owing to erosion of manufacturing base. [FT report on car components industry 30 June indicates many suppliers have disappeared although there is now some optimism following sterling's depreciation. Corroborated in Commons Trade and Industry select committee report on UK motor components industry]. Performance of manufacturing industry improving. No reason for pessimism. Volume of manufacturing exports (excluding erratics) 6½ per cent higher in three months to May than a year earlier.

11. Fall in exchange rate needed - sterling's recent strength threatens competitiveness: Non-oil visible trade responding to 1986 exchange rate adjustment. Period of stability in exchange rate desirable. Vital that pay settlements kept under control if existing gains in competitiveness to be maintained.

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TRADE FIGURES FOR MAY 1987

Advance circulation

Chancellor	Mr Peretz
Chief Secretary	Mr Kelly
Economic Secretary	Miss O'Mara
Sir P Middleton	Mr Culpin
Sir G Littler	Mr Barrell
Sir T Burns	Mr Owen
Mr Cassell	
Mr Sedgwick	Mr Norgrove - No.10

Circulation after 11.30 am on Wednesday 22 July

Financial Secretary
Paymaster General
Mr Monck
Mr Matthews
Mr Hacche
Mr Tyrie
Miss Roche - No.10



H. M. CUSTOMS AND EXCISE
STATISTICAL OFFICE
PORTCULLIS HOUSE, 27 VICTORIA AVENUE, SOUTHEND ON SEA
ESSEX SS2 6AL
TELEPHONE: 0702 36 7155

20

CONFIDENTIAL

FROM : C C FINLINSON
DATE : 16 JULY 1987

PAYMASTER GENERAL

✓ -

cc PS/Chancellor ✓
PS/Chief Secretary
Sir Peter Middleton
Mr Bottrill
Mr Cropper
Mr Tyrie
Mr Hibbert - CSO
Mr Stibbard - DTI

OVERSEAS TRADE STATISTICS

In my note of 2 June I gave our first assessment of the likely delays in publication of the monthly overseas trade statistics arising from the industrial action by computer operators at our computer centre in Shoeburyness.

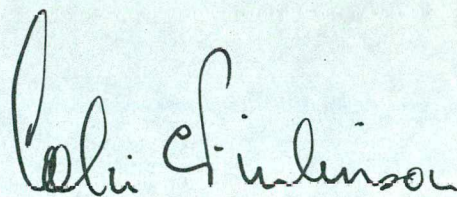
As you will know, the computer operators returned to work on 29 June and we were able to begin our planned recovery from industrial action by 30 June.

Internal Distribution :	CPS	Mr Paynter
	Mr Knox	SO 100/1/9
	Mr Nash	SO 100/SM/87
	Mr Russell	SO 104/21

CONFIDENTIAL

The plan for recovery had been refined and the timetable tightened significantly and we now expect to have returned to our normal timetable by September, a one month improvement on the forecast in my note of 2 June. Our success in keeping to the new recovery timetable depends crucially on the whole-hearted co-operation of our computer operators and of the staff within the Statistical Office. So far that co-operation has been forthcoming and I know of no reason why it should be withdrawn. The achievement of the first major milestone (supplying the provisional figures for May 1987 to the Department of Trade and Industry) on the revised target dates and the intended publication of that Department's Press Notice on 22 July is encouraging, but we have agreed with DTI that as we approach each scheduled date for the supply of provisional figures we will review the position before announcing when the next Press Notice is to be published.

A revised comparative timetable is at Annex A.

A handwritten signature in black ink, appearing to read 'C C Finlinson', written in a cursive style.

C C FINLINSON

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ANNEX A

OVERSEAS TRADE STATISTICS - RESCHEDULED RELEASE DATES

REFERENCE MONTH	ORIGINAL SCHEDULE			FIRST RESCHEDULE			CURRENT TARGET SCHEDULE		
	PROVISIONALS TO DTI		DTI	PROVISIONALS TO DTI		DTI	PROVISIONALS TO DTI		DTI
	EXPORTS	IMPORTS	PRESS NOTICE	EXPORTS	IMPORTS	PRESS NOTICE	EXPORTS	IMPORTS	PRESS NOTICE
MAY	12.6	16.6	25.6		13.7	24.7	8.7	13.7	22.7
JUNE	14.7	16.7	24.7		10.8	21.8	28.7	31.7	W/C 10.8
JULY	14.8	18.8	25.8		7.9	18.9	17.8	20.8	W/C 31.8
AUGUST	14.9	16.9	24.9		28.9	9.10	10.9	15.9	24.9
SEPTEMBER	14.10	16.10	23.10		12.10	23.10	14.10	16.10	23.10

*both 9/10
original schedule!*

pup

FROM: R FELLGETT
DATE: 21 July 1987

1. MR POTTER *BHP 21/7*
2. CHIEF SECRETARY

cc **Chancellor**
Sir P Middleton
Mr F E R Butler
Mr Anson
Mr Hawtin
Mr Gilmore
Mr Turnbull
Miss Peirson
Mr A M White
Mr Potter
Mr Cropper
Mr Tyrie

Alex
'you have papers on this'
✓ *OR*

RATE SUPPORT GRANT SETTLEMENT FOR SCOTLAND, 1988-89

Mr Rifkind's letter of 20 July describes a proposal for the Scottish RSG Settlement. It reflects discussions we have had with Scottish Office officials, though not agreement as Mr Rifkind suggests. (The discussions were clearly understood to be without prejudice to your views.)

2. I recommend that you agree to the proposal, provided Mr Rifkind withdraws his suggestion that the quantum of AEG should vary up or down if interest rates rise or fall between now and the autumn.

Provision

3. The proposal for public expenditure provision has been worked out by analogy with England. It allows most authorities to increase their spending above budgets for 1987-88 by 4% to cover forecast inflation with additions for teachers, police and fire pay. But, as in England, there is an allowance for a smaller increase for a minority of authorities. In Scotland there are

no rate capped authorities and therefore no provisional Expenditure Levels for 1988-89; so the calculation instead begins not from every authority's own budget for 1987-88 but from budgets after they have been reduced through selective action.

4. The Scots also propose to include £12 million of provision for the cost of preparatory work ahead of the community charge, which will be introduced in Scotland in April 1989. I think we are obliged to accept some allowance for these costs, and £12 million is consistent with estimates agreed with the Treasury for the Financial Memorandum to the Bill in the last Session to abolish rates in Scotland.

5. Provision on these lines would be £3640 million. This figure is £70 million more than the addition to the Scottish block Mr Rifkind can expect under the normal block rules. Under these rules, which in the past he has defended, Mr Rifkind would therefore have to find some £70 million from his central government provision to transfer to local authority provision. As my earlier submission explained, that would be a useful squeeze on Scottish central government programmes and would be consistent with ST's advice on your Survey strategy.

6. It is for consideration whether you might argue for lower or higher provision than the £3640 million proposed. However, lower provision would reduce the prospects of a squeeze on central government spending in Scotland, and increase the eventual claim on the Reserve from local authority overspending; as in England, there is little prospect of Scottish local authorities keeping their spending down to the figure for provision. And higher spending could tend to undermine the English settlement. The proposed £3640 million already represents an increase of nearly 5% above the 1987 White Paper baseline, whereas the increase in England is only 3%. This is mainly because Scottish budgets for 1987-88, even after selective action, showed larger year on year increases than their counterparts in England.

7. I therefore recommend that you agree to the proposed provision of £3640 million.

8. Aggregate Exchequer Grant would, under the proposal, then be calculated using a grant percentage of 55.5%, the actual rate in Scotland after teachers' pay was incorporated in the settlement and therefore analogous to 46.2% in England. As Mr Rifkind's letter explained, this percentage is 0.5% lower than the Scots had hoped. But the analogy with England is clear and they have accepted it.

9. You could argue for a lower grant quantum. Scottish local authorities have increased their spending faster than those in England and Wales in 1987-88; and the cash increase in AEG in Scotland will be just over 8%, significantly higher than the 5¾% agreed for England. However, to achieve a lower quantum of grant you would have to argue that the increase in grant amounted to validating the higher-than-average increase in local authority spending in Scotland in 1987-88. This would, of course, be a re-run of arguments against a fixed grant percentage already discussed in E(LA). In view of the decisions reached already, I doubt if it would be worthwhile pressing this argument against Mr Rifkind.

10. Mr Rifkind would like to adjust the quantum of grant later to keep the grant percentage at 55.5% if the forecast of financing items proves inaccurate. The main danger here is that, if interest rates should rise by the autumn, the financing items will be revised upwards and grant will follow. As there is no equivalent understanding in England, I think that you can easily resist this suggestion.

11. I therefore also recommend that you accept the proposed and fixed AEG figure of £2372 million.

Consequences for the Block Budget

12. Finally, Mr Rifkind says that his proposal is without prejudice to the normal operation of the block rules. I think

You can accept this. If you sought to enforce the £70 million squeeze on central government programmes now, colleagues might back a response from Mr Rifkind that the issue should be considered in the Survey proper. But if you leave the block rules to follow their normal course, Mr Rifkind will have to accept the squeeze or take the initiative to bid for extra.

Conclusion

13. The proposed RSG Settlement for Scotland is not ideal. But a tougher settlement would mean breaking the analogy with England that provision should be based on LA budgets, and grant on an unchanged grant percentage. On balance, therefore, I recommend that you accept Mr Rifkind's proposed figures for provision and AEG. However, there is no reason why AEG should vary if interest rates rise or fall.

14. A draft reply is attached.

15. ST agree with the general line of this advice.

Robin Fellgett

R FELLGETT

DRAFT LETTER FOR THE CHIEF SECRETARY'S SIGNATURE

To: Secretary of State for Scotland

RSG SETTLEMENT FOR SCOTLAND, 1988-89

Thank you for your letter of 20 July.

2. Your proposed settlement is a generous package for Scotland, with both provision for local authority current spending and grant increasing by larger percentages than in England. However, because Scottish authorities increased their budgets in 1987-88 by more than their counterparts in England, I accept that this is unavoidable unless we depart from the practice of setting the Scottish RSG by analogy with our agreements in E(LA) for England.

3. I recognise the difficulties a break with the English analogy would create for you, and am therefore prepared to agree on:-

(i) provision of £3,640m;

(ii) AEG of £2,372m.

However, the quantum of AEG must be fixed. There is no understanding that AEG in England may vary with movements in interest rates, and I therefore believe that we should similarly fix now the extent of central taxpayers' support in Scotland through Exchequer grant.

[J.M]

puo

CONFIDENTIAL

FROM: ROBERT CULPIN
DATE: 22 JULY 1987

CHIEF SECRETARY

cc Chancellor
Sir Peter Middleton
Mr F E R Butler
Mr Anson
Mr Gilmore
Mr Hawtin
Mr Turnbull
Mr Potter
Mr Tyrie

** **
you -> wa can I have
X (p 2 of the draft statement).
inflation is currently @ 4 1/4 % , now
are we AA forecast
4 1/2 % for 1987/88 as a
whole
Good point

RSG ANNOUNCEMENT

Miss Rutter showed me last night the draft of Mr Ridley's statement. Three things strike me straight away.

2. First, it looks damaging to say in consecutive paragraphs, on page 2, that

a. local spending this year is growing at twice the rate of inflation and

b. there will be no change next year in grant pressures, which "will continue" to be "tough".

On this basis, why on earth should anyone believe that local spending will grow next year at less than twice the rate of inflation?

3. If the answer is that next year's increase in grant will be slightly less than this year's, or that there won't be the same step change next year in teachers' pay, perhaps the statement could say so.

4. At present, the only hint is a reference to the Local Government Bill. I assume this is about enforced contracting out. If that is supposed to be the answer, it needs to be beefed up.

5. If none of these things provides a convincing answer, and there isn't a better one available, it would surely be prudent to omit the reference to this year's appalling outturn. It is an own goal. But we must have a decent defensive line on why any normal person should expect local authority spending to grow substantially less next year than this, despite the fact that we don't seem to be tightening any screws.

6. Second, it looks - to me - hypocritical to say that we are providing for

"most authorities to increase spending by about the rate of inflation, with an additional element to reflect the cost of pay in those areas where the Government has direct influence" (page 1).

If it is OK for the Government to increase pay by more than inflation, why isn't it OK for the local authorities?

7. If the answer is that we are providing for real increases in pay in priority areas, rather than areas influenced by the Government, perhaps the statement could say that. Otherwise it might be far simpler to say that we are providing for authorities to increase their spending by X per cent, which is more than the rate of inflation, and to omit the reference to pay.

8. As it stands, this reference will simply draw my customers' attention to what they see as the problem of public sector pay, and reinforce their impression that that is unlikely to take a significantly declining share of national income.

9. Third, the proposition on page 3 about likely rate rises looks, on the face of it, slightly inconsistent with the assumption about spending. There may be a simple explanation. But if

a. grant is going up by $5\frac{3}{4}$ per cent - which is substantially more than the rate of inflation (page 2) and

b. most authorities should "increase spending by about the rate of inflation" (page 1),

shouldn't rates rise on average by less than inflation? The statement only says, unrobustly, that they need not rise more.

10. I raise these points because, taken together, they could easily suggest that we expect local authorities to spend more next year than we are admitting. And that may be picked up: the RSG settlement will be scrutinised as the first concrete announcement of the public expenditure round.

11. A little re-drafting could make a lot of difference.

A handwritten signature in black ink, consisting of a large, stylized capital letter 'R' followed by a smaller lowercase letter 'c'.

ROBERT CULPIN

ND
Pages
D 5eFROM: J P MCINTYRE
DATE: 21 July 1987

CHIEF SECRETARY

cc Chancellor
Sir P Middleton
Mr F E R Butler
Mr Anson
Miss Peirson
Mr Scholar
Mr Gibson
Mr Tyrie**PROPOSALS FOR SOCIAL SECURITY BILL**

Mr Moore wrote to the Lord President on 16 July setting out his proposals for the new Social Security Bill, which he aims to have ready for introduction immediately after the summer recess. He is seeking colleagues' agreement to these proposals by 24 July so that Parliamentary Counsel can be instructed. While there are one or two important points we think you should register with Mr Moore, there are no big surprises in his proposals and we think you can broadly accept them.

The Proposals

2. As Mr Moore says, some parts of the bill are likely to be controversial, notably:

- (a) withdrawing entitlement to Income Support from 16 and 17 year olds;
- (b) correcting defects in the Social Security Act 1986 concerning the Social Fund;
- (c) tightening contribution conditions for unemployment and sickness benefits;
- (d) amending the provisions on the attendance allowance, following the Moran case, to tighten the definition of "continual supervision".

On (b) as we have mentioned to you, the department has been reconsidering its plans in the light of the heavy criticism levelled at the Social Fund. We expect Mr Moore to write very shortly proposing a considerable watering down of these plans, but this is a subject you do not need to address in commenting on the proposals for the Bill.

Comment

3. There are two main points we think you should consider making to Mr Moore at this stage. The first is to put up a marker that his Bill may need to contain further measures to meet the balance of the savings commitments from last year's Survey. £164 million of further savings are required in 1989-90, and £150 million in 1990-91. These might be achievable through secondary legislation, but some options would require primary legislation. Further measures may also be needed, depending on the outcome of the current Survey (and also on the outcome of court cases, particularly Woolrich).

4. The second point concerns Mr Moore's proposal to extend the mobility allowance to people aged over 75, who will otherwise lose their entitlement in November 1989. Though the direct short term public expenditure consequences of this concession would be fairly small (Mr Moore has made a Survey bid of £½ million in 1989-90 and £4½ million in 1990-91), the longer term effect would be much greater (at least £60 million by 1995-96). Moreover, there is a strong risk that if we make this concession, we could also be driven to abolish the rule preventing new applications from the over-65s; this could cost £400 million a year. DHSS are preparing a paper on this for H Committee, to which our dispute with the department was remitted by Star Chamber last year. For the moment, you simply need to tell Mr Moore that, while we have no objection to the necessary provision being prepared by the parliamentary draftsmen, this must be without prejudice to H Committee's discussion and that the measure should not appear in the published Bill until the matter has been resolved.

5. I attach a draft letter to Mr Moore.

Jm

DRAFT LETTER TO THE RT HON JOHN MOORE PC MP, SECRETARY OF STATE, DEPARTMENT OF HEALTH AND SOCIAL SECURITY, ALEXANDER FLEMING HOUSE, ELEPHANT AND CASTLE, SE1 6PY

PROPOSALS FOR SOCIAL SECURITY BILL

You sent me a copy of your letter of 16 July to Willie Whitelaw outlining your proposals for this Bill.

2. Although your letter does not say so, I am sure you will have it in mind that the Bill may need to contain further measures in order to meet the balance of the savings commitments from last year's Survey. Further measures may also be necessary depending on the outcome of our discussions in the current Survey. The Bill might also need to deal with the outcome of certain court cases affecting entitlement to benefit, notably the Woolrich case which I understand is being heard on 29 July and on which I hope to hear from you soon on your plans for coping with an adverse judgment.

3. In general, I am happy to agree that you should now instruct Parliamentary Counsel so that preparation of the Bill can proceed. However, in the case of your proposal to extend mobility allowance to people aged over 75, this must of course be without prejudice to the outcome of H Committee's consideration of the substantive issue. I am very concerned about the potential public expenditure consequences, particularly if your proposal led to further concessions on mobility allowance. I understand approaching £½ billion a year may be involved. Our officials are in

touch about the costings to go into your paper for H. I need hardly say that, until the matter has been resolved, the published Bill should not contain provisions on mobility allowance.

4. I am sending a copy of this letter to the Prime Minister, other members of H Committee, and Sir Robert Armstrong.

JOHN MAJOR



*p up
(no need to copy.)*

NOTE FOR THE RECORD

DRINK WITH SIR MARTIN JACOMB: MONDAY 20 JULY

The Chancellor debriefed me on the following points which arose.

- (i) Sir Martin was very pleased with the way BZW was going. He thought that at the end of the day there would be only two British-owned security houses in the big league: BZW and Warburgs.
- (ii) He was happy with the lead regulator compromise, and was prepared to say so; he was less happy with the capital adequacy rules.
- (iii) He already knew (from George Blunden). about the possibility that David Walker might take over from Sir Kenneth Berril. He was enthusiastic about this, and thought the switch should take place as soon as possible.
- (iv) Barclays will come out with provisioning of the order of £½ billion.

ACSA

A C S ALLAN

Altho' L says
he will reply a brief



22.7.87

Substantive reply will
be confidential. M.

Dear Chancellor,

You were kind enough
to suggest at lunch today that I
send you Hansard of yesterday's business
and that you would read my short
speech - columns 1315-6. To house
the young homeless would be self financing
and would not need the sort of money
that would affect interest rates or be in
anyway inflationary. I think the Government
image could be given a real boost if some
modest steps in this direction. Please do
not reply. Yours sincerely
David

P.S. Lord Young
reply Col: 1336

*for meet
Pete*

CHANCELLOR

FROM: B H POTTER

Date: 21 July 1987

cc: PS/Chief Secretary
Sir P Middleton
Mr F E R Butler
Mr Anson
Mr Hawtin
Mr Scholar
Mr McIntyre
Mr Holgate
Mr Tyrie

*Ch
Pretty thin, but
I suspect this is all
the info that is available
now.*

*AA
Think
I will X.*

E(LF): COST OF DUAL RUNNING

You asked for a note on the costs of dual running (the administrative costs of running both domestic rates and community charge during the transition phase) and the possible scope for economies. The costs were first estimated at £50m p.a by DOE in E(LF)(87)18 and then at £200m p.a, two weeks later, in E(LF)(87)28.

2. Neither of these estimates is sound. But the difference between them lies in the assumptions made on:-

- i) the billing, collection and enforcement practices of local authorities; and
- ii) how far the supporting central administrative machinery for domestic rates is maintained.

3. DOE's later estimate of the costs (£200m pa) is derived from the estimated current costs (£232m) of collecting rates (table 1). DOE implicitly assumed no savings on either the local authorities (LA) or Valuation Office (VO) element of present costs. But they reckon that about £50m of this total is attributable to non-domestic rates, giving an estimate of £182m for domestic rates. So even according to DOE officials themselves, the upper limit on the costs of collecting domestic rates during the transition phase should be £182m, not £200m.

4. DOE's earlier assessment (£50m) turns out to be no more than an arbitrary cost assumption of £3 for each of the 18 million ratepayers. Implicitly it assumes joint billing, joint collection and joint enforcement of rates and the community charge and a large-scale dismantling of the domestic rating work of the Valuation Office. But it is a guess - not supported by evidence: LAs have still to consider how billing, collection and enforcement costs can be minimised. Indeed as the note to table 2 shows, there are no reliable estimates of collection costs for the community charge either.

Assessment

5. In practice, we believe that faced with a transition period of four or five years and the tougher PLG grant system, LAs will have strong incentives to seek economies in dual-running. For example, they could work off one register; use a billing device which automatically adds the rate bill to the head of household community charge; invite the head of household to pay one bill only; and seek enforcement of rates, while enforcing the community charge for heads of household.

6. At this stage, we (and of course DOE) are unable to assess where between the upper limit of £182m and the probably unrealistic £50m, the costs of dual running will lie.

7. We have asked for better information on potential savings. DOE have offered nothing to date. But VO officials have indicated two broad options for achieving savings on their costs attributable to domestic rating (£34m):

- a much-reduced service where the Valuation list is altered only for new premises and conversions, and appeals are restricted to major changes in circumstance;
- a substantial rundown: those in new property would face the full community charge.

Annual savings are estimated at £10m and £15m respectively.

Line to take

8. At the E(LF) discussion on Thursday, you will be able to challenge Mr Ridley's estimates of the costs of dual running. First, his later estimate of £200m includes insufficient allowance for the costs of non-domestic rates: the correct figure is nearer £180m. Second that figure assumes no scope for savings in billing, collection or enforcement. That is unrealistic: with the costs of all extra spending falling on chargepayers, LAs will have a considerable incentive to find economies. Third, the running-down of Valuation list and appeals work offers scope for savings in the Valuation Office. (You may wish to avoid being specific on this: early and deep cuts in the Valuation Office service could prejudice later extensions to the transition period.)

XI 9. We will reflect these points in our briefing for the E(LF) discussion.

Barry H. Potter

B H POTTER

TABLE 1

CURRENT COST of rates

	£ million
Local authorities: collection	160
DOE: local valuation panels	4
Valuation Office (VO)	68
Total costs	<u>232</u>
<u>less</u> collection costs attributable to non-domestic rates	16
VO costs attributable to non-domestic rates	34
Administrative costs of domestic rates	<u>182</u>

TABLE 2

EXTRA costs of community charge

Local authorities: collection	320
DOE: local valuation panels	3
Cost of domestic rates and community charge	<u>395</u>

Very little work has been done to refine the cost estimate of collecting the community charge. Though figures from the Scottish Office and the Association of Metropolitan Authorities both suggest a doubling of cost, they boil down to little more than arbitrary assumptions about costs per capita and the doubling of the number of taxpayers.



David Norgrove Esq
 Private Secretary to
 The Prime Minister
 10 Downing Street
 LONDON
 SW1A 2AA

CH/EXCHEQUER	
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 ✓
 2 MARSHAM STREET
 LONDON SW1P 3EB
 01-212 3434

My ref:

Your ref:

pay

22 July 1987

Dear David,

NON-DOMESTIC RATING

Thank you for your letter of 20 July.

On the operation of the pool, the detailed arrangements will need further discussion between officials in the light of the Chief Secretary's letter of 17 July. We would hope to keep any margin for contingencies very small and avoid any significant extra burden on the community charge.

On domestic appeals, my Secretary of State's proposal to close these down following Royal Assent to the Bill is clearly altered by E(LF)'s decision to have dual running of domestic rates and the community charge. This issue will no longer be included in the consultation paper, and my Secretary of State will put further proposals in due course, having regard to the Prime Minister's views.

On the duty to consult business, my Secretary of State accepts that there are presentational grounds for retaining a duty to consult, but that clearly cannot be linked to the setting of the rate, as it is now, once that is determined by statutory formula. The Chancellor of the Duchy of Lancaster has commented that the present duty has proved quite useless in practice. My Secretary of State's preferred course would be to include the proposal to drop statutory consultation in the consultation paper, which will be sent to national business organisations (CBI, IOD, NFSES) and to reconsider the point in the light of their views, when it could if necessary be reinstated. I hope that the Prime Minister would be content with this approach.

I am sending copies to the Private Secretaries of members of E(LF) and to Trevor Woolley (Cabinet Office).

*Yours,
 Robin*

R U YOUNG
 Private Secretary



SECRET



FROM: JILL RUTTER

DATE: 22 July 1987

MR MCINTRYE

White X is correct
no doubt
Re CST
Plan to
Plan an
side CST,
on this, I do think
discuss
Some
with
Mr Moore
Attends
not
be
made.

cc: ~~discuss~~
 Chancellor
 Sir Peter Middleton
 Mr F E R Butler
 Miss Peirson
 Mr Gibson

SOCIAL FUND

The Chief Secretary has seen Mr Moore's Secret and CMO letter of 21 July (copy available in our office).

2 The Chief Secretary is surprised that Mr Moore should be suggesting such a major reversal of one of the key planks of the Social Security Act. He would wish to discuss with you how we should proceed.

3 The Chief Secretary had the following points on the letter.

4 The Chief Secretary notes that Mr Moore points to "expenditure falling " from a single payments total of £275 million to £125 million net. The Chief Secretary notes that these savings are already scored in the PES baseline. Moreover Mr Moore does not make it clear how much he envisages for community care grants nor does he make it clear how much he envisages for spending on crisis loans.

5 There is an implicit theme running throughout Mr Moore's letter that part of the compensation will come through higher income support for families with children. This will of course increase the net cost of the new scheme above existing PES provision for the Social Fund.

6 On the specific points in Mr Moore's letter the Chief Secretary has commented that the local authorities and

PS/CST
 ↓
 MCINTRYE
 22 July

SECRET

SSAC do not know how the cash limit system will work. The Chief Secretary thinks that the way in which the discretion has been defined in the legislation will make the discretionary system a judicial review proof. It is however far from clear that the regulation based crisis loans proposed in 6 (ii) of Mr Moore's draft will be similarly judicial review proof. Mr Moore does not say how many staff he will require to administer the crisis loans and the community care grants. Nor does he appear to be proposing to cash limit these which would be a major step back from the Social Fund proposals.

7 The Chief Secretary does not accept either that the new system would have to wait until June 1988. This too has a cost which Mr Moore fails to bring out in his letter, because it would mean operating the existing single payment system for a further 2 months. The Chief Secretary would be grateful if you could remind him whether the Social Security Act abolished the powers to make single payments.

8 The Chief Secretary would not wish you to come with detailed advice. He would be grateful however if you could try to attach some numbers to the proposals in Mr Moore's letter.

9 The Chief Secretary regards this as volte-face which would represent a major climb down by the Government. There are no new material facts to justify this change of policy direction. The Chief Secretary thinks that the Secretary of State has been frightened by the SSAC report in to re-thinking the Social Fund. The Chief Secretary thinks it highly unlikely that the SSAC would produce a positive report on the proposals for restricting single payments that he is now bringing forward. The Chief Secretary does not think that Mr Moore has adequately thought through the implications of his proposals.

10 Would you let me know as soon as you have the necessary numbers so that we can arrange a discussion.



JILL RUTTER

Private Secretary

CONFIDENTIAL

FROM: M NEILSON

DATE: 22 July 1987

CHANCELLOR

cc PS/FST
 PS/EST
 Sir P Middleton
 Mr Cassell
 Mrs Lomax
 Mr Scholar
 Mr Ilett o/r
 Miss Sinclair
 Mr Cropper

Mr Draper-IR
 PS/IR

Plt X 1 yr psr

AMERICAN DEPOSITARY RECEIPTS

In his minute of 29 June, Mr Kuczys records your question as to whether we are continuing to monitor the use of ADRs by UK investors to avoid stamp duty. We have delayed responding until the Bank's regular update on ADR activity was available.

2. We have three potential sources of information on ADRs - the Stock Exchange, the Bank, and the Inland Revenue.

The Stock Exchange

3. The only information the Stock Exchange will be able to give us is on secondary market transactions in ADRs in London by Stock Exchange member firms. We will get this information monthly, but it will constitute only a small part of even the secondary market, and will be no help with the questions we are really interested in, about the creation of new ADRs and about UK institutional activity in ADRs.

The Bank

4. The Bank regularly collects information on ADR prices, on the creation of ADRs, and on ADR turnover. They get this information

CONFIDENTIAL

direct from the main ADR banks covering between 80 and 90% of the market. The Bank now collect this information monthly. The latest figures, covering the period till the end of June, are attached.

5. Table 1 shows the price difference between ADRs and the underlying shares. Though obviously subject to fluctuation (due partly to illiquidity in the market for some ADRs), ADRs tend to sell at a premium reflecting their tax treatment. Table 2 shows turnover in a sample of ADRs, which appears to have fallen back from peaks earlier in the year, to levels comparable with that before the 1986 Budget. Table 3 shows the value of UK shares held in ADR form (at end-1985 prices). These show a sharp increase in January, reflecting British Gas, but have fallen back in the last 3 months. If BG and BA are excluded the stock of ADRs has increased by around 3% since October last year.

6. With the introduction of the London ADR market we have been considering how to get direct information on whether UK residents are holding ADRs. The only way to get this information is to contact UK institutions, such as pension funds and insurance companies, direct, and ask if they currently hold ADRs. The Bank have done a survey of half a dozen institutions. Of these all said they did not buy ADRs, except one which bought them only "on the rarest occasions", and one which had used them once. They will now do this sort of survey on a quarterly basis. We would, of course, expect the Bank to do much more in depth work as soon as any indication of significant UK activity in ADRs is discovered.

7. It may be worth considering collecting information on UK institutions holdings on a more systematic (but less prompt) basis by, for example, including a specific question in DTI's survey of insurance companies and pension funds investment. One risk with this is that it might have an advertising effect, in drawing attention to ADRs as an investment option. (The Bank were a bit concerned about this in conducting their telephone survey.) But if you would like more systematic information, we could approach DTI about it.

Inland Revenue

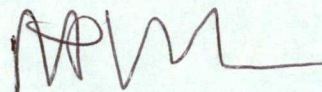
8. Inland Revenue's only source of information is tax revenue from the one and half per cent charge. The Stock Exchange collects the charge for them, but unfortunately their systems have not until now been capable of distinguishing ADR revenue from normal stamp duty revenue. They have now sorted this out and, since the beginning of July, the relevant information is being collected. Because the revenue comes via the Stock Exchange, from the ADR nominee companies, who have created the ADRs, there is no way of deriving information about who is holding the ADRs. The information on tax revenue will, however, provide a useful cross check on that from the Bank about market size.

Conclusion

9. Now that the Stock Exchange are providing figures on ADR revenue, we shall have a range of information available:

- monthly ADR revenue information
- monthly data on market turnover and changes in the stock of ADRs.
- quarterly spot checks on a sample of UK institutions.

X | Sharp, unexplained, changes in either of the first two could trigger further spot checks on UK institutions. More systematic information on UK investors could be obtained by using the DTI survey. Would you like us to pursue this?



M NEILSON

Percentage Premiums[∅]: A Comparison of the New York ADR Price with the London price

	ICI	Jaguar	Reuters	Glaxo	Cadbury	BT
<u>1986</u>						
29 January	+1.9	+1.0	+1.04	+1.6	-1.7	+0.4
26 February	+1.3	+0.9	+0.9	+2.1	-0.81	-2.5
Announcement of 5% duty 17/3	(1)					
18 March	+3.4	+3.0	+4.6	+3.8	-0.1	-1.5
11 April	+2.9	0.0	+3.2	+3.9	0.0	0.0
Announcement of 1 1/2% Duty 29/4	(2)					
30 April	-0.9	-1.9	+1.1	+2.4	-1.7	+3.0
28 May	-0.1	+0.4	+1.4	+1.6	0.0	+1.7
25 June	-0.1	+2.0	+1.0	+0.9	+2.1	+1.3
30 July	0.0	0.0	+0.6	+0.9	+0.6	+1.0
22 August	+0.3	+1.9	+1.2	-0.3	+1.8	+1.0
17 September	+2.1	0.0	-0.2	-0.5	+1/2	+2.2
16 October	-0.5	+3.1	+0.1	+0.2	+2.1	+2.7
17 November	+0.2	+0.8	+1.5	+0.8	+1.1	+1.5
19 December	-0.6	+3.7	+0.5	+0.9	+1.1	+1.4
26 January	-0.4	-5.5	+1.5	+1.0	0.0	+1.4
18 February	-0.2	-1.1	+1.0	+2.8	+0.4	+0.4
20 March	-0.3	-0.2	0.0	+1.2	-0.4	-0.8
24 June	+0.1	-3.0	+0.8	n/a	-0.4	-0.3
17 July	+0.4	-0.3	+1.3	n/a	0.0	+2.0

∅ The premium of the sterling equivalent of the ADR price over the London price.
 (1) COB New York compared with the opening price in London
 (2) New York price compared with the London price at 3.30 pm London time.

AVERAGE WEEKLY VALUE (£MNS) OF TRADES IN ADRS

(Confidential figures for ADR turnover as a % of turnover in the total UK and ADR market shown in brackets)

	ICI		SHELL		JAGUAR		CADBURY		REUTERS		GLAXO	
1985												
Q4	22.2	(55.7)	18.2	(50.8)	11.6*	(57.1)	7.6	(48.3)	2.9	(21.1)	31.1	(63.7)
1986 Q1	44.3	(58.2)	21.6	(44.7)	35.1	(66.6)	9.0	(43.3)	25.6	(61.9)	78.3	(63.2)
Q2	26.2+	(58.0)	15.4+	(42.4)	18.4+	(n/a)	8.7+	(51.5)	29.0+	(64.0)	n/a	(43.7)
Q3	30.1	(43.7)#	32.2	(44.3)#	20.7	(63.2)#	10.4	(66.3)#	24.7	(78.6)#	42.8 [/]	(56.7)#
Oct	22.6		23.0		14.8		13.8		17.7		30.7 [∅]	
Nov	48.2	(72.4)	41.5	(60.7)	9.9	(66.5)	5.6	(34.3)	25.6	(86.6)	37.9	(60.5)
Dec	29.5		30.9		18.1		4.8		36.2		55.2	
Jan	51.3		44.8		40.7		18.4		37.8		76.1	
Feb	81.5		49.7		24.2		14.9		33.7		85.2	
Mar	65.2		71.5		23.1		10.9		36.1		107.4	
April	59.1		36.7		25.7		5.9		52.9		77.2	
May	46.8		47.0		18.2		8.7		35.4		65.6	
June	46.1		35.7		15.2		8.6		45.3		56.3	
July (to 20 July)	32.8		42.5		23.2		9.6		32.6		61.7	

July figure for ADR turnover as a % of total turnover

* 18 November - 27 December

+ excludes final week of June

∅ final week of October 3 November - 24 November

[/] excludes July figures

TABLE 3

THE VALUE OF UK COMPANIES' SHARES BACKING ADRS ISSUED BY MORGAN GUARANTY, BANK OF NEW YORK, IRVING TRUST, CITIBANK

(VALUED AT END-1985 SHARE PRICES: THOUSANDS OF POUNDS STERLING)

	APRIL	JULY	OCTOBER	NOVEMBER	DECEMBER	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE
ALBERT FISHER GROUP	42	46	50	88	182	164	182	n/a	210	211	214
ALLIED LYONS	11	1,984	1,700	1,687	1,654	1,346	1,290	n/a	1,182	993	818
ASSOCIATED BRITISH FOODS	18	18	18	14	14	14	15	n/a	14	14	14
BAT	231,382	250,113	206,555	198,549	197,623	191,649	182,543	n/a	159,818	152,059	141,311
BSR	124	139	139	94	94	89	88	n/a	88	85	205
BTR	4,442	4,039	4,172	4,490	4,804	4,613	4,306	n/a	4,797	4,955	4,952
BEECHAMS	26,661	51,853	65,434	66,807	66,153	84,769	88,431	n/a	111,687	115,146	116,195
BIO ISOLATES*	17	17	17	17	17	17	17	n/a	17	17	17
BLUE CIRCLE	0	0	0	1	1	1	53	n/a	2	40	51
BDC GROUP	312	413	410	1,235	583	257	313	n/a	300	739	270
BOOTS	6,042	2,708	3,838	3,841	3,836	3,810	2,164	n/a	3,643	3,503	924
BORDER & SOUTHERN	100	100	100	537	537	527	527	n/a	541	541	538
BOWATER INDUSTRIES	8,159	8,159	7,042	7,036	7,036	7,048	6,947	n/a	490	490	470
BP	177,562	194,824	368,632	404,369	475,838	535,651	583,431	n/a	597,648	594,172	588,146
BRITISH TELECOM	32,185	47,744	65,621	68,915	83,186	98,999	107,213	n/a	107,855	92,356	106,333
BRITISH AIRWAYS	0	0	0	0	0	0	99,641	n/a	81,484	71,862	50,751
BRITISH GAS	0	0	0	0	0	204,236	204,799	n/a	179,253	159,423	131,584

* Price taken from Stock Exchange Investment List (February 1987)

THE VALUE OF UK COMPANIES' SHARES BACKING ADRS ISSUED BY MORGAN GUARANTY, BANK OF NEW YORK, IRVING TRUST, CITIBANK

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(VALUED AT END 1985 SHARE PRICES - THOUSANDS OF POUNDS STERLING)

	APRIL	JULY	OCTOBER	NOVEMBER	DECEMBER	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE
BRITDIL	42,391	101,460	128,771	137,465	137,308	138,274	137,837	n/a	149,003	156,615	159,315
BURMAH	7,498	8,344	10,012	8,967	10,037	9,810	8,853	n/a	4,921	4,854	4,828
C H BEAZER (HOLDINGS) PLC	0	0	0	0	0	0	0	n/a	0	0	14,558
CADBURY SCHWEPPES	48,670	60,587	90,776	102,736	103,805	104,166	103,119	n/a	94,942	90,907	72,317
CHARTER CONSOLIDATED	856	859	848	796	790	779	774	n/a	775	770	769
CONSOLIDATED GOLDFIELDS	4,037	3,599	3,943	3,791	4,420	2,085	3,041	n/a	5,000	6,393	6,901
COURTAULDS	2,260	2,011	2,011	2,291	2,291	2,270	2,163	n/a	2,267	2,223	1,954
DEBRON	6	6	6	6	6	6	6	n/a	5	0	0
DE LA RUE	1,521	1,521	899	440	440	428	428	n/a	428	428	428
DISTILLERS	178	178	178	168	168	168	0	n/a	0	0	0
DOWTY	309	655	195	195	194	154	194	n/a	194	196	196
FISONS	7,119	5,524	3,967	3,789	14,139	13,878	14,381	n/a	14,289	14,278	13,597
GEC	996	996	996	995	1,598	1,625	1,753	n/a	5,144	5,196	4,900

THE VALUE OF UK COMPANIES' SHARES BACKING ADRS ISSUED BY MORGAN GUARANTY, THE BANK OF NEW YORK, IRVING TRUST, CITIBANK

(VALUED AT END 1985 SHARE PRICES - THOUSANDS OF POUNDS STERLING)

	APRIL	JULY	OCTOBER	NOVEMBER	DECEMBER	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE
GESTETNER	405	405	405	385	262	17	17	n/a	15	15	18
GLAXO	1,680,919	1,810,118	1,649,177	1,621,571	1,592,473	1,602,621	1,574,113	n/a	1,642,916	1,612,488	1,579,302
GRAND METROPOLITAN	418	405	582	603	614	573	547	n/a	424	446	681
GREAT UNIVERSAL	290	290	290	283	283	283	283	n/a	283	292	292
GREAT UNIVERSAL "A"	37	37	37	365	365	365	365	n/a	362	362	362
GUINNESS	5	36	16,702	16,876	19,457	21,236	20,629	n/a	13,199	12,632	11,947
GKN	6	6	6	35	35	35	43	n/a	43	43	33
HANSON TRUST	2,713	3,145	14,185	56,571	109,595	171,804	195,658	n/a	230,996	258,325	319,356
HARD ROCK*	0	0	0	0	0	0	0	n/a	0	0	0
HAWKER SIDDELY	21	21	21	11	11	11	11	n/a	11	11	11
HARVARD*	0	0	0	0	0	0	0	n/a	0	0	0
ICI	766,825	782,487	743,405	741,980	740,827	733,105	726,903	n/a	688,670	659,947	612,821
ICL	331	331	331	0	0	0	0	n/a	0	0	0
IMPERIAL GROUP	6,284	3,551	3,551	0	0	0	0	n/a	0	0	0
JAGUAR	280,610	292,304	296,777	296,205	295,637	297,381	294,828	n/a	296,539	288,558	265,003

* Prices not available

THE VALUE OF UK COMPANIES' SHARES BACKING THE ADSR ISSUED BY MORGAN GUARANTY, BANK OF NEW YORK, IRVING TRUST, CITIBANK

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(VALUED AT END-1985 SHARE PRICES, THOUSANDS OF POUNDS STERLING)

	APRIL	JULY	OCTOBER	NOVEMBER	DECEMBER	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE
LADBROKE	1,831	2,011	1,983	504	488	451	429	n/a	376	365	340
LONDON INTERNATIONAL	1,393	1,390	6,388	8,185	8,706	8,716	12,210	n/a	36,234	37,234	36,781
LASMO	8,484	8,484	379	382	346	347	344	n/a	247	247	234
LONRHO	35,655	34,971	31,171	30,473	27,678	23,220	21,806	n/a	25,219	24,938	22,609
METAL BOX	15,071	48,029	21,787	21,663	21,419	18,647	9,841	n/a	2,868	2,404	557
NATIONAL WESTMINSTER	0	0	144,270	147,763	151,957	151,227	149,174	n/a	143,049	135,381	114,132
NIMSLO	360	380	380	377	377	377	377	n/a	337	337	337
PENTOS	199	199	191	191	191	191	191	n/a	189	189	188
PLESSEY	19,567	19,564	18,884	18,884	18,792	18,745	18,729	n/a	16,796	16,622	16,633
PREMIER CONSOLIDATED	253	253	250	228	226	1,138	222	n/a	220	236	235
POLLY PECK	7	8,708	8,582	6,728	6,451	1,367	1,381	n/a	960	2,170	768
RACAL	2,032	1,950	3,033	4,305	4,546	4,608	4,854	n/a	4,378	4,576	4,345
RANK	16,268	15,437	15,451	13,977	13,478	13,157	12,808	n/a	12,479	12,047	11,997
REDLAND	321	321	321	160	160	160	160	n/a	160	182	182
REED INTERNATIONAL	320	320	889	1,046	1,060	1,060	1,088	n/a	1,114	1,116	1,054
REUTERS	281,865	367,093	456,224	462,830	468,326	472,915	474,391	n/a	475,276	491,393	489,457

THE VALUE OF UK COMPANIES' SHARES BACKING ADRS ISSUED BY MORGAN GUARANTY, BANK OF NEW YORK, IRVING TRUST, CITIBANK

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(VALUED AT END-1985 SHARE PRICES, THOUSANDS OF POUNDS STERLING)

	APRIL	JULY	OCTOBER	NOVEMBER	DECEMBER	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE
RODIME*	15,778	15,705	15,725	15,693	15,689	15,689	15,421	n/a	14,833	14,833	13,319
RTZ	16,450	20,885	18,500	19,041	24,071	23,842	23,778	n/a	18,486	15,172	14,757
ROTHMANS	7,540	7,292	5,560	5,531	5,367	5,432	5,371	n/a	5,416	6,173	6,302
SAATCHI	27,709	90,463	106,458	103,716	103,537	129,076	142,808	n/a	131,168	133,700	132,573
SAINSBURY	56	0	30	41	40	40	40	n/a	2,381	1,565	42
SEARS	55	55	55	55	55	55	55	n/a	55	55	57
SENETEK #	0	0	0	0	0	0	0	n/a	0	0	0
SHELL	528,477	509,868	512,865	513,782	513,212	497,198	484,163	n/a	378,093	343,744	312,103
SONIC #	0	0	0	0	0	0	0	n/a	0	0	0
SOUTHWEST RESOURCES	482	482	482	483	475	474	470	n/a	470	470	470
TATE & LYLE	96	95	95	95	95	77	48	n/a	24	38	41
TESCO	171	171	171	165	165	160	156	n/a	156	156	136
THORN EMI	1,733	1,654	1,653	1,979	1,275	1,128	1,244	n/a	780	799	799
TUBE INDUSTRIES	75	75	75	0	0	118	121	n/a	97	133	133

* Price at end-1986

No prices available

THE VALUE OF UK COMPANIES' SHARES BACKING ADRS ISSUED BY MORGAN GUARANTY, BANK OF NEW YORK, IRVING TRUST, CITIBANK

(VALUED AT END-1985 SHARE PRICES: THOUSANDS OF POUNDS STERLING)

	APRIL	JULY	OCTOBER	NOVEMBER	DECEMBER	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE
TRICENTROL	4,435	4,435	10,919	11,124	11,694	11,709	11,877	n/a	12,645	12,640	12,640
TURNER & NEWALL	383	317	326	9	9	9	9	n/a	9	9	9
ULTRAMAR	8,830	8,830	8,852	8,860	8,776	8,504	8,335	n/a	8,263	8,188	8,062
UNILEVER	5,727	3,719	6,497	6,491	7,668	7,195	7,195	n/a	7,341	8,208	8,766
VICKERS	608	602	602	46	119	168	169	n/a	168	143	182
UNIVERSAL*	0	0	0	0	0	0	0	n/a	0	0	0
WHITBREAD	3,274	4,268	2,686	2,686	2,686	2,686	2,610	n/a	2,118	487	175
TOTAL (£mn):	4,347	4,819	5,094	5,162	5,295	5,658	5,780	n/a	5,707	5,588	5,423

* No price available

Purges
P50

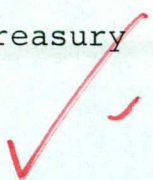


ELIZABETH HOUSE
YORK ROAD
LONDON SE1 7PH
01-934 9000

CHIEF SECRETARY	
REC.	22 JUL 1987
TO	Mr S. Kelly
	CX PMG Mr Butler
	Mr Anson Mr Gilmore
	Mr Luce Mr Scholder
	Mrs Strachan Mr Turnbull

18

The Rt Hon John Major MP
Chief Secretary of the Treasury
Parliament Street
London SW1P 3AG



[Handwritten signature]

Mr C Allan Mr Greene

22 July 1987

Mr Gray Mr Pratt

Mr Cropper Mr Tyrrie

DES RUNNING COSTS

1. I was disappointed by the response in your letter of 13 July. If I am to implement our decisions on education reform and present our policies effectively, I need authority now to proceed on the basis that my running cost limit for 1987-88 will be increased.
2. You raise a number of detailed points. My officials have already had extensive talks with yours. I hope that we can now move on to find a solution to the problem.
3. On staffing, you say that the annex to my letter includes staff for work not directly connected with the Bill. I do not know what you mean by "directly connected" but the staff listed are needed to make a success of the Government's education policies. I am now able to withdraw my bid for 1.5 extra staff for special education needs in FE; but the rest is justified. I should be very happy to take you through the rest of the annex, line by line, to explain why if that is what you wish. So far as the Secretariat of the Interim Advisory Committee is concerned, I am told that the Treasury has now agreed that it should be in the DES.
4. I note the point you make about staff inspection. The savings recommended by staff inspectors have to be considered by management in a wider perspective than that of the staff inspectors. The Department expects to implement about the same proportion of staff savings this year as last from within the recommendations of the staff inspectors. This means that some 12 of the 23 recommended staff savings will be achieved; but I need these savings to staff up new functions. Reallocation of staff goes on the whole time and you have made no allowance in your argument for the points made in paragraphs 3-6 of my 17 June letter. The DES has already had to absorb a great deal of new work this year - for example, on AIDS, the higher education White Paper and the reform of NAFE. New requirements are coming forward the whole time - it now seems probable that I shall have to assign more staff to work on counter-obstruction measures and increase the Bill team by more than I said in the Annex to my 17 June letter.

MANAGEMENT IN CONFIDENCE

5. I might manage with a figure marginally less than the one I proposed; but your suggestion of 30 additional staff is not realistic given the work that the DES has been asked by the Government to carry out. You refer to savings last year on our gross running costs provision which were very largely due to a shortfall on expenditure on seconded-out staff. As a continuation of that trend we now expect savings in gross provision of some £450,000 in 1987-88. I am grateful for your authority to use these savings to cover additional staff in the current year - at least I take it that that is what your letter means - and I will proceed on that assumption. But you will realise that there will be a shortfall in receipts from seconded out staff so that the net administration cash limit will need to be raised by the value of the savings on seconded out staff. Last year, despite the shortfall in gross expenditure, our cash limit was fully spent.

6. An increase in my cash limit of £450,000 will pay for the extra staff that I need and the Curriculum Working Groups; but it will allow nothing for accommodation and publicity.

7. On accommodation, we need to reach an early decision. Because of the time that has passed since the Election, we shall not now be able to acquire extra space by 30 September and as a consequence the PSA will not bill us until 1988-89. They are negotiating on our behalf for two floors of a building which we need to bring into use before the end of 1987 to accommodate additional staff. In order to clinch this deal we need your agreement to the increase in our baseline needed to pay the rent. The figures are £1 million in 1988-89 - to cover occupation this year as well as next - and £700,000 a year thereafter.

8. On publicity your letter says that, while you can see the need for 'limited and well targeted information work' during the passage of the Bill, you do not accept the case for any additional provision for publicity expenditure. This misses the point of what we are trying to do. As I have repeatedly said, education has for long been producer-driven with scant respect for or attention to the wishes of the consumer - parents, employers and pupils. Our information activities have in the past been targeted to the education world and our spending has been small by comparison with that of Departments that run campaigns aimed at the general public. This point is illustrated by the attached table of advertising expenditure by Government Departments during 1986 based on a MEAL survey reported in 'Campaign' on 10 April 1987.

9. The central thrust of the Education Bill will be a switch of influence from producers to consumers. Our publicity has to be targetted accordingly. Parents must be made aware of the greater choices available to them for the education of their children and they must be convinced that their views will in future count. They need to be persuaded to exercise their new powers. In short, we are now talking of a 'hearts and minds' campaign aimed at the public as a whole rather than an information process for the narrow education world. The DES needs to be funded accordingly. Other Departments are. The publicity budget of the Home Office for the current financial year has, I understand, been increased substantially to some £9 million in order to permit more publicity on crime prevention; the DES publicity budget is a mere £1 million.

MANAGEMENT IN CONFIDENCE

Such imbalances are typical as the Annex shows. Am I not entitled to ask you to explain on what grounds the Treasury funds these other Departments so generously as to make it possible for them to mount expensive campaigns yet turns down a modest request by the DES which, as the Prime Minister has repeatedly said, is now in the forefront of the Government's programme for the new Parliament?

10. This correspondence could go on for ever and I need a decision now. For the reasons set out above, I am unable to agree to your offer which I interpret to be an increase of 30 staff plus - in effect, although you did not make this explicit - an increase in our net running costs of £450,000, with no arrangement to fund extra accommodation. Could we please meet urgently to sort this out?

11. I am copying this letter to Richard Luce.

Heinrich

Kunst

UK ADVERTISING EXPENDITURE BY HM GOVERNMENT 1986

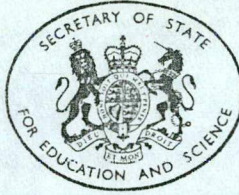
£000s

Department of Energy	26,445
MSC	14,926
Department for National Savings	10,225
DHSS	6,106
Department of Transport	3,397
Department of Employment	5,220
MOD	4,748
Home Office	2,618
Health Education Council	1,008
Welsh Development Agency	997
Scottish Tourist Board	824
Wales Tourist Board	790
Scottish Health Education Group	579
ECCGD	503
Commission for New Towns	489
English Estates	455
Scottish Development Agency	429
Data Protection Registrar	328
British Airports Authority	326
Ordnance Survey	269
Health and Safety Executive	175
DEPARTMENT OF EDUCATION AND SCIENCE	172
English Tourist Board	148
Northern Ireland Department of Economic Development	94
Northern Ireland Department of Environment	80

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Bif with advice

4



CH/EXCHEQUER	
REC.	22 JUL 1987 ✓ 22/7
ACTION	CST
COPIES TO	

PRIME MINISTER

CONSULTATION DOCUMENTATION THE NATIONAL CURRICULUM

1. Following this morning's discussion in E(EP), I have redrafted paragraphs 13, 20, 21, 44 and 57 of this document to take account of your comments. The new paragraphs are attached.
2. I have also incorporated the additions and amendments asked for by Peter Walker, Norman Fowler and John Major.
3. On LEA inspection and monitoring, you will see that I intend to delete the whole of paragraph 58 and to amend paragraph 57: to leave the issue of the roles of LEA inspectors and of HMI open until we have discussed the issues further. I would like to think this through further in response to what you said this morning, taking account of the resource implications. But I do not think we should or need to delay publishing the consultation document on this account.
4. I propose, therefore, to send you a paper in September on means of monitoring, inspecting and enforcing the national curriculum at local level. This will consider the options and make proposals. I do not think that the roles of HMI as currently constituted and of parents will be sufficient for me to be satisfied that the national curriculum is being properly implemented in every school, and that effective monitoring in the schools will be required if we are to make an impact on standards.
5. I very much hope to publish the Consultation Document in its amended form on Friday of this week, so as to give as long as possible for consultation. I would therefore be grateful for clearance tomorrow morning if at all possible.

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6. I am sending copies of this minute to members of E(EP), Tom King, and Sir Robert Armstrong.

AS

KB

Department of Education and Science

22 July 1987

Approved by the Secretary of State
and initialled in his absence

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NATIONAL CURRICULUM CONSULTATION DOCUMENT

Changes to text circulated on 21 July 1987

Para 13

Maths, English and science will form the core of the curriculum, and first priority will be given to these subjects. They and other foundation subjects are to be followed by all pupils during compulsory schooling. The Government has proposed that, in addition to English, maths and science, the foundation subjects should comprise modern languages, technology, history, geography, art, music and physical education. The degree of definition in the requirements set out for each of these subjects will vary considerably. The place of Welsh in the national curriculum in Wales is dealt with below.

Paras 20-21

Attainment targets will be set for all the core subjects, for other foundation subjects where appropriate, in Wales for the study of Welsh, and for the other themes and skills taught through each of the foundation subjects. These will establish what children should normally be expected to know, understand and be able to do at around the ages of 7, 11, 14 and 16, and will enable the progress of each child to be measured against established national standards. They will reflect what pupils must achieve to progress in their education and to become thinking and informed people. The range of attainment targets should cater for the full ability range and be sufficiently challenging at all levels to raise expectations, particularly of pupils of middling achievement who frequently are not challenged enough, as well as stretching and stimulating the most able. This is a proven and essential way towards raising standards of achievement.

Attainment targets for art, music and physical education are likely to take the form of guidelines. But for the other foundation subjects the targets must be sufficiently specific for pupils, teachers, parents and others to have a clear idea of

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what is expected, and to provide a sound basis for assessment. The GCSE criteria for mathematics provide some indication of the level of detail which might be expected.

Para 44

Before the Secretary of State for Education and Science drafts any Order on attainment targets and programmes of study, he will instruct the NCC to consult widely on his behalf. The consultations will be about the recommendations of a subject working-group together with whatever comment the Secretary of State may add to them. The NCC is to report the outcome of its consultations to the Secretary of State, together with its own recommendations, which can modify the original proposals; this report will be published.

Para 49

The Secretaries of State will be required to appoint a School Examinations and Assessment Council (SEAC) which will include amongst others people with a range of experience about education and assessment, particularly examinations. The Secretaries of State will want to ensure some cross-membership between the SEAC and NCC. ^{the SEAC} will take on the responsibilities of the present non-statutory Secondary Examinations Council (SEC), and will have the functions of

- (i) advising the Secretaries of State on the exercise of their power to approve the qualifications offered during compulsory schooling;
- (ii) approving syllabuses and examinations leading to such public qualifications, in line with guidance issued by the Secretaries of State about minimum criteria the SEAC is to take into account;
- (iii) contracting with other bodies - normally the GCSE examining groups - for the establishment of procedures

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for moderating standards of schools' assessments under the national curriculum at ages 7 (or thereabout 11, 14 and 16, on terms specified and monitored by the SEAC; and for distributing national tests and other assessment instruments as appropriate;

- (iv) advising the Secretaries of State about the criteria used to govern syllabuses and examinations (eg for GCSE); and similarly about the efficacy of the national tests and assessments used. It would not however itself be responsible for revising the tests;
- (v) liaising with the National Council for Vocational Qualifications to ensure coherence between the school examinations for which the SEAC will be responsible and the vocational qualifications for which the NCVQ is responsible.

Para 57

Her Majesty's Inspectorate, in their inspection of schools, will report on the implementation of the national curriculum. Specifically, they will be responsible for the inspection of grant-maintained schools. The division of responsibility for monitoring the delivery of the national curriculum in local authority maintained schools between HMI and LEA inspectors will be the subject of further consultation with the local authority associations. Another essential part of the monitoring arrangements will be action by parents, who will be able to pinpoint deficiencies in the delivery of the national curriculum from the information about objectives and performance provided to them.

Paragraph 58 has been deleted.

The amendments suggested by the Secretaries of State for Wales and for Employment and by the Chief Secretary have also been incorporated - except for the Secretary of State for Employment's suggested additions to Annex A (Terms of Reference of subject working groups). These terms of reference have already been published.

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The Secretary of State's suggestions will however be included in the letter sent to the working groups detailing their task more closely.

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FROM: F. E. R. BUTLER
22nd July, 1987.

CHANCELLOR OF THE EXCHEQUER

c.c. Chief Secretary
Sir P. Middleton
Mr. Anson
Mr. Gilmore
Mr. Scholar
Mr. Turnbull
Mr. Hawtin
Mr. Potter
Mr. Fellgett
Mr. Gibbs
Mr. Tyrie

E(LF): LOCAL AUTHORITY NEEDS ASSESSMENT

May I add one argument to those in Mr. Potter's brief about the methods of undertaking the needs assessment.

2. If the Government is ever going to reach the point at which local authorities and not central government are held responsible for changes in local taxation, a system for distributing central government grant is needed which is transparent and which is not fine tuned every year. So long as the Government is always adjusting the distribution in grant in an effort to reflect local need, local politicians will be able to obscure responsibility for changes in local taxes by attributing them to changes in Government grant. We need not just a simple scheme of rough justice on the lines suggested by the Treasury but also to provide that it should not be reviewed more often than once every five years.

F.E.R.B.

F. E. R. BUTLER

SUPPLEMENTARY
BRIEF

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CHANCELLOR

FROM: B H POTTER

Date: 22 July 1987

cc: Chief Secretary
Sir Peter Middleton
Mr F E R Butler
Mr Anson
Mr Gilmore
Mr Scholar
Mr Turnbull
Mr Hawtin
Mr Fellgett
Mr Gibbs
Mr Tyrie

E(LF) ON NEEDS ASSESSMENT

Further to my submission earlier today, I have established that the Prime Minister is being briefed to support our line. I also understand that Mr Clark too is likely to argue against retaining service-based figures.

2. The main opposition will be from Messrs Ridley, Baker and Moore. Mr Hurd has less interest in supporting separate service assessments, providing we accept special treatment for fire and police authorities.

3. It is unlikely that anyone will challenge the technical basis of our approach. But the attached defensive brief should cover any points that might be raised.

Barry H. Potter

B H POTTER

DEFENSIVE BRIEF ON TREASURY PROPOSAL

1. Cannot work at authority level

No. Exemplified in paper as assessing needs for individual chargepayer. But, by separate formula for each tier, could provide a needs assessment for each.

2. But how would single service authorities be treated?

Department of Transport considering whether Passenger Transport Authorities could simply bill districts, rather than precepts: this would do away with separate assessed needs for these authorities. Similar approach may be possible for police and fire authorities: in any case, their assessments are basically linked to lagged expenditure. Accept ILEA will need new arrangements - but that is inevitable anyway by 1990.

3. Treasury approach depends on maintaining GREs

Not so. GREs would be used initially to determine indicators and weights in the formula. But would not be maintained thereafter.

4. But how would you update the formula?

Year to year tinkering with the formula causes many of the problems. Formula would last for several years (five or longer). Accept the need then to undertake a fundamental review.

5. How would review be done without GREs?

Accept we would in part pay attention to spending. But this is true of any approach to needs assessment (including DOE's). Would also refer to academic work. See review as one-off reappraisal which sets indicators and weights for the formula for the next five years or more.

How would formula cope with changes in LA functions?

Like any approach would mean adjustments to weights on particular indicators. Accept it could not be precise: same applies to DOE approach. And would only see this as necessary for major changes in functions.

MAIN BRIEF

CONFIDENTIAL

CHANCELLOR

FROM: B H POTTER

Date: 21 July 1987

cc: PS/Chief Secretary
Sir Peter Middleton
Mr F E R Butler
Mr Anson
Mr Gilmore
Mr Scholar
Mr Turnbull
Mr Hawtin
Mr Fellgett
Mr Gibbs
Mr Tyrie

Ch
(some good stuff here; I think I was too feeble last night in suggesting this wasn't worth fighting on).
Discussion of transition arrangements postponed to next week (Ridley doing RSK announcement during E(LF) slot tomorrow afternoon)

E(LF): LOCAL AUTHORITY NEEDS ASSESSMENT

AA

Background

The Green Paper indicated that the Government would review needs assessment, prior to introducing the PLG regime, "... with a view to making it less complex and more stable." E(LF)(87)34 sets out three possible approaches.

The options

2. Option 1 is a Treasury proposal based on your letter (and paper) of June 16 to Mr Ridley calling for a radical simplification of needs assessment.

3. Need to spend would be assessed by reference to only a few key indicators like population, numbers of schoolchildren and of old people - in short the main determinants of local authority spending. Needs would be measured by a single formula either notionally for each chargepayer (as in your letter and the E(LF) paper) or for each authority. The indicators would be selected and weights applied to them on the basis of variation in present GREs. But thereafter GREs would be abolished (see Annex A.1). And crucially, the approach would not specify the need to spend on individual services.

4. Option 2 is the DOE preferred approach. It is a reduced version of the current approach. Needs would be assessed in absolute terms (as a cash sum) for each authority and, within the authority, for each main service; so there would continue to be GRES. But the number of GRES would fall from 63 to 15; and the total number of indicators used to derive GRES would be reduced (see Annex A.2).

5. Option 3 is simply a minor tinkering with the current approach involving a smaller reduction in the number of GRES than under option 2. It is unlikely to command much support at E(LF).

Objectives

NA at all sure about that — some service Ministers may want to get individual assessments for each of their pet minor services

6. This is the first E(LF) discussion on needs assessment; and no decision is required on the preferred approach for the purposes of drafting the Bill. We suggest that you should have two main objectives.

* First to stress the shortcomings of the proposed DOE approach. It is not a radical simplification - it is just a reduced version of the present system. It would maintain the fiction that Government can assess the precise needs not just for each authority but for each of its main services. That is more weight than the statistical techniques or, given the importance of needs assessment, than the PLG regime can bear. If the DOE approach is pursued, we will be stuck with the present complex, controversial and inflexible system.

* Second to seek approval for further work on our option as the preferred approach. The main technical criticism is likely to be that it measures need at chargepayer, rather than authority, level. If E(LF) remains convinced that we need to identify needs at authority level the approach can be developed to do that. (But would however take several weeks.)

Assessment

7. Mr Ridley's covering paper suggests three main issues for discussion:

- i) the case for separate authority assessments;
- ii) the case for separate assessments for each service;
- iii) the trade-off between simplification and "accuracy".

8. The case for separate assessments for each authority is rooted in accountability: it is argued that voters should be able to compare each authority's actual spending with its assessed need to spend. Ministers have, albeit implicitly, accepted the need for such assessments at the E(LF) discussions on 7 July on the new grant scheme.

9. We continue to have strong reservations. Accountability is more likely to be achieved by voters comparing this year's bill with last year's, than by contrasting actual expenditure against some incomprehensible central government assessment of needs. So we do not accept that there is any need for an authority-based approach. But if colleagues continue to support that approach they may also argue that the Treasury option 1 should not be considered further. You should then offer a modified version of our approach, which would provide a separate formula for each of the four main tiers, but still using only a handful of needs indicators. (Police and fire authorities and ILEA would be handled separately.)

10. The fundamental difference between our approach and DOE's is on separate assessments for each service. DOE believe service GREs are essential; and Mr Baker and Mr Moore will also argue for such assessments of education and Personal Social Services needs respectively. But there are powerful arguments for abandoning service-based assessments.

*also point that this is
 proposed an inner London boroughs & ILEA who contribute significantly to high bills).
 In share & not regulator areas there is one
 dominant tier which accounts
 for most of the spending.*

- ✓
- i) Rate Support Grant and the new Revenue Support Grant are not hypothecated to individual services. LAs are free to determine the pattern of spending between services. We do not believe that figures for what central government believe LAs need to spend in aggregate on a particular service are (or even can be) interpreted by an individual authority to shape its service priorities.
- ii) The service-GRE totals are not necessary for central government purposes either. As noted, they are not a powerful signal to LAs: rather it is specific grants, regulations, circulars etc which have the main influence on LA service patterns. Nor do the service GREs provide the figures for PEWP "plans" on LA services: on the contrary, the PEWP figures are simply fixed by E(LA) and the service-GREs then constrained to be consistent with them. And our proposals, which cannot yet be revealed, for revising the PEWP presentation would do away with these "plans" altogether.
- iii) In practice the main use of the service-GRE figures at national and local level is as a focal point for various interest groups to contest Government policy. They can shift the argument from year to year to whichever service figure seems most vulnerable.
- ✓
- iv) Not only do service figures add to the complexity of needs assessments, they provide a whole industry for Government statisticians, LA officials, local authority associations and academics. The benefits of this heavy resource input to achieve more precise figures for need within a given total are hard to identify.
- _____

11. The need for service-based assessments is also relevant to the trade-off between simplicity and "accuracy". DOE regard their option as much more accurate than our option 1. They argue that option 1 fails to identify extremes of need and that an approach based on building up the service figures is necessary to avoid over-simplification. It must be conceded that our approach would take less account of both extremes and small differences in need; and that would be reflected in higher Community Charge figures for some authorities. But that absence of refinement would be a small price to pay for greater simplicity and acceptability by the local electorate.

✓✓
12. Moreover DOE are rather straining the concept of "accuracy": no-one can accurately assess needs. Though present GREs may be the best indicator we have, they are not necessarily accurate.

13. The yardstick which DOE have applied in assessing "accuracy" - how far each option would replicate the patterns of Community Charge (CC) under existing GREs - is simply not a valid test of their respective merits. It is true that the CC figures show some major shifts, especially but not just for the Treasury option, which others will no doubt draw attention to. But these shifts are hardly surprising. The Treasury has always maintained that spending depends upon grant; and grant depends upon assessed needs. Changes in relative needs in future are therefore bound to show higher charges for some authorities when set against past patterns of spending. This "test" therefore argues for a phasing in of any new approach to needs assessment: it does not demonstrate the superior "accuracy" of option 2.

14. Just as the supposed superior accuracy of the DOE approach is unproven, its claim to simplicity is much exaggerated. It will be argued that option 2 is as simple as possible, given the need (sic) for separate service assessments. It is intended that only 15 main service assessments will be made; and it

is claimed that only 25 indicators will be used to derive these assessments. Even if this is achieved, the complexity of the scheme will make it difficult to present simply; and that it would turn out to be relatively less stable than option 1. But we do not accept that, if set up as a 15 GRE/25 indicator approach, it will remain like that. The pressures from service Ministers, local authority associations etc to tinker with or add to the GREs, take account of new explanatory indicators etc would soon lead to an even more complex model. In short, option 2 would over time grow into option 3 - and the present unsatisfactory approach.

15. Finally, there is one aspect of needs assessment not covered in Mr Ridley's paper. For many years, Ministers have found the distributional consequences of decisions on the service distribution of provision and hence GREs unexpected and sometimes unacceptable (eg excessive rate increases in the shires). Option 2 will have most of the shortcomings of the present scheme in that respect. Option 1 would be simpler and the consequences of such decisions easier to predict.

Conclusion

16. The choice before Ministers is between a radical simplification, which does away with service-based figures at the cost of less finely-tuned needs assessment, and continuation of the present system on a reduced basis. There will be no final decision on the preferred approach at E(LF): but we need time to develop our option. (If we have to develop needs assessments at authority level, it would take several weeks to find the best fitting formulae for each tier. How acceptable they will be to colleagues, in terms of likely implications for community charges, is uncertain and would need to be examined in the light of the outcome.) Accordingly in terms of the conclusions at paragraph 7 of the paper we recommend that you:

- a i) reject separate needs assessments for each authority if possible; (as a fall-back, can be reluctantly accepted);
- ii) reject needs assessments for major service blocks; and
- b) agree on the need for the smallest number of assessments and indicators, but not subject to any constraints.

17. You will want to seek further work by officials on the Treasury approach and, if possible, rejection of a service-based approach.

Barry H. Potter

B H POTTER

338/17

FROM: B H POTTER
DATE: 6 JULY 1987

CHANCELLOR

cc Chief Secretary
PS/Paymaster General
Mr F E R Butler
Mr Anson
Mr Hawtin
Mr Gilmore
Mr Scholar
Mr Turnbull
Mr Holgate
Mr Tyrie**E(LF): THE NEW GRANT SYSTEM**

In E(LF)(87)26, Mr Ridley makes a number of proposals on the PLG grant system. Mr Walker disagrees with certain of these (E(LP)(87)27). Our understanding is that the Prime Minister has been briefed to take the papers under three headings:

- (a) The Single Revenue Support Grant combining the Needs Grant and Standard Grant proposed in the Green Paper: (item 1 in the annotated agenda in para 17 of E(LF)(87)26;
- (b) Paying Grant at Chargepayer Level and not separately to each authority; (item ii) in the annotated agenda)
- (c) Other Mechanisms for Determining Grant and its Distribution (items iii-vii) on that agenda).

Revenue Support Grant

✓ OK

2. You should support the proposal for a single Revenue Support Grant. Needs grant entitlement would change from year to year for every authority if the needs of the lowest need authority changed. Standard grant would be changed to compensate. So the two grants would each fluctuate more than a total of grant; and that would produce an unnecessarily confusing picture of grant as a whole. Unifying the grant is presentationally attractive and does not alter the underlying PLG grant regime. Mr Walker accepts the proposal.

not sure you need go that far: HBS is really part of social security system, run by LA's as agents.

Paying Change at Chargepayer Level

3. This is the most important and contentious of the proposals. Mr Ridley's proposal has considerable attractions:

- it would reduce grant instability;
- it would present a simple framework for chargepayers to see the cost of LA services and how they are met;
- ✓ - it would tie in neatly with our proposal for a simpler needs assessment.

4. But the presentation in para 5 of Mr Ridley's paper is misleading. It excludes large elements of LA expenditure; that financed by specific grants and that financed by grants outside AEG (eg on housing benefit). And we fear DOE may be trying, despite the wording in the paper, to move away from any concept of total Exchequer support to LAs. Although the picture will change anyway, if our proposals on a new PEWP presentation go forward, it is unacceptable to lose that concept now. But if the presentation could be modified to take on board a redefined expenditure and grant total instead of Revenue Support Grant, it would be a fair and accurate description of central government subsidy to local authority services.

5. We recommend that you put forward this form of presentation (attachment A). It is likely that spending Ministers will object to such a proposal: like Mr Walker, they may not favour paying grant at chargepayer level in any case, even presentationally, since it reduces the visibility of their specific grants. Some may seek separate identification of service provision. We need to avoid any commitment to retaining service totals in the new grant scheme not least because our proposals for simpler needs assessment would do away with them.

6. It is most unlikely this can be resolved at tomorrow's meeting. We recommend that officials be asked to explore how a true picture of local authority total expenditure and the

contributions towards financing it from central government, industry and the local electorate can be presented, consistent with paying grant at chargepayer level.

Other Mechanisms for Determining Grant and its Distribution

7. The general point is that many of these aspects of the new grant system are dependant upon the revised proposals Mr Ridley is bringing forward for the transition period and on the proposals on simpler needs assessment not yet discussed by the sub-committee. It is premature to settle detailed aspects like the need for nets and caps under the new regime. Specific points, drawing on the annotated agenda (para 17 of E(LF)(87)26), are as follows:

- iii) Simplified Statutory Requirements - Mr Ridley proposes a statutory definition of absolute need to spend. We see no need for this: consistent with your proposals for simpler needs assessment, it might be better, and more resilient against legal challenge, if we defined only differences or relative need to spend. This should be reviewed after E(LF) has considered needs assessment. Mr Ridley also proposes that AEG should be dropped from the Statute but retained as an operational tool. You can accept this. (We will need to consider later how far AEG remains in use, if the proposed new presentation in the PEWP goes ahead).
- iv) Needs Assessment not Reviewed Annually - this is welcome and consistent with our proposals for simpler needs assessment.
- v) No Safety Nets or Caps - this is premature and outdated given the E(LA) decision to have a transition mechanism with safety nets. It would also be imprudent. !
- vi) Powers for In-Year Grant Changes and Minimum Statutory Consultation - these proposals are sensible.

8. Attached is a speaking note, with some additional background, requested by the Chief Secretary.

Barry H. Potter

B H POTTER

ENC

GRANT AT CHARGEPAVER LEVEL

	DOE View		HMT view
County spend	536	Full county spend	570
District spend	80	Full district spend	95
Total	616	Total	665
Less		Less	
business	-233	business	-233
revenue support grant	-204	total grant	-253
Community charge	179	Community charge	179

Note: total grant includes revenue support grant and specific grants, which can be listed below the summary table.

It could include grants currently outside aggregate Exchequer grant such as mandatory student awards.

SPEAKING NOTE1. The Single Revenue Support Grant

Line to take: a sensible means of presenting the PLG grant proposal: would reduce fluctuations in total grant: improves certainty for LAs.

2. Paying Grant at Chargepayer Level

Line to take: a) a concept with many presentational attractions: it would reduce grant instability and should give chargepayers a clear account of how their charge is derived: that is what accountability is all about.

b) but presentation not a true and accurate reflection of central government support for LAs; ignores specific grants (netted off the supposed 'expenditure' line); ignores other grants outside AEG; frankly disingenuous/misleading to present an account to chargepayers in this way: must ^{include} increase all central government support to LA services;

c) will be practical difficulties; officials should re-examine to see how specific grants and other grants could be brought into the picture without making it too complex.

Background

currently AEG=i) block grant + ii) domestic rate relief
 [(i) + ii)= Rate Support Grant] and iii)
 specific grants

Other grants (eg housing benefit and mandatory student awards) not in AEG: under new scheme
 Revenue Support Grant=block grant: true

measure of central government support for LA expenditure should *include* all of these; (rebates regarded as subsidies to individuals).

3. Other Mechanisms for Determining Grant and its Distribution

Line to take: iii) Simplified Statutory Requirement - a statutory definition of absolute need to spend likely to mean persistence of legal challenge; mostly directed at GREs in the past; not strictly required by Green Paper - a measure of relative needs might be rather safer ground: question to be answered when we have proposals on needs assessment.

- support retention of AEG as a concept: may need to be revised to *include* ~~increase~~ other grants to LAs.

iv) Needs Assessment not Reviewed Annually - support

v) No safety nets/caps - reject: prudent to retain anyway:
review in light of decisions on transition

vi)vii) Powers for in year Grant Chares and Minimum Statutory consultation - support



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
SW1P 3AG

*Anson's
form added*

CH/EXCHEQUER	
REC.	30 JUN 1987 ✓
ACTION	MR POTTER
COPIES TO	MR ANSON MR HANTON MR FELLGETT

My ref:

Your ref:

30 June 1987

SS/DOE
TO
CH/EX
30/6

Dear Nigel

LOCAL AUTHORITY NEEDS ASSESSMENT

Thank you for your letter of 16 June on simplified needs assessments, on which the Prime Minister commented in David Norgrove's letter of 22 June.

CH
Not unexpected.
Important that
Officials in Tsy are
closely involved
LX.
AA

We are, I believe, all agreed that the present needs assessments are much too complex and unstable, and we must aim for more comprehensible and stable arrangements under the community charge system. At the same time new assessments must command a high degree of acceptability since the community charge actually levied will visibly and crucially depend on them.

Needs assessments are important in the new arrangements both in terms of the distribution of grant and in terms of accountability. The only real test of an authority's spending behaviour will be the comparison of its spending relative to need. I am concerned therefore that your proposal does not produce assessments for individual authorities but only at the chargepayer level. This means that the chargepayer will be unable to sort out from the information he receives the contribution towards his bill of the various levels of authorities through their expenditure decisions. It is vital that the chargepayer should be able to identify clearly those authorities responsible for high charges.

*What's
the answer
to this?*

Our initial assessment of your proposal is that it would mean considerably higher community charges in most inner London boroughs than we have looked at so far. This will exacerbate the already severe problems we face on transition.

*radical as
depends
on weight
placed on
single
indicator*

Nevertheless I am grateful for your work in this area. We too have been developing a number of options for assessing needs in the future and I expect to put forward proposals for joint consideration shortly. I will certainly include your approach within the options.

I am copying this letter to the Prime Minister and other members of E(LF).

*John
Lawson*

NICHOLAS RIDLEY



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

22 June 1987

Ch
I suggested to
D Norgrove that
the world help.
AA
(but not see about
X) ✓ ✓

NO10
TO
DOE
22/6

Dear Robin,

LOCAL AUTHORITY NEEDS ASSESSMENT

The Prime Minister has seen the Chancellor's letter to your Secretary of State of 16 June which proposed a radical simplification of the present system of local authority needs assessment. The Prime Minister agrees very strongly with the Chancellor that the present Byzantine system must be drastically simplified. The final recommendations for change must of course include a full set of exemplifications of the effects on rate bills.

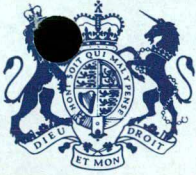
I am copying this letter to the Private Secretaries of the members of E(LF) and to Trevor Woolley (Cabinet Office).

Jan,
David.

D R Norgrove

CH/EXCHEQUER	
REC.	23 JUN 1987 ✓ 23/6
ACTION	CST
COPIES TO	

Robin Young, Esq.,
Department of the Environment.



[Handwritten signature]
H. M. TREASURY

Parliament Street, London SW1P 3AG, Press Office: 01-270 5238
Facsimile: 270 5244
Telex: 9413704

23 July 1987

CASH LIMITS 1986-87: PROVISIONAL OUTTURN

The Treasury today published the Cash Limits Outturn White Paper (Cm189) showing:

- i. Provisional outturn for 1986-87 cash limits; nationalised industries External Financial Limits; and running costs limits;
- ii. Final outturn for 1985-86 cash limits.

As in previous years, almost all cash limits were correctly observed. In their first year of operation running costs limits also held in virtually all cases. The overall position for 1986-87 was:

	Original Cash Limits	Final Cash Limits	Total provisional outturn	£million
Voted cash limits	58,312	59,634	58,730	
Non voted cash limits	7,758	7,797	7,684	
EFLs	929	1,084	1,182	
Running cost limits	12,996	13,171	13,071	

The difference between original and final cash limits represents increases made during the year to cover certain unexpected developments of policy and other contingencies.

There were 3 breaches out of a total of 123 central government voted cash limits: 2 breaches of non-voted cash limits: and 4 breaches out of a total of 50 departmental running costs limits. Details are given in the White Paper, the summary text of which is attached.

41/87

PRESS OFFICE
H M TREASURY
PARLIAMENT STREET
LONDON SW1P 3AG

Notes to Editors

Further details are available in the White Paper.

Similar White Papers have been published in previous years (last year's was Cmnd 9851). Enquiries on the general subject of cash limits and running costs limits should be addressed to Treasury Press Office. Questions on individual limits should be addressed to the Departments concerned.

Cash limits cover about 40 per cent of the public expenditure planning total.

Cash Limits 1986–87 Provisional Outturn (and 1985–86 Outturn)

1. This White Paper gives provisional outturn figures for cash limited expenditure, including external financing limits (EFLs) of nationalised industries, in 1986–87 and revised figures for 1985–86. It also gives provisional outturn figures for 1986–87 departmental running costs limits.

Original cash limits

2. The original cash limits for 1986–87 on central government voted expenditure were published in the Supply Estimates and listed in the Summary and Guide to Estimates 1986–87 (Cmnd 9742). The original cash limits relating to local authorities' capital expenditure and certain other expenditure were announced by written PQ on 18 March 1986.

Original running costs limits

3. Departmental running costs limits were introduced for 1986–87 for the first time. The original running costs limits were published in the Summary and Guide to Estimates 1986–87 (Cmnd 9742).

Provisional outturn on cash limits

4. Total cash limited central government voted expenditure was £58,730 million—an underspend of £903 million compared with final cash limits. Total cash limited non-voted expenditure was £7,684 million—an underspend of £113 million compared with final cash limits. **Tables 1 and 2** give provisional outturn figures for 1986–87 compared with final cash limits. These figures may be subject to some adjustment when the final accounts are available, particularly in the case of the local authority capital cash limits.

Provisional outturn on running costs limits

5. Total running costs expenditure was £13,071 million—an underspend of £100 million compared with final running costs limits. **Table 3** gives provisional outturn figures for 1986–87 compared with final running costs limits. These figures may be subject to some adjustment when the final accounts are available.

Changes to original cash limits

6. **Table 4** shows changes to the original cash limits other than token increases. Increases in cash limits due to the carry forward of end-year flexibility are separately identified. It is normal for some cash limits to be increased during the year to cover certain unexpected developments of policy or other contingencies: there is an unallocated Reserve in the public expenditure plans against which increases in public expenditure are charged.

Cash limit breaches

7. On the current figures there were five breaches of cash limits.
- (i) The Department of Employment overspent on their administration cash limit (Class VII vote 3) by £1.769 million (2.4 per cent.).
 - (ii) the Department of Health and Social Security overspent the hospital and community health service limit (Class XIV vote 1) by £3.418 million (0.04 per cent.). This cash limit overspend should not lead to a public expenditure overspend because it is expected that the breach will be more than matched by increased receipts being surrendered to the Consolidated Fund.
 - (iii) The DHSS also overspent their social security administration cash limit (Class XV vote 5) by £4.924 million (0.4 per cent.).
 - (iv) Local authorities in England breached the cash limit for capital expenditure (Department of the Environment/LA1) by £18.5 million (0.8 per cent.).
 - (v) Similarly, Welsh local authorities breached Welsh Office/LA1 by £46 million (14.6 per cent.).

The usual corrective procedures in the case of cash limit breaches are being implemented.

Changes to original running costs limits

8. **Table 5** shows changes to the original running costs limits. None of these changes are attributable to Civil Service pay settlements.

Running costs limit breaches

9. On the current figures there were four breaches of running costs limits.

- (i) The Department of Employment overspent by £2.337 million (0.6 per cent.).
- (ii) The Department of Health and Social Security overspent by £0.674 million (0.04 per cent.).
- (iii) The Scottish Office overspent by £1.768 million (1.1 per cent.).
- (iv) The Inland Revenue overspent by £2.934 million (0.3 per cent.).

Appropriate corrective action is being implemented.

Nationalised industries

10. **Table 6** shows the original external financing limits (EFLs) of nationalised industries in 1986-87, revised EFLs and provisional outturn figures for each industry.

1985-86 revised outturn

11. **Table 7** gives final outturn figures for central government cash limited expenditure in 1985-86. **Table 8** shows revised figures for the same year for the capital expenditure of local authorities and for certain other bodies. These may still be subject to some revision. Provisional outturn figures for 1985-86 were published in July 1986 in the White Paper "Cash Limits 1985-86 Provisional Outturn" (Cmnd 9851).

FROM: MRS M HENSON
 DATE: 23 JULY 1987

PWP
(or destroy?)

CHANCELLOR'S OFFICE	12/2
CST OFFICE	36/2
FST OFFICE	43A/2
EST OFFICE	52/2
SIR P MIDDLETON	78A/2
MR SCHOLAR	90/1
MISS O'MARA	97/2
MR P SEDGWICK	83/G
MR CULPIN	93/2
MISS SINCLAIR	89/1
MR B NAISBITT	43/3
Mr A HUDSON	13/2
MS C EVANS	93/1
MR PATTERSON	98/2
MISS SIMPSON	99/2
MR PICKFORD	95/2
MR J CARR	112/G
MR B S KALEN	98/3
MR HUNT	42/3
MR P BROOKS	110/G
MR KERLEY	98/2
MR BROOKS	41/3
MR BUCKLEY	90/2
MS HATTER	112/2
MR CROPPER	17/2
MR TYRIE	15A/2
THE DUTY CLERK	10 DOWNING STREET
MR S SHERBOURNE	10 DOWNING STREET
MR J R CALDER	I/R SOMERSET HOUSE
MR D H ROBINSON	DEPT OF FINANCE AND PERSONNEL ECONOMICS DIVISION RM 249A STORMONT BELFAST 3S15
MR P MAKEHAM	DTI Rm 601c 1-19 VICTORIA STREET LONDON SW1
MR DENT	RM 536A, DHSS, NEW COURT, CAREY STREET, LONDON

RELEASE DATES FOR ECONOMIC STATISTICS IN AUGUST

I attach the release dates for economic statistics in August.

- Any enquiries please contact me on 5212, 99/2 HM Treasury.

Meena Henson
 MEENA HENSON

RELEASE DATES FOR ECONOMIC STATISTICS IN AUGUST 1987WEEKS 1 & 2

Mon	3	11.30	Housing starts and completions (June)
Tues	4	11.30	UK Official reserves (July)
Thurs	6	21.00	Employment Gazette
Mon	10	11.30	Credit Business (June)
"	"	"	Retail Sales (June-final)
"	"	"	Producer price index numbers (July-prov)
Tues	11	11.30	Balance of Payments current account and overseas trade figures (June)
Thurs	13	11.30	Index of output of the production industries (June)
"	"	"	Labour market statistics: unemployment and unfilled vacancies (July-prov); average earnings indices (June-prov) employment, hours, productivity and unit wage costs; industrial disputes
"	"	17.30	Bank of England Quarterly Bulletin
Fri	14	11.30	Tax and Price index (July)
"	"	"	Retail price index (July)

Mrs M Henson
 HM Treasury
 Parliament Street
 LONDON SW1P 3AG
 01-270-5212

RELEASE DATES FOR ECONOMIC STATISTICS IN AUGUSTWEEKS 3 & 4

Mon	17	11.30	Retail sales (July-prov)
"	"	00.30	CBI/FT Survey of distributive trades (July)
Tues	18	11.30	Public Sector Borrowing Requirement (July)
"	"	"	Gross Domestic Product (output-based) (2nd qtr-prelim)
Wed	19	11.30	Cyclical indicators for the UK Economy (July)
Thurs	20	11.30	Capital expenditure by the manufacturing and service industries (2nd qtr-prov)
"	"	"	Provisional estimates of monetary aggregates (July)
Fri	21	11.30	Building societies' monthly figures (July)
"	"	00.30	United Kingdom Balance of Payments 1987 edition (CSO Pink Book)
Wed	26	11.30	Construction - new orders (June)
Fri	28	13.00	CBI Monthly Trends Enquiry (July)

Mrs M Henson
 HM Treasury
 Parliament Street
 LONDON SW1P 3AG
 01-270-5212

Report P50
14/198
1 Alex
2 C
pp

FROM: N I HOLGATE
DATE: 23 July 1987

- BHP 2317
1. MR POTTER
 2. CHIEF SECRETARY

- cc PS/Chancellor
Sir P Middleton
Mr F E R Butler
Mr Anson
Mr Hawtin
Miss Peirson
Mr Turnbull
Mr Scholar
Mr Gilmore
Mr Potter
Mr McIntyre
Mr Fellgett
Mr Gibson
Mr Cropper
Mr Tyrie

COMMUNITY CHARGE EXEMPTIONS

Mr Ridley minuted the Prime Minister on 20 July. He seeks agreement to further details on the exemptions from the community charge which E(LF) agreed in April. These were that the severely mentally handicapped and those in homes and hostels should be exempt from the charge; and that students should pay 20% of the charge.

The Severely Mentally Handicapped

2. Mr Ridley's main proposal for defining the severely mentally handicapped is satisfactory: he is following the definition agreed for the Abolition of Domestic Rates Etc (Scotland) Act.

3. He has added a further requirement for successful application for exemption - receipt of Severe Disability Allowance (SDA) - to discourage unjustified applications. There is a risk that to avoid paying a community charge (on average about £215),

individuals who have not bothered to claim SDA will be encouraged to do so. But if they voluntarily forego now £1235 of assistance from the government, it might be doubted whether many will apply for SDA for the benefit of a further £215 of assistance. It might also be difficult to object to a measure because it encourages people to apply for a benefit to which they are entitled.

Residents of "homes" and hostels

4. Again the basis of the proposed definitions looks satisfactory. They follow those used in the Registered Homes Act 1984 and the National Health Service Act 1977. Mr Ridley then discusses whether such homes should be kept in non-domestic rating. Retention in non-domestic rating would have the advantage of providing a distinction between those in "homes" and those cared for in the community, which might help prevent the extension of the exemption from the former to the latter. It would also be consistent with the approach in Scotland.

5. However most "homes" qualify for rate relief, so residents would not contribute through non-domestic rates. Mr Ridley therefore regards the retention of these "homes" in non-domestic rating as a futile and unnecessary complication.

6. If pressure arises from those caring for the elderly and infirm in the community for special treatment, it is unlikely to be deflected by the legal nicety that "homes" are in non-domestic rating. I recommend that you agree to Mr Ridley's proposals.

Students

7. We expect a tight definition of students entitled to the 80% rebate and Mr Ridley proposes to lay the main burden of administration on the students' colleges. This seems appropriate: it will be much easier for LAs to deal direct with colleges than with the students.

8. There is however a consequence for community charge rebates of a narrow definition of "students". It reduces the numbers entitled to a standard 80% rebate but increases those eligible for ordinary community charge rebates and income support, contrary to the general DHSS line of ending the dependence of students on social security. However, not all those excluded from the definition of students will get 80% rebates or benefit from the uprating of income support. Therefore a narrow definition would on the whole appear to be better.

Paying for the exemptions

9. Under the full "Paying for Local Government" system, grant will be distributed so that the same community charge is paid by all adults whose authorities spend at need. This calculation requires figures for each district's adult population, but some of those adults will be exempt or they will be students who pay only 20% of the charge.

10. Two adjustments would be possible to reflect this. Either the figures for adult population could be reduced for those on full or partial exemption; grant would then be distributed so that all those eligible to pay the charge would pay the same amount. Or the adult population figure could be left at the full number and the government could pay charges on behalf of the exempt to the local authority.

11. DOE's original preference was for the latter: central government would reimburse local government at the charge set by local authorities for those who are exempt. This would have involved a specific grant dependent not on spending at need but on spending decisions of LAs. This is contrary to the spirit of the Green Paper, which proposed that all marginal spending above need should be borne by local residents.

12. DOE now concedes that an adjustment to the population figures should be made for the severely mentally handicapped and those in "homes" and hostels. But Mr Ridley regards a similar adjustment for the 80% rebate for students as "clearly absurd".

13. It is not at all absurd.

- (a) Adjusting the population figure for a fractional payment is no more absurd than adjusting it for a full exemption.
- (b) This figure provides the base for calculations that produce the charge for spending at need, and the distribution of non-domestic rates and grant, not necessarily the number of charge payers.
- (c) Adjusting the population figure avoids the need for a specific grant.
- (d) It avoids the payment to LAs with student populations of a grant based on their actual spending decisions. (In most cases, these charges will exceed those for spending at need, especially so in London).

14. I therefore recommend that you ask Mr Ridley to reconsider this point. (If he insists upon a specific grant, you could compromise on a grant paid on the basis of spending at need rather than actual spending.)

Conclusion

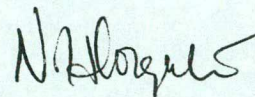
15. Mr Ridley's minute raises three difficult issues:

- (a) Will the requirement to claim Severe Disability Allowance before claiming an exemption from the community charge increase claims for SDA?
- (b) Will the retention of homes and hostels in non-domestic rating help to fend off demands that those cared for in the community should also be exempt from the charge?
- (c) Is a specific grant to LAs called for which will reimburse LAs for that proportion of the community charge which students do not pay?

16. I conclude that it is difficult to object to the SDA condition; that retention of homes and hostels in non-domestic rating is not going to help much in resisting further claims for special treatment; and that you should ask Mr Ridley to reconsider his position on paying for the student rebate.

17. ST and HE agree.

18. A draft letter is attached.



N I HOLGATE

DRAFT LETTER

The Rt Hon Nicholas Ridley MP
Secretary of State for the Environment
2 Marsham Street
LONDON
SW1P 3EB

July 1987

COMMUNITY CHARGE EXEMPTIONS

Your minute of 20 July to the Prime Minister set out detailed proposals for handling these exemptions.

2. I am content with your proposals for the severely mentally handicapped and those covering residents of "homes" and hostels. I welcome your proposal for a tight definition of students which, I understand, will comprise only those involved in reasonably long courses, and for duties to be placed upon colleges to supply local authorities with the necessary information.

3. I cannot accept, however, that there should be a specific grant through which local authorities are reimbursed for the costs of the 80% rebate on the community charge proposed for students. This implies that the government should pay local authorities at the charge which authorities choose to set, not that for spending at need. It would be more in line with "Paying for Local Government" if students were dealt with in the same way as other groups who, by virtue of a particular provision rather than their individual incomes, will receive special treatment. This involves adjusting the population base which determines the charge for spending at need and the distribution of the national non-domestic rate and the standard element of

revenue support grant. This method does without a specific grant and places the full burden of spending above need where it belongs, on local taxpayers. I hope that you will reconsider this point.

4. I am copying this letter to the members of E(LF) and to Sir Robert Armstrong.

[JM]



purp

CH/EXCHEQUER	
REC.	24 JUL 1987 24/7
ACTION	CST
COPIES TO	

Prime Minister

EDUCATIONAL REFORMS IN SCOTLAND

1. I am now in a position to put forward for the agreement of my colleagues the reforms in the management of education which are to form the basis of the medium sized Education (Scotland) Bill which is to be introduced later this year. They are more modest in scale than Kenneth Baker's massive package of reform but they will bring about a major and lasting change in the running of Scottish schools and pave the way for further developments later.

2. The principal reform will be the implementation of our manifesto commitment to give parents a more important role in the running of their schools; but I propose that the opportunity should also be taken to provide for the reform of management of FE colleges, to abolish the present statutory arrangements for determining further education lecturers' pay and conditions of service and to match Kenneth's provisions for dealing with academic tenure in higher education. There are other matters which I may be compelled to bring forward (eg some technical problems relating to the appointment of teachers in denominational schools) or which I may try to squeeze in when I see the final shape of the Bill (eg commercial activities of FE colleges, for which policy clearance has already been obtained).

3. The Bill will not deal at length with the curriculum and examinations. As we agreed in April I shall be pursuing our objectives for the curriculum by a somewhat different route from Kenneth, given our very different starting point here in Scotland. I shall circulate a detailed paper on the subject in early autumn setting out my plans and seeking clearance for the issue of a discussion document; if further work suggests that some new legislative provisions would be helpful I shall seek clearance for these at that time.

A New Role for Parents: School Boards

4. In seeking to move towards the level of delegation to school level and enhancement of the role of parents which Kenneth Baker has now mapped out in his legislative proposals for England and Wales we in Scotland start virtually from scratch. We do not have and have never had any school governors in our publicly maintained schools. When local government was reorganised in 1975 authorities were required to set up school councils, with representation from parents, staff and other local interests, with the intention of establishing closer links between schools and the community. They have proved largely ineffective and have done little to encourage parents to take an active interest in school management. The councils have had no mandatory powers and have been given little to do by education authorities; moreover since each council serves a number of schools (usually a secondary school and its feeder

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primaries) it has been difficult to establish any real sense of identification with the life of the school.

5. This means that we have very little on which to build - little understanding of the role of school governors, limited parental interest, virtually no tradition of local oversight in staffing matters and only the beginnings of an interest in financial delegation. But equally we have no weight of outmoded tradition to overcome, such as the dominance of local authority nominees among school governors in England and Wales. My aim is therefore to establish a system of local management in which parents will from the outset have a dominant role. I want the new management bodies - which I propose to call "school boards", a title with useful historical associations in Scotland - to have a wide range of responsibilities from the outset so that parents and others will be attracted to serve on them. I shall provide scope for individual boards to acquire new powers as soon as they are ready for them and for the Secretary of State to increase the powers of all boards when he considers the time is ripe.

6. My intention is that the new boards would be in existence by autumn 1989, ready to take up their full range of duties in April 1990.

7. Full details of my proposals for school boards are set out in the Annex. The salient features are described below.

Distribution of Boards

8. Education authorities would be required to establish a separate board for each primary, secondary or special school with 100 or more pupils and to ensure that every school in these categories is covered by a board. They will be able to propose grouping arrangements for smaller schools, subject to local consultation; my approval will have to be sought only in the case of dispute. Like Kenneth, I do not propose to introduce boards for nursery schools.

9. I have chosen a general threshold of 100, rather than the limit of 200 for primary schools which Kenneth is adopting for financial delegation, because of the very high proportion of Scottish schools (56%) which might be subject to grouping if the higher figure were chosen. Even so there are 900 schools (around 30% of the total) with 100 or fewer pupils. I do not feel it necessary to involve myself automatically in giving consent for grouping proposals, given the large number of schools involved and their small size. In any case some will necessarily have a separate board because of their remote situation

Board Membership

10. I propose that the boards should be small enough to be effective management bodies (generally within the range 7-13 voting members); they should comprise parental representatives (who would have a clear majority of voting members) one or more representatives of staff and two or three co-opted members representing the local community. The headteacher would have a duty and a right to attend as adviser to the board ex officio but would have no vote; and the education authority would be entitled to nominate a representative to attend meetings but without a vote. Categories of membership and minimum and maximum numbers would be set out in legislation. I have in mind that parental members would be elected by postal ballot of all parents in order to ensure maximum participation. I intend to issue guidance to make it clear

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that co-opted members (who would be chosen by the other voting members of the board) should be chosen in such a way as to ensure representation of local business interests and church; and that where a school board serves a denominational school one of the co-opted members must represent the interests of the denomination concerned.

11. In giving parents a majority voice from the outset and reducing the education authority to a single non-voting representative I am of course going rather further than has so far been possible in England and Wales and I shall no doubt arouse a storm of protest as a result. I believe however that I should take advantage of any freedom from past traditions; in any case the contribution which local authority representatives make to most existing school councils is reputedly sporadic and ineffective.

Functions

12. The purpose of my proposals is to allow progressive delegation of functions as boards gain experience without requiring all boards to proceed at the pace of the slowest and without allowing education authorities artificially to restrict the pace of delegation. The Bill will therefore provide an initial "floor" of functions and powers which authorities will be required to incorporate in the constitution of every school board from the outset. These functions, which are described in detail in Annex A, are similar to the powers conferred on governing bodies in England and Wales by the Education (No 2) Act 1986 - and will therefore represent a major task for many of the new bodies to tackle.

13. I expect that some boards will fairly quickly master their new functions and will press for more; the Bill will lay down a procedure whereby either the education authority or an individual board can initiate a change in the constitution to allow greater responsibilities to be delegated within a "ceiling" (also defined in legislation) which would be similar to what is proposed for English governing bodies in Kenneth's scheme for financial delegation. This ceiling is described in Annex A. If a board and the education authority disagree about the powers to be delegated the former will be able to appeal to me for resolution of the matter.

14. I shall have powers by regulation to lift the "floor" and require a general increase in the level of delegation nationally within the statutorily prescribed "ceiling". I shall be able to use this power either to force the pace on laggard education authorities or to respond to the developing experience and aspirations of boards in general.

15. I hope colleagues find the descriptions of functions in Annex A self-explanatory. They include an important link with my policies for curriculum and assessment. The headteachers will be required to make statements annually to the board on the policies on curriculum and assessment which apply in the school, including a report on standards of attainment and these policies will have to conform to national advice I have formally promulgated. These proposals will provide a valuable reinforcement for present practice and provide school boards with an appropriate basis on which to develop their influence over the educational policy and performance of the school.

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Constitutions

16. Education authorities will be obliged to prepare for each board a constitution which conforms to the statutory requirements on distribution, membership and functions and to do so within a time limit. They will then have to put these constitutions out for consultation to existing school councils, parents and other local interests on the same basis as is already required for school closure proposals. If at the end of the consultation process there are any continuing objections to a draft constitution it will be referred to me and I shall have power to require the authority concerned to make amendments or to impose a new constitution of my own.

Other Developments in Support of the Reform

17. If the reform is to be successful the statutory provisions will have to be accompanied by the development of adequate financial information systems and training programmes for headteachers and board members. I shall also want to develop a body of advice for authorities and school boards on the practical implementation of my proposals. I hope to be able to draw on the work which is already under way in England and Wales, especially the Coopers, Lybrand study; but I intend to develop my own programmes of work in due course.

The Management of Further Education

18. My priority for further education is to sharpen up management and financial accountability and to increase employer involvement at the college level. Education authorities have generally been constructive in their approach to FE and have developed policy in a bipartisan way in support of Government and other initiatives. Industry is generally satisfied with the responsiveness of the FE sector and recently the CBI in Scotland gave us an unsolicited testimonial about achievements since 1984 in the FE sector in the introduction of the Government's Action Plan for 16+ Non-Advanced Further Education. But the quality of management at college Principal level and below is weak and local authorities have been too protective and have given insufficient local autonomy to colleges.

19. I therefore propose to strengthen the role of college councils (which exist at the moment on the same statutory basis as school councils). The present statutory provision leaves education authorities with virtually complete discretion as to the functions they delegate to councils and most have been given very little to do; moreover, the composition of the councils is unduly weighted towards local authority and staff interests. I propose therefore to take powers to prescribe by regulation the composition and functions of college councils in future. I envisage that I will increase the employer representation (though there has been no demand for this yet from employer interests) and reduce the education authority and staff representation. On powers, I will be seeking progressively to increase local responsibility as it develops from its present very rudimentary base.

Abolition of the Scottish Joint Negotiating Committee (Further Education)

20. The SJNC(FE) is the statutory negotiating body for the pay and conditions of academic staff in local authority and centrally funded further and higher education establishments in Scotland. The corresponding body in England and Wales has already been abolished and I now propose to follow suit. The SJNC(FE) has proved incapable of

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dealing effectively with the interests of these two sectors and the efforts of centrally funded management to secure tightening of the conditions of service have been frustrated by their minority position on the management side. The indications are that local authorities are also dissatisfied with the present arrangements and they are unlikely to oppose abolition - although it will be fiercely resisted by staff interests. The replacement bodies will be non-statutory - I will consult colleagues further on the composition of the body for the centrally funded sector in the light of proposals for the negotiating machinery for the Polytechnic sector in England and Wales. I shall arrange for public consultation about this proposal on a separate basis from the rest of my proposals; it involves a different range of outside interests and the timing requires careful thought.

Academic Tenure in Central Institutions

21. Kenneth Baker's Education Bill will extend the grounds for dismissal of academic and related staff in universities, and similar steps are necessary to deal with the 3 Scottish Central Institutions where staff also enjoy a form of academic tenure. The main change required - to introduce 2 new grounds for dismissal, ie financial exigency and redundancy - can be achieved by regulations under section 77(1)(ii) of the Education (Scotland) Act 1980. But our decision to extend the scope for dismissal in existing contracts to include inefficiency, will, as it adversely affects existing rights, require primary legislation and hence a place in the Bill.

Resources

22. It is extremely difficult to assess the resource implications of these reforms. The best assessment I can make of the additional costs directly associated with the operation of school boards (elections, meetings, travel expenses and a modicum of secretarial help) is around £5m per annum, based on experience with existing school councils. Improvements in financial information and the provision of management training for headteachers will undoubtedly give rise to additional costs but these are things to which authorities ought to be giving higher priority anyway within their present budgets. In the longer run there should be scope for improved efficiency and some savings in administrative costs at local authority level, partly outweighed by the strengthened support which will be necessary for the headteacher and school board, and similar considerations apply to the proposals for further education; but this is too problematic and far into the future to take into account at this stage. Education authorities will be required to meet any net additional costs from within guidelines.

23. Implementation and oversight of these important reforms will have a small but distinct effect on Departmental running costs.

Conclusion

24. I am anxious to make an early announcement of my intentions and to proceed with the drafting of the Bill so that it can be introduced soon after the end of the Recess. I therefore invite colleagues to agree:

- i. that I should proceed to prepare a Bill carrying into effect the policies set out above;

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ii. that I should prepare and circulate the draft of a consultative document setting out these proposals with a view to issuing it before the middle of August (ie around the time the Scottish schools return from their summer holidays).

It would be helpful to have clearance by the end of the month.

25. I am sending copies of this minute to the other members of E(EP) and to Sir Robert Armstrong.

M.R.

**Scottish Office
23 July 1987**

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SCOTTISH OFFICE

Please associate Annex
attached with Secretary of
State for Scotland's minute
of 23/7/87 to the Prime
Minister headed "Educational
Reforms in Scotland."

Apologies for any inconven-
ience caused.

**WITH THE COMPLIMENTS
OF THE
PRIVATE SECRETARY**

*Scottish Office,
Dover House,
Whitehall,
London SW1A 2AU.
01-270 6740*

LEGISLATION FOR SCHOOL BOARDS

1. Distribution

1.1 Education authorities will be required to establish Boards to cover all primary, secondary and special schools in their area. All schools with 100 or more pupils will be required to have individual Boards.

1.2 Authorities will be permitted either to establish separate Boards for schools with fewer than 100 pupils or to propose grouping arrangements under which one Board may cover a number of schools.

1.3 All proposals for distribution of Boards, including any grouping arrangements, will be subject to the general requirement for local consultation (and possible review by the Secretary of State) set out in section 4.1 below.

2. Membership

2.1 Legislation will prescribe the main categories from which members will be drawn will ensure that parental representatives are in the majority and will set out minimum and maximum numbers of members for each category. The resulting Boards will range from 7 voting members for smaller schools up to 13 voting members for larger schools.

2.2 Each Board will have a majority of parent members who will be elected by a postal ballot of all parents of registered pupils at the school. There will be arrangements for parents to be co-opted in excess of the limit of 3 further co-opted members where insufficient parents stand for election to achieve the majority over other voting members.)

2.3 Each Board will have at least one and not more than 3 members drawn from the staff of the school and elected by their colleagues.

2.4 Each Board will have power to co-opt 2 or 3 further members. Guidance will be issued by the Secretary of State making it clear that representatives from the local business community and Church representatives should be considered by Boards where these categories are not already sufficiently represented and that the case of denominational schools at least one of the co-opted members must be a representative of the appropriate denomination.

2.5 Headteachers will attend meeting of the Boards ex officio as principal advisers. They will not have a vote.

2.6 Each Board will have one non-voting member appointed by the education authority. This could be an official or an elected member of the authority.

2.7 Board members will hold office for a period of 3 years. Provision will be made for the filling of parental vacancies.

2.8 Legislation will make provision for exception from these requirements for single-teacher schools and for grouped schools. The Secretary of State will have power to set limits to authorities' freedom to make proposals for such cases.

3. Functions

3.1 The legislation will establish a minimum set of functions which all Boards should have immediately (the "floor"). The legislation will also define a "ceiling" within which authorities may delegate to Boards immediately or subsequently. The Secretary of State will have powers to raise the "floor" as Boards develop and to regulate the delegation and exercise of the "ceiling" functions in the light of experience. (This will principally be to allow further definition of the financial management functions of Boards. The legislation will therefore give the Secretary of State powers to require authorities to make financial information and allocations to Boards in prescribed ways.)

3.2 The initial functions to be delegated by authorities to individual Boards will be set out in the proposed constitutions which will be subject to consultation (and possible review by the Secretary of State) as set out in section 4.1 below.

3.3 Legislation will provide for authorities to amend constitutions to increase powers of Boards (subject to consultation). Legislation will also provide for Boards, once established, to be able to petition authorities for increases in the level of functions up to the statutory ceiling and to appeal to the Secretary of State where their aspirations are frustrated.

3.4 The "floor" will comprise:

3.4.1 A right to receive an annual financial statement of expenditure on the school and a budget for the coming year. Boards will have a right to initiate discussions with the authority on the statement and budget.

3.4.2 Boards will have delegated to them by the authority a capitation element for expenditure on books and other materials. They will be required to delegate this expenditure to the headteacher who will, in turn, be required to report to the Board on his plans for expenditure and on expenditures made in the course of the year.

3.4.3 Boards will have power to raise funds (though not to borrow), to receive gifts and to dispose of any funds that come into their hands at their own discretion for the benefit of their schools.

3.4.4 Headteachers will be required to give Boards annual reports, including such information about their school as Boards may reasonably require.

3.4.5 The Board will have the right to be consulted about the curriculum and assessment policies applying to the school on the basis of statements of those policies which the headteacher will be required to provide. The statement on assessment will

include details of the level of attainment within the school. Boards will also be able to initiate discussions on these matters.

3.4.6 Boards will have a right to be consulted and to initiate discussion on school policy on discipline, rules and uniform; and to require statements of policy on these matters from their headteachers from time to time.

3.4.7 Legislation will regulate authority appointments procedures (which are at present non-statutory). Parent members of Boards will be involved as voting members of authority appointment committees for senior members of staff (assistant headteacher and above). Boards will have a right of veto over headteacher appointments.

3.4.8 Boards will have responsibility for liaison with parents and the community, including encouraging the formation of parent teacher associations and determining policy on when parent/teacher meeting should be held, the format of school reports and communication with parents generally.

3.4.9 Boards will have delegated responsibility from authorities for controlling the use of school premises out of school hours including determining hire charges and disposing of receipts.

3.4.10 Boards will have responsibility, delegated from authorities, for a number of other administrative matters including statutory attendance procedures and regulating occasional holidays.

3.5 The "ceiling" will comprise:

3.5.1 A right for Boards to have direct control over a budget for the recurrent costs of their schools. The make-up of the budget and the financial information made available to the Boards will be subject to requirements established in regulations by the Secretary of State.

3.5.2 Responsibility for appointing all members of their school staff without the involvement of authority appointment committees. Authorities would not be able to reject the choices of Boards except on the grounds that the person chosen was not properly qualified or competent to teach. Authorities would remain the employers of school staff and be obliged to redeploy or dismiss any person rejected from its staff by a Board. (The Board would be liable to meet any redundancy cost out of its delegated budget.)

4. Procedure for Constitution and Development

4.1 Legislation will require authorities to propose constitutions (including details of coverage, membership and functions) for Boards for all the schools in their area. These proposals will be subject to the other requirements established in the legislation (eg, there must be a separate Board for individual schools with more than 100 pupils; each Board must conform to the general membership requirements and have at least the minimum functions set out in the "floor"). The proposed constitutions will have to be prepared by a

stated date set by the Secretary of State. They will then be subject to local consultation on the same basis as school closure proposals (covering consultation with all affected parents, existing school councils and other relevant local interests, including denominational bodies in the case of denominational schools).

4.2 Where agreement is reached in consultation, authorities should be empowered to proceed to constitute Boards as they propose. Authorities will be required to establish such Boards by a stated date set by the Secretary of State.

4.3 Where agreement is not reached in local consultation, the proposals would be put to the Secretary of State. The Secretary of State will have power to require amendment to proposals put to him or to impose his own constitutions.

4.4 Boards once established, will have a right to petition their authorities for changes in their constitutions. (For example and extension of their functions.) Where such changes are not granted, there will be a right for the Board concerned to appeal to the Secretary of State who would be empowered to require changes to be made.

4.5 The Secretary of State will have power in the legislation to enhance the minimum level of all Boards' functions (the "floor") by regulation.

5. Timetable

5.1 Assuming that the Bill is enacted by October 1988, the stated date for authorities to issue constitutions for consultation (section 4.1) would be 1 April 1989 and the stated date for Boards to commence carrying out their functions (section 4.2) would be 1 April 1990.

Scottish Office
23 July 1987

Man
phig

BANK OF ENGLAND
LONDON EC2R 8AH

A. L. Coleby
Chief Monetary Adviser
to the Governor
01-601 4220

24 July 1987

Copies sent
24/7

Sir P Middleton KCB
H M Treasury
Parliament Street
London
SW1P 3AG

cc Sir T Burns

Mr Cassen

Mr Peraz

Mr Odling-Smee

Mr Lavelle

Mr Onie

Mr Lowman

Mr J Carr

Mr Sedgwick

Mr M Richardson

Mr C Kelly

Prof Griffiths No 10

Dear Peter,

I enclose our regular monthly note on interest rates over the next few weeks for our meeting on Monday afternoon.

Yours ever,

Tony

Subs

1. Ch. perceptions: sentiment worse

2. Mo up

3. Grad man up. (Mortgage Credits)

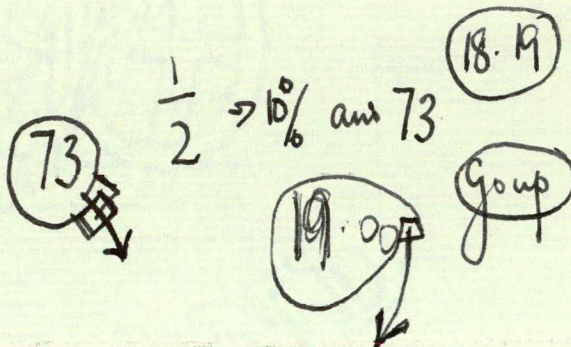
4. 7/1 up (expectations)

5. x R (core inflation)

6. Knee jerk

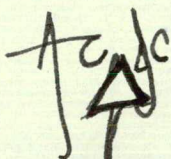
7. Not back down on inflation

8. Local policy tighter. < stabilisers



Waking

Grad accepted

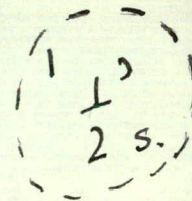


1. Risk of < 1% = not credible just worry.

2. Just shows concern among down. 5/24/7

3. Success -> small ants.

Exercise Objective



1/2 - not long term

From : D L C Peretz
Date : 24 July 1987

CHANCELLOR

cc Economic Secretary
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Cassell
Mrs Lomax
Mr Culpin
Mr Grice
Mr C W Kelly
Mr Ilett
Mr Pike
Mr Richardson
Ms V Bronk

STOCK EXCHANGE SETTLEMENT PROBLEMS AND BANK LENDING

You asked about this at your meeting on 22 July, and the Bank said their enquiries suggested that, at most, stock exchange settlement problems had only had a very modest effect on the total of bank lending. The attached note by Ms Bronk brings together the material on which they based this assessment.

2. In particular you will see that the figures for total bank lending to securities dealers, stockbrokers and jobbers (for which only quarterly figures are available) has been increasing steadily at something like £200 million a month between last November and May, but does not seem to have accelerated recently; and that the only June figure we have, which is for clearing bank lending to securities dealers etc, actually shows a fall.

3. It is of course quite possible, as the note says, that lending may have risen by more at times during the month - for example over the stock exchange Account day - and unwound by the end of the month.

Y. Engleclaw (PS)

p.p. D L C PERETZ

~~Rep A~~

FROM: J P MCINTYRE
DATE: 24 July 1987

mp

CHIEF SECRETARY

cc Chancellor ←
Sir P Middleton
Mr F E R Butler
Mr Anson
Miss Peirson
Mr Scholar
Mr Gibson
Mr Tyrie

✓

PROPOSALS FOR SOCIAL SECURITY BILL

Following our discussion with you yesterday evening, I attach a revised draft letter for you to send to Mr Moore, commenting on the proposals in his 16 July letter to the Lord President for the new Social Security Bill.

2. As you asked, the draft letter now suggests that the proposed extension of Mobility Allowance to people aged over 75 should be considered in the Survey. (On the substance of this issue, we will give you a separate note on the scope for reducing the potential cost of this concession by means of tighter guidelines related to the driving test.)

3. The letter should go to Mr Moore today, if possible, in order to meet his deadline for comments on the proposals.

Jm

J P MCINTYRE

DRAFT LETTER TO THE RT HON JOHN MOORE PC MP, SECRETARY OF STATE, DEPARTMENT OF HEALTH AND SOCIAL SECURITY, ALEXANDER FLEMING HOUSE, ELEPHANT AND CASTLE, SE1 6PY

PROPOSALS FOR SOCIAL SECURITY BILL

You sent me a copy of your letter of 16 July to Willie Whitelaw outlining your proposals for this Bill.

2. Although your letter does not say so, I am sure you will have it in mind that the Bill may need to contain further measures in order to meet the balance of the savings commitments from last year's Survey. Further measures may also be necessary depending on the outcome of our discussions in the current Survey. The Bill might also need to deal with the outcome of certain court cases affecting entitlement to benefit, notably the Woolrich case which I understand is being heard on 29 July and on which I hope to hear from you soon on your plans for coping with an adverse judgment.

3. Among your proposals is the extension of mobility allowance to the over-75s, a matter which was referred to H Committee following last year's Survey discussions. I understand that our officials have been assessing the likely cost. Given the time that has elapsed, I think it now makes sense to consider it in the usual way as part of this year's Survey round, along with your other bids, rather than at H. Without prejudice to the outcome of our discussions in the Survey, I am content for the appropriate provision to be drafted.

4. Subject to these points, I am happy to agree that you should now instruct Parliamentary Counsel so that preparation of the Bill can proceed.

5. I am sending a copy of this letter to the Prime Minister, other members of H Committee, and Sir Robert Armstrong.

JOHN MAJOR

FROM: A BOTTRILL

DATE: 24 July 1987

PS/CHANCELLOR

cc: Sir P Middleton
 Sir T Burns
 Sir G Littler
 Mr Cassell
 Mrs Lomax
 Mr Peretz
 Mr Sedgwick
 Mr Culpin
 Mr S Davies
 Mr Ilett
 Mr Barrell
 Mr Owen

Ch
 As forwarded.
 AA
 [Red signature]

THE CITY'S EARNINGS AND REVISIONS TO THE CURRENT BALANCE

Revised figures to be issued by the CSO and the Bank of England in the next few weeks seem likely on current information to increase the estimated current deficit for 1986 from £0.1 billion to about £ $\frac{3}{4}$ billion. This reflects mainly a downward revision to the earnings of the City and an upward revision to the visible trade deficit.

2. The attached note by Mr Owen describes how the City's net overseas earnings rose from £6 $\frac{1}{2}$ billion in 1985 to £9 $\frac{1}{2}$ billion in 1986. This buoyant growth reflects higher investment income for insurance companies and banks, as well as improved underwriting earnings by Lloyds and an increase in security dealers' portfolio income.

3. A qualification to these results, however, is that the City's net earnings for 1985 have been revised down by £1 billion compared to the figure published in last year's Pink Book. Part of this downward revision which affects not only 1985 but also 1986, was incorporated in the CSO press notice for the balance of payments in 1987Q1, issued last month. The main additional information becoming available has been the results of a Bank of England survey carried out last year which suggests that banks' earnings from financial services were significantly lower than previously projected. The CSO press notice and an accompanying Bank press release will admit this.

4. It will be difficult for commentators to assess the implications for the current balance of this new partial information, although some may try. The net effect of all the changes is to reduce the invisibles surplus for 1986 by £0.5 billion. This will not become apparent, however, until the 1987 Pink Book itself is published on 21 August. This will also contain an upward revision to the visible trade deficit in 1986 as a result of late documents. The exact scale of this revision to the trade figures will not be known until next week, but the overall effect seems likely to be to raise the estimated 1986 current deficit from £0.1 billion to £ $\frac{3}{4}$ billion.

5. The CSO has not yet estimated the consequences of these revisions for the invisibles figures for 1987 but any changes to the out-turn for 1987Q1 and the projected figures for subsequent months will be incorporated in the July trade figures press notice released by the DTI on 1 September.

6. It is clearly not ideal that these revisions will appear in dribs and drabs in various CSO, Bank and DTI press releases. This could complicate presentation. It is probably too late to delay publication of the City earnings press release to coincide with release of the Pink Book. The date has been pre-announced and this information has been released separately since 1982 to give publicity to the City's earnings. There are still very positive aspects about the results for 1986 which can be stressed. We will provide press briefing agreed with the CSO and the Bank for next week's release to cover these good points as well as the implications for the current balance. We will also provide briefing on the June trade figures and Pink Book.

7. In the meantime, you and others may find it helpful to have the attached list of the dates on which information and revisions will become public.

AB Bottrill

A BOTTRILL

Dates for release of trade and balance of payments figures

- 30 July - CSO Press notice on the City's earnings
- 11 August - June trade and current balance
- 21 August - 1987 Pink Book incorporating revisions to both trade and invisibles in 1986
- 1 September - July trade and current balance, incorporating Pink Book revisions to 1986 and any necessary revisions to 1987Q1 invisibles and projections for 1987Q2
- 17 September - 1987Q2 balance of payments figures including estimates for invisibles
- 24 September - August trade and current balance incorporating any necessary revisions to invisibles projections for 1987Q3

FROM: DAVID OWEN

DATE: 24 July 1987

MR BOTTRILL

cc: Mr Sedgwick
Mr Barrell
Mr McLaren
Mr Davis

PRESS RELEASE ON OVERSEAS EARNINGS OF 'THE CITY'

The CSO will publish a press notice (draft attached) on Thursday 30 July showing the net overseas earnings of 'the City' for 1986, together with revisions to earlier years. The same table appears annually as table 6.1 of the Pink Book.

2. Net earnings of 'the City' which were around £6½ billion in both 1984 and 1985, rose strongly to nearly £9½ billion in 1986. There was a sharp rise of £1.4 billion in the net earnings of insurance companies to £4.2 billion in 1986: Lloyds underwriting earnings rose by £0.6 billion and direct investment income from overseas subsidiaries rose by £0.7 billion. Increased earnings are thought to reflect large rises in premiums, partly in anticipation of increased claims in the future, particularly in the US where claims have been rising strongly. The sterling value of earnings from direct investment overseas was also boosted by the fall in the exchange rate.

3. The net earnings of banks rose by £1.0 billion in 1986 to £2.3 billion. This reflected a rise of £0.5 billion in banks' income from direct and portfolio investment, again in part a consequence of the lower exchange rate, and a fall of £0.4 billion in profits due to overseas affiliates which may have reflected increased provisions for bad debts. Portfolio investment income of securities dealers also rose strongly.

4. There was only a modest rise of £0.1 billion in banks' earnings from financial services (fee commission income and foreign exchange dealing). Estimates of banks' services earnings are now based on the

Bank of England enquiry for 1986 - the last such enquiry was in 1983. An article in the next Bank of England Quarterly Bulletin, which will be pre-released with the City table, will describe the results of the latest enquiry. They show substantially lower bank services earnings particularly in 1985 and 1986 than had previously been allowed for in the balance of payments figures, and this is thought to reflect a squeeze on margins on this type of business before and after 'big bang'.

5. Although the table will show strong growth in the City's net overseas earnings in 1986, a comparison with figures published in the 1986 Pink Book reveals downward revisions to estimates for 1984 and 1985 of £0.3 billion and £0.9 billion respectively (even though earnings of securities dealers are being included in the table for the first time this year). A breakdown of the main changes is shown in the attached table. Many of these revisions have already been incorporated in the published quarterly balance of payments figures although because the presentation of invisibles in the quarterly press notice is much less detailed this may not be apparent to outsiders.

6. However, some substantial revisions to estimates for 1984, 1985 and 1986 are being published for the first time in this press notice. The main changes compared to the figures underlying the first quarter 1987 balance of payments press notice (published on 4 June 1987) are as follows:

	Changes since June 1987 press notice £ billion		
	1984	1985	1986
Insurance cos. direct investment income	-	-	0.7
Non bank financial institutions' earnings from portfolio investment	-	-	-0.5
Bank income from financial services	-0.2	-0.4	-0.7
Bank interest on lending	-0.2	-0.3	-

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The figures therefore imply downward revisions, compared to latest published estimates, to certain components of invisibles earnings for each year. Once again it may be hard for outside commentators to identify all the revisions, but they certainly will be aware of large changes to bank financial services earnings, reflecting the results of the 1986 survey, as these will be referred to in the press notice and the BEQB article.

7. There is clearly nothing we can do about the publication of next week's press notice, which has of course already been announced, and in any case most attention will probably focus on the very strong growth in City overseas earnings between 1985 and 1986. In future years revisions to bank financial services earnings should be smaller, because the survey will be annual from now on. For this year we will presumably answer any speculation about current account revisions by noting that other parts of the account, not included in the City table, are also liable to revision and that full details will be published in the Pink Book.

David Owen

**DAVID OWEN
EA2**

Data revisions to overseas earnings of the City

	Changes since 1986 Pink Book		£ million
	1984	1985	
<u>Insurance</u>			
Credits:			
services income	-	-	
direct investment income	-	-60	
portfolio investment income	-30	-290	
Debits:			
direct investment income due overseas	-	+50	
Net earnings	<u>-20</u>	<u>-410</u>	
<u>Banking</u>			
Credits:			
services income	-220	-470	
direct investment income	-	-	
portfolio investment income	-	-	
interest on lending	-130	-330	
Debits:			
services rendered by overseas parents)	-	-20	
direct investment income due overseas)			
interest on borrowing	20	-10	
Net earnings	<u>-370</u>	<u>-760</u>	
Securities dealers' net earnings (not previously included in City table)	+100	+320	
Other institutions' net earnings	+10	-90	
Total net earnings of 'City'	-290	-940	

DRAFT

UK BALANCE OF PAYMENTS: OVERSEAS EARNINGS OF THE CITY

1. The identified net overseas earnings of the main United Kingdom financial institutions ("The City") are estimated to have been £9.4 billion in 1986, compared with £6.6 billion in 1985 and £6.4 billion in 1984.

Insurance

2. Within these totals, UK insurance institutions' net overseas earnings continued to grow strongly, reaching £4.3 billion in 1986 compared with £2.9 billion in 1985 and £2.2 billion in 1984.

3. Insurance underwriting earnings have been particularly buoyant, rising from £0.5 billion in 1984 to £1.7 billion in 1986. However, it should be noted that such earnings are recorded as premiums received less claims paid and overseas expenses. The risks covered by premiums received in a particular year may give rise to claims in later years, in the case of long-term business many years after the initial premium was paid. The fluctuations in the figures do not necessarily reflect, therefore, changes in the underlying profitability of overseas business.

4. There was a strong recovery in the earnings of overseas subsidiaries of UK insurance companies (£0.7 billion) after two years of relatively low earnings.

Banks

5. The net overseas earnings of UK banking institutions (including miscellaneous financial institutions) were £2.3 billion in 1986, substantially higher than in 1985 (£1.3 billion) and above the previous peak in 1984 (£1.9 billion).

6. Earnings from financial services in 1986 were £1.2 billion. This figure is based on the survey of banks' services earnings in 1986 carried out by the Bank of England, a report on which will appear in the Bank of England Quarterly Report for August and is available in a press release today. The previous series has been reassessed and the estimates are now lower than those up to 1985 published in last year's table which were projections from the previous survey in 1983. However, substantial growth over the past three years is still shown.

7. The earnings of UK banking subsidiaries abroad in 1986 were above the low levels in the previous two years, while the earnings of the UK subsidiaries of foreign banks fell back in 1986 (to £0.6 billion) after rising substantially over the previous three years. Fluctuations in banking direct investment earnings will of course reflect many factors, including the effect of provisions for bad debt made against profits in particular years.

8. Portfolio investment income in 1986 was £2.6 billion, above the level in 1985 (£2.3 billion). Gross receipts and payments of interest on banks lending and borrowing were both lower in 1986 than in 1985, although the net payment abroad was little changed at just over £1 billion.

Other institutions

9. It is estimated that the overseas earnings of commodity traders continued to fall back somewhat in 1986, reflecting the lower level of turnover (in value) on the London futures markets. The earnings of members of the Baltic Exchange and of Lloyd's Register of Shipping were little changed between 1985 and 1986, continuing below the levels in 1984. The net overseas income of investment trusts also changed little between 1985 and 1986 but that of pension funds and of unit trusts increased, the latter sharply.

10. The table shows for the first time the estimated gross portfolio investment income of security dealers, which is estimated to have risen to nearly £0.6 billion in 1986. Comprehensive details of the overseas earnings of security dealers are not available, but by the next report on City earnings it is hoped to provide a fuller picture of the position after Stock Exchange deregulation through a new reporting system being established by Bank of England with the Securities Dealers Association and the Stock Exchange.

Related institutions

11. In addition to the earnings of the financial institutions covered in the attached table, UK also benefits from the substantial overseas earnings of solicitors and barristers. The bulk of this income is thought to be earned in the City, notably from services related to financial transactions (such as the issue of bonds by overseas enterprises) and to shipping (including arbitration).

12. The Law Society has recently conducted a survey of most of the firms of solicitors thought to have the largest overseas earnings. These firms were asked to report their net overseas earnings in 1986, and to include amounts forwarded to UK barristers from overseas clients. On the basis of their replies, and of replies to a broader-based survey held in respect of 1980, it is estimated that UK firms of solicitors, and UK barristers, earned £190 million from overseas clients in 1986. This compares with an estimate of £61 million in 1980 and will be used to revise upwards the estimates up to 1985 previously published in the United Kingdom Balance of Payments (The CSO Pink Book) which were projected from the 1980 survey estimate.

Notes to Editors

13. This annual press notice contains the "City table" (Table 6.1) of the United Kingdom Balance of Payments - 1987 Edition prior to publication of the Pink Book. This early issue is in response to requests for the information on a more timely basis. It will continue to feature in the Pink Book itself, which is due to be published on 21 August 1987.

14. The City table brings together all the identifiable current account transactions of institutions generally recognised as the "City of London". Although this cannot be defined with precision, it is interpreted for this table as a group of institutions and not as a geographical place. The institutions covered are located very largely within the geographic City and account for a large proportion of its economic activity. There are exceptions, for example, some insurance companies, pension funds and miscellaneous financial institutions whose figures are included in the table are located outside the City while the overseas earnings of some professions linked to the City (e.g. accountants, actuaries, solicitors) are not covered. However, a reference is made to a recent survey of solicitors' overseas earnings which gives for the first time an estimate for 1986 and will be of general interest.

15. The quality of the data varies between the component series. For further information on the City table and the component series; see section 6 of the United Kingdom Balance of Payments (CSO Pink Book).

OVERSEAS EARNINGS OF UNITED KINGDOM FINANCIAL INSTITUTIONS
("THE CITY")

£ million

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	
INSURANCE												
Credits												
Companies												
Underwriting	3.6	44	46	37	82	94	153	165	188	256	331	426
Direct investment income												
Profits from overseas subsidiaries	190	230	276	256	177	107	58	255	104	43	723	
Property income	7	4	7	9	9	9	11	15	26	20	20	
Portfolio investment income	70	62	74	91	132	217	339	456	654	661	702	
Lloyd's												
Underwriting (overseas business written in UK)	279	334	354	312	188	254	215	275	220	729	1 314	
Portfolio investment	57	48	70	112	153	128	260	288	344	479	422	
Brokers	170	205	237	228	243	314	384	451	535	664	710	
Total	817	929	1 055	1 090	995	1 182	1 432	1 928	2 139	2 927	4 316	
Debits												
Direct investment income due to overseas affiliates	7	14	13	16	28	29	11	-34	-34	18	56	
NET EARNINGS BY UK INSURANCE INSTITUTIONS	810	915	1 042	1 074	967	1 153	1 421	1 962	2 173	2 909	4 260	
BANKING												
(Monetary sector and miscellaneous financial institutions)												
Credits												
Financial (including intra-company) services	257	318	357	417	466	545	669	739	913	1 111	1 223	
Direct investment income from overseas subsidiaries, branches, etc.	131	169	190	291	350	452	142	178	-76	45	212	
Portfolio investment income	10	20	40	50	80	200	350	840	1 423	2 301	2 621	
Interest and discount on:												
Export credit	168	180	233	318	390	424	558	724	816	873	910	
Other lending in foreign currencies	4 423	4 731	6 179	9 288	15 261	27 538	33 924	29 601	35 449	33 771	28 677	
Other lending in sterling	214	157	198	270	474	872	1 158	1 312	1 717	2 674	2 398	
Total	5 203	5 575	7 197	10 634	17 021	30 031	36 801	33 394	40 242	40 775	36 041	
Debits												
Direct investment income due to overseas affiliates	233	254	236	265	317	484	675	661	762	1 012	646	
Net services rendered by overseas parents	24	28	36	28	31	-11	85	76	99	88	59	
Interest on borrowing in foreign currencies	4 487	4 924	6 183	9 717	15 324	27 156	33 207	29 214	35 121	34 750	29 421	
Interest on borrowing in sterling	341	308	343	720	1 203	1 528	1 899	2 050	2 316	3 614	3 620	
Total	5 085	5 514	6 798	10 730	16 875	29 157	35 866	32 001	38 298	39 464	33 746	
NET EARNINGS BY UK BANKING INSTITUTIONS	118	61	399	-96	146	874	935	1 393	1 944	1 311	2 295	
LEASING												
Interest on overseas leasing by specialist finance leasing companies	-	-	-	4	14	43	68	64	72	66	50	
COMMODITY TRADING, ETC.												
Commodity traders	201	110	163	140	180	160	215	350	342	268	223	
Export houses	108	120	132	145	160	200	234	275	326	343	350	
TOTAL COMMODITY TRADING, ETC.	309	230	295	284	340	360	449	625	668	611	572	
INVESTMENT TRUSTS												
Gross income	58	62	64	70	93	104	138	196	213	203	199	
less interest paid on borrowing abroad	11	11	12	12	11	13	22	34	38	20	11	
NET INCOME OF INVESTMENT TRUSTS	47	51	52	58	82	91	116	162	175	183	188	
UNIT TRUSTS (net income)	11	12	15	23	34	41	63	109	135	113	175	
PENSION FUNDS (net income)	14	17	24	46	87	107	326	459	559	587	638	
BROKERAGE, ETC. EARNINGS												
Baltic exchange	147	155	153	200	181	287	246	246	270	229	221	
Stock exchange	16	20	21	25	43	34	44	71	93	106	152	
Lloyd's register of shipping	17	21	20	18	23	32	37	33	27	24	24	
Other brokers	35	37	50	88	89	93	109	138	164	188	248	
TOTAL BROKERAGE, ETC. EARNINGS	215	233	244	331	336	446	436	488	554	547	645	
SECURITIES DEALERS												
Gross portfolio investment income	..	..	..	..	82	106	76	48	98	316	552
TOTAL IDENTIFIED EARNINGS OF ABOVE INSTITUTIONS	1 524	1 519	2 071	1 724	2 088	3 221	3 890	5 310	6 378	6 645	9 375	

WORLD ECONOMIC DEVELOPMENTS

1. In the first quarter real GNP rose quite strongly (on a quarter earlier) in the US, Japan and UK but only fractionally in France, and it fell in Germany (and Italy).

Percentage change, at annual rate, over:

	<u>Quarter before</u>	<u>Year before</u>
US	4½	2½
Japan	4¾	3¾
Germany	-3	2½
France	½	2½
UK	6	3
G5	3½	2½

2. Industrial production, weak in Europe early in the year, has picked up.

Percentage change, at annual rate:

	Latest 3 months over preceding 3 months	Latest month on 12 months earlier
France (Apr)	7.2	-1.8
Germany (May)	8.4	2.9
Italy (Apr)	15.0	-0.3

3. Consumer price inflation averaged 2½ per cent in G5 countries in May, compared with less than 1 per cent last December.

4. The trade imbalances of the US, Japan and Germany have stopped growing, but only in the case of Japan has there been any significant decline.

5. Short-term interest rates in the US have eased a little, after rising earlier in the year. In Japan and Germany rates, which were declining earlier in the year, have been broadly stable over the past few weeks.

6. The first provisional estimate of US GNP for the second quarter shows a quarter on quarter rise of 2½ per cent (at an annual rate).

JOHN COLENUTT

DAVID SAVAGE

24 July 1987

SECTION A: NOMINAL AND REAL GNP

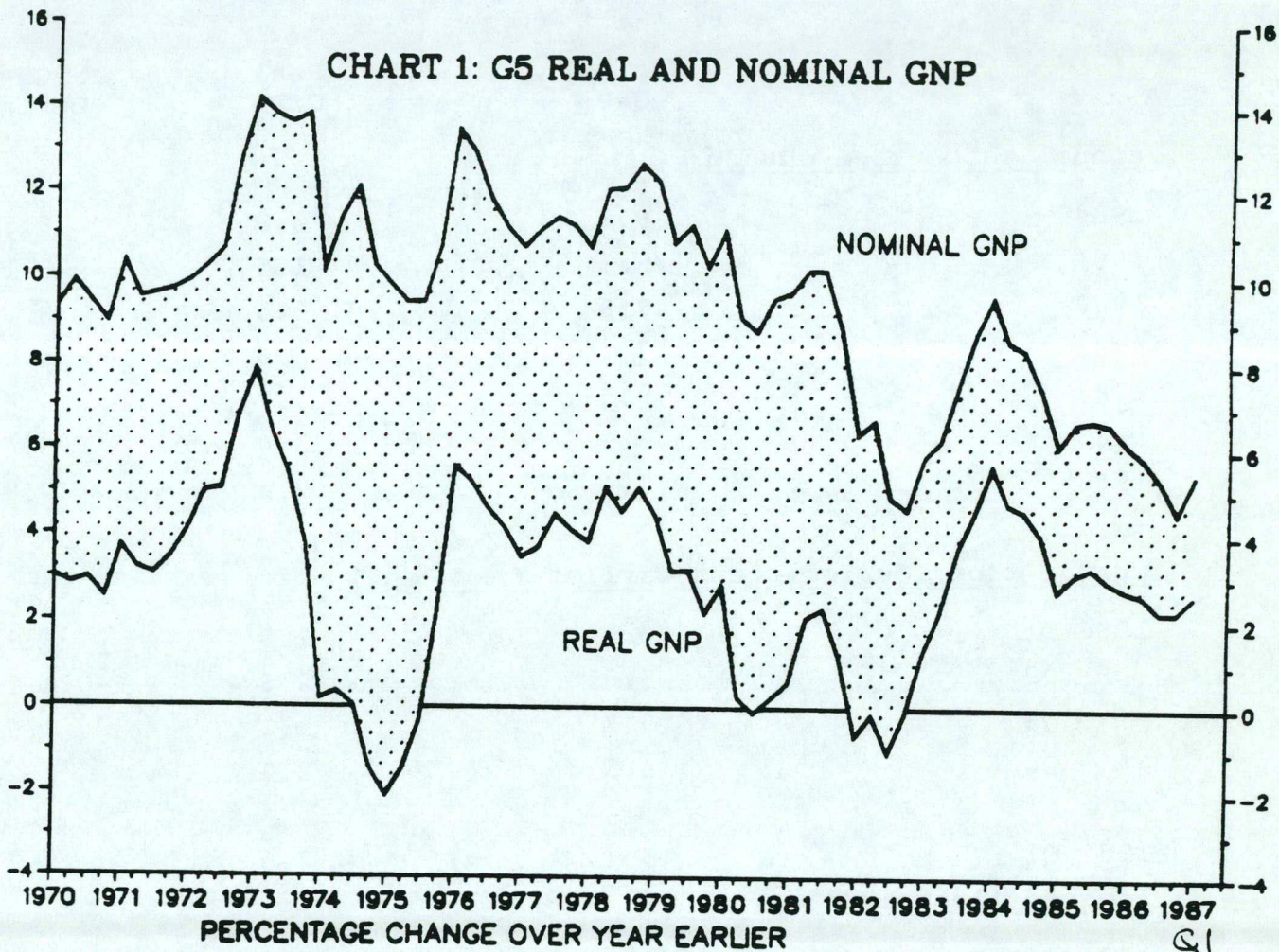
1. The growth rate of nominal GNP in the G5 countries, which had been declining for two years, accelerated slightly, to 5½ per cent, over the year to the first quarter of 1987.

Table 1: GNP growth in the G5 countries*

	Nominal GNP	Real GNP	GNP Deflator
<u>Annual percentage change</u>			
1980	9.6	0.8	8.8
1981	9.7	1.5	8.1
1982	5.6	-0.5	6.1
1983	7.1	3.0	4.0
1984	8.5	4.7	3.6
1985	6.5	3.0	3.4
1986	5.4	2.5	2.9
<u>Change from four quarters earlier (per cent)</u>			
1986 Q1	6.2	2.8	3.3
Q2	5.8	2.6	3.1
Q3	5.3	2.2	3.0
Q4	4.5	2.2	2.2
1987 Q1	5.4	2.6	2.7
<u>Indices (1980-100)</u>			
1986 Q1	148.5	114.0	130.3
Q2	150.5	114.7	131.2
Q3	152.5	115.4	132.1
Q4	153.6	116.0	132.4
1987 Q1	156.6	116.9	133.9

* All G5 averages in the note are weighted on basis of 1980 GDP, converted at 1980 exchange rates, unless otherwise stated.

CHART 1: G5 REAL AND NOMINAL GNP



2. Overall in G5, real GNP increased at a moderate rate in the first quarter. There were quite strong increases in the US, Japan and the UK, but little change in France and a fall in Germany.

3. Growth in real domestic demand in G5, which had been slight in the fourth quarter, strengthened a little in the first quarter. However, this strengthening is accounted for chiefly by a large - and probably partly unintended - build up of stocks. Consumers' expenditure, public consumption and fixed investment were all weak.

CHART 2: GNP IN THE G5 COUNTRIES

(1980 =100)

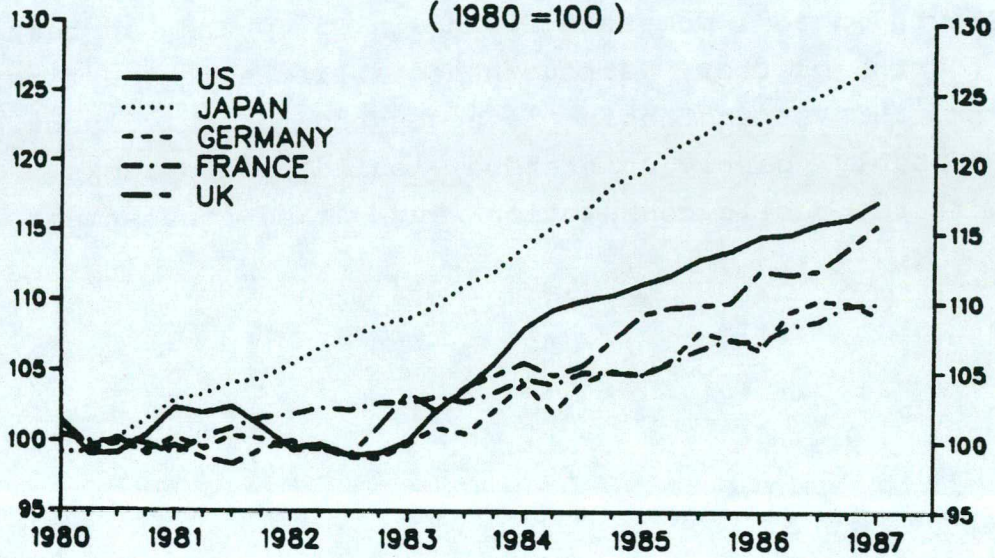


CHART 3: DOMESTIC DEMAND IN THE G5 COUNTRIES

(1980 =100)

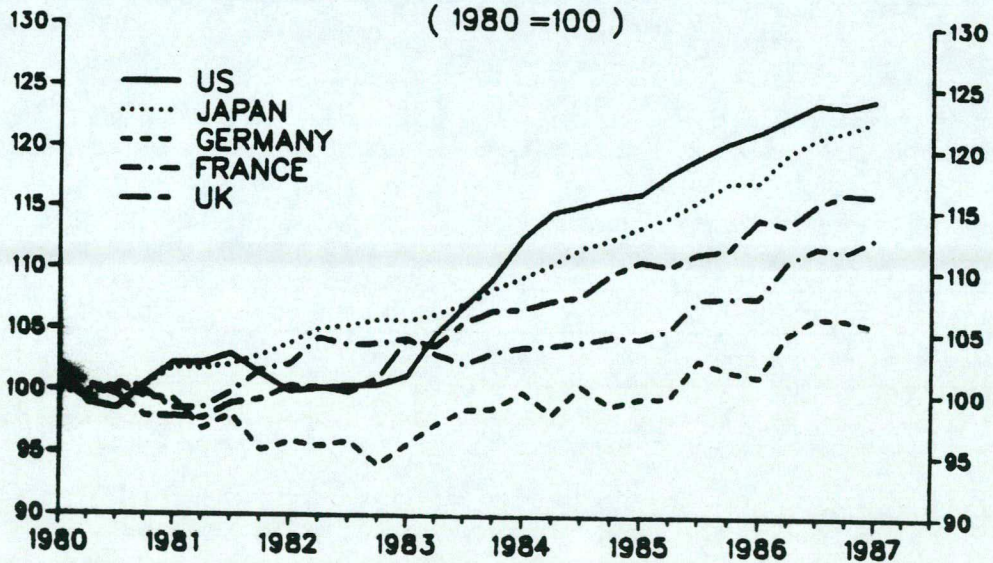


Table 2: GNP and Domestic Demand Growth in individual countries

	<u>GNP growth*</u> :						<u>Domestic demand growth**:</u>					
	US	Japan	Germany	France	UK	G5	US	Japan	Germany	France	UK	G5
<u>Annual percentage changes</u>												
1983	3.6	3.2	1.8	0.8	3.7	3.0	5.2	1.8	2.3	-0.3	4.6	3.4
1984	6.4	5.0	3.0	1.5	2.1	4.7	8.5	3.8	1.9	0.8	2.7	5.3
1985	2.7	4.7	2.5	1.4	3.6	3.0	3.4	3.8	1.5	2.1	2.8	3.0
1986	2.5	2.5	2.4	2.2	2.7	2.5	3.6	4.0	3.7	4.0	3.5	3.7
<u>Change from four quarters earlier (per cent)</u>												
1986 Q1	3.1	3.0	1.7	2.2	2.9	2.8	4.4	3.3	1.8	3.2	3.2	3.6
Q2	2.6	2.5	3.3	2.4	2.2	2.6	3.9	4.6	5.2	5.2	3.1	4.3
Q3	2.3	2.4	2.1	1.9	2.3	2.2	3.7	4.5	3.4	4.0	3.7	3.8
Q4	2.0	2.0	2.4	2.3	3.6	2.2	2.5	3.8	4.2	3.5	4.2	3.2
1987 Q1	2.2	3.7	2.4	2.6 ⁺	2.9	2.6	2.2	4.3	4.1	4.5 ⁺	1.7	3.0
<u>Indices (1986=100)</u>												
1986 Q1	114.7	122.8	106.5	107.1	112.2	114.0	121.4	117.2	101.4	107.8	114.2	115.5
Q2	114.9	124.0	109.3	108.2	111.9	114.7	122.5	119.6	104.8	110.7	113.7	117.3
Q3	115.7	124.9	110.1	108.6	112.2	115.4	123.6	120.8	106.2	111.9	115.4	118.6
Q4	116.0	125.9	109.9	109.8	113.8	116.0	123.4	121.5	106.0	111.6	116.3	118.6
1987 Q1	117.2	127.4	109.1	109.9	115.5	116.9	124.0	122.3	105.5	112.7	116.2	119.0

* Expenditure measure of GNP/GDP at market prices

** Includes stockbuilding

⁺ Provisional.

CHART 4: G5 EXPENDITURE GROWTH

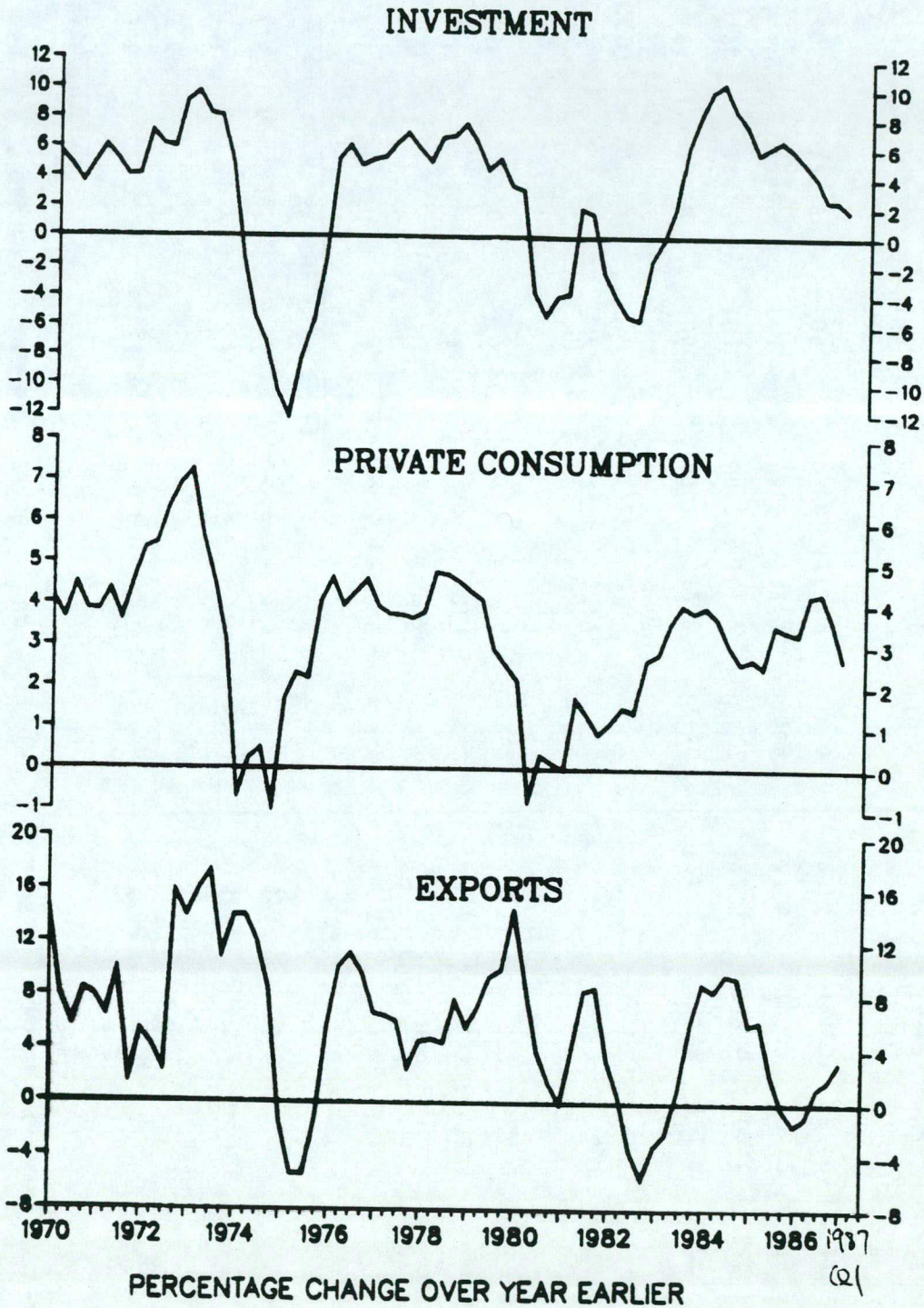


Table 3: Growth of real expenditure in the G5 countries

	Private Consumption	Investment	Government Expenditure	Domestic* Demand	Exports	Imports	Real GNP
<u>Annual percentage change</u>							
1983	3.5	4.0	1.1	3.4	0.3	2.9	3.0
1984	3.3	9.1	2.7	5.3	9.1	12.5	4.7
1985	3.0	6.1	3.4	3.0	3.4	3.5	3.0
1986	3.8	3.5	3.6	3.7	0.1	6.8	2.5
<u>Change from four quarters earlier (per cent)</u>							
1986 Q1	3.3	5.0	2.6	3.6	-1.6	3.2	2.8
Q2	4.2	4.1	5.0	4.3	-1.0	7.8	2.6
Q3	4.3	2.5	3.5	3.8	1.2	9.1	2.2
Q4	3.6	2.5	3.2	3.2	1.8	7.1	2.2
1987 Q1	2.7	1.8	3.0	3.0	3.1	5.3	2.6
<u>Indices (1980=100)</u>							
1986 Q1	115.3	116.6	111.4	115.5	115.4	124.6	114.0
Q2	117.2	118.3	114.7	117.3	117.1	131.9	114.7
Q3	118.7	118.8	115.6	118.6	118.2	135.4	115.4
Q4	118.5	120.9	117.3	118.6	118.9	134.3	116.0
1987 Q1	118.3	118.7	114.8	119.0	119.0	131.3	116.9

* Including stockbuilding

4. Industrial production in the G5 countries grew only slightly during 1986. There has been some pick up this year from the low level in January (when the weather was unusually bad in Europe).

5. In Japan, German and France industrial production was flat or falling during last year, and in the United States it increased only 1 per cent. Recent monthly figures have tended to be erratic, but production seems to be growing, except perhaps in Japan.

CHART 5: G5 INDUSTRIAL PRODUCTION

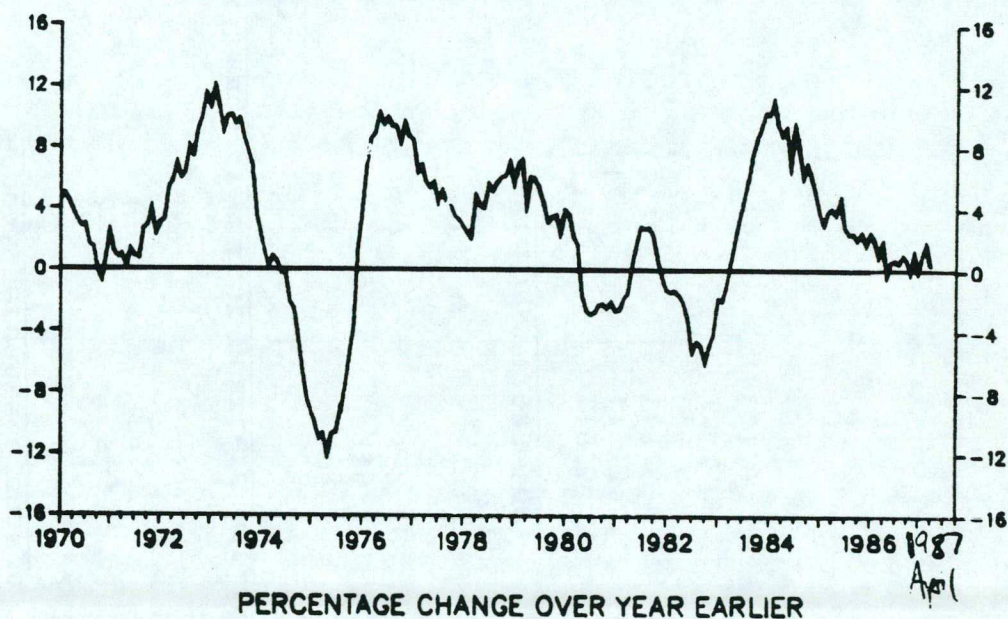


Table 4: Industrial production in the G5 countries (change on year earlier)

	United States	Japan	Germany	France	United Kingdom	G5
1983	5.9	3.5	0.8	0.4	3.6	3.7
1984	11.5	10.9	3.4	1.7	1.2	8.0
1985	1.7	4.5	5.4	0.8	4.8	3.0
1986	1.0	-0.3	2.1	0.8	1.8	1.0
1986 Q1	1.6	1.5	2.9	0.7	2.5	1.8
Q2	0.7	-1.0	3.2	1.0	0.0	0.7
Q3	0.8	-1.2	2.2	1.3	2.3	0.8
Q4	1.1	-0.5	0.0	0.3	2.3	0.6
1987 Q1	1.4	0.6	-1.2	1.0	2.8	0.9
1987 Jan	0.2	0.5	-1.9	-2.0	2.3	-0.1
Feb	1.4	-0.2	0.0	2.0	2.6	1.0
Mar	2.6	1.6	-1.9	3.0	3.6	1.8
Apr	1.3	0.4	-1.2	-1.8	1.5	0.4
May	2.9	0.1	2.9	-	3.8	-
<u>Indices (1980=100)</u>						
1986 Q1	115.1	121.8	106.0	100.3	109.1	112.7
Q2	114.5	121.4	107.3	101.7	109.3	112.8
Q3	115.1	121.1	108.0	103.0	110.8	113.3
Q4	116.0	121.0	106.7	102.3	110.9	113.4
1987 Q1	116.8	122.6	104.7	101.3	112.2	113.8
1987 Jan	116.5	122.4	104.0	99.0	110.8	113.1
Feb	117.0	121.6	106.0	102.0	112.6	114.0
Mar	116.8	123.7	104.0	103.0	113.1	114.2
Apr	116.3	121.8	107.7	102.1	112.6	114.0
May	117.7	121.4	108.0	-	114.0	-

6. The OECD's leading indicators (chart 6) suggest that industrial production will continue to increase.

7. Unemployment rates have risen this year in Japan and France but fallen in the US and UK (Table 6).

Table 5: OECD Standardized Unemployment rates (per cent of labour force, seasonally adjusted)

	US	Japan	Germany	France	UK	G5*
1984	7.4	2.7	7.1	9.7	11.7	7.0
1985	7.1	2.6	7.2	10.2	11.2	6.8
1986	6.9	2.8	6.9	10.5	11.1	6.7
1986 Q1	6.9	2.6	7.1	10.2	11.1	6.7
Q2	7.0	2.7	7.0	10.5	11.2	6.8
Q3	6.8	2.9	6.9	10.6	11.2	6.8
Q4	6.7	2.8	6.8	10.6	11.0	6.7
1987 Q1	6.6	2.9	6.8	11.0	10.7	6.6
1987 Jan	6.6	3.0	6.8	10.8	10.8	6.6
Feb	6.6	2.9	6.8	11.0	10.7	6.6
Mar	6.5	2.9	6.9	11.1	10.6	6.6
Apr	6.2	2.9	7.0	11.0	10.5	6.4
May	6.2	3.2	6.9	11.0	10.2	6.5

* Using 1980 labour force weights.

Table 6: Unemployment rates, national definitions*

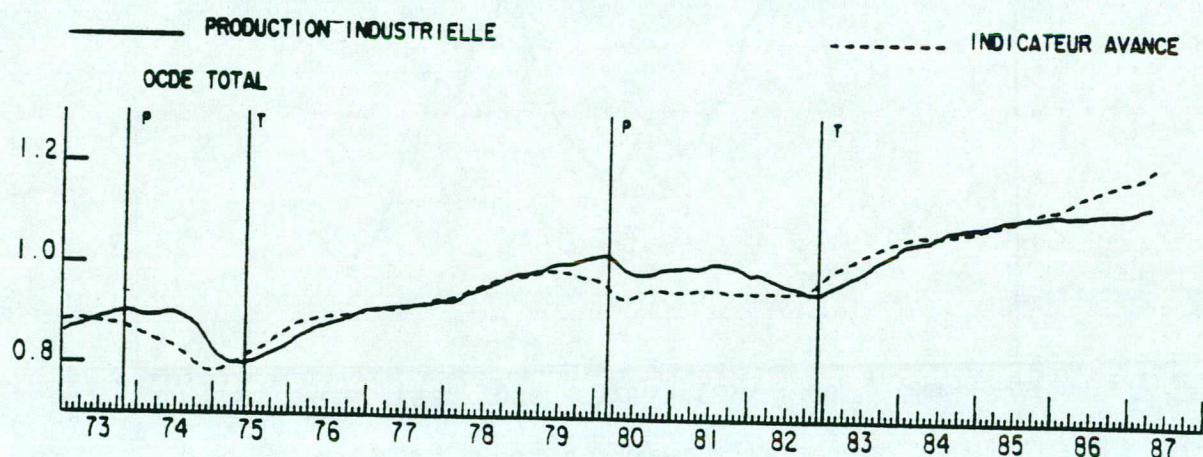
(per cent of labour force seasonally adjusted)

	US	JAPAN	GERMANY	FRANCE	UK
1984	7.5	2.7	9.1	9.9	11.1
1985	7.2	2.6	9.3	10.2	11.3
1986	7.0	2.8	9.0	10.5	11.5
1986 Q1	7.1	2.7	9.2	10.3	11.4
Q2	7.1	2.8	9.0	10.5	11.5
Q3	6.9	2.9	8.8	10.6	11.6
Q4	6.8	2.8	8.7	10.7	11.3
1987 Q1	6.7	2.9	8.8	11.1	11.0
Q2	6.2	-	-	-	10.7
1987 Jan	6.7	3.0	8.8	10.9	11.2
Feb	6.7	2.9	8.8	11.0	11.0
Mar	6.6	2.9	8.9	11.1	10.9
Apr	6.3	3.0	8.9	11.1	10.9
May	6.3	3.2	-	-	10.6
Jun	6.1	-	-	-	10.5

* Not comparable between countries

Source: OECD

CHART 6: OECD LEADING INDICATORS



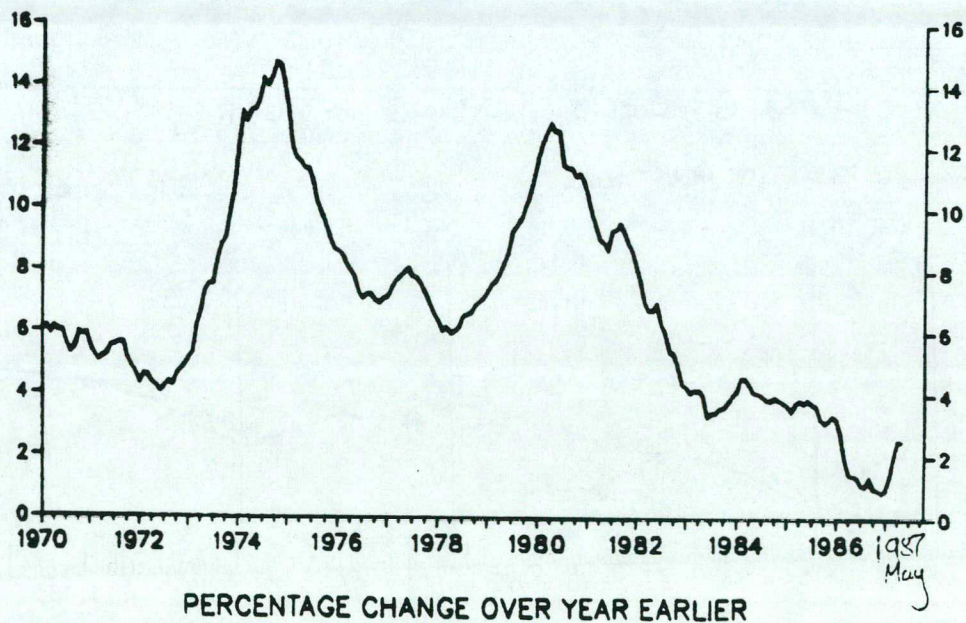
SECTION B: PRICES AND LABOUR COSTS

8. At the end of 1986, G5 consumer price inflation was at its lowest for over 20 years. Inflation has picked up a little during the first half of this year (especially in the US).

Table 7: Consumer prices (percentage change on a year earlier)

	US	Japan	Germany	France	UK	G5	
1983	3.2	1.8	3.3	9.4	4.6	3.8	+0.8
1984	4.2	2.3	2.4	7.7	5.0	4.1	+0.9
1985	3.6	2.0	2.2	5.8	6.1	3.5	+2.6
1986	1.9	0.4	-0.2	2.5	3.4	1.5	+1.0
1987 Jan	1.4	-1.5	-0.8	3.0	3.9	0.9	+3.0
Feb	2.1	-1.4	-0.5	3.4	3.9	1.4	+2.5
Mar	3.0	-0.8	-0.2	3.3	4.0	2.0	+2.0
Apr	3.8	-0.2	0.1	3.5	4.2	2.5	+1.7
May	3.8	-0.3	0.2	3.4	4.1	2.5	+1.6
Jun	-	-	0.2	-	4.2	-	

CHART 7: G5 CONSUMER PRICE INFLATION



9. The acceleration in unit labour costs since 1985 in Japan and Germany reflects a weaker growth of productivity.

Table 8: Unit labour costs (manufacturing, in domestic currencies, percentage change on year earlier)*

	US	Japan	Germany	France	UK	G5
1983	-2.4	-2.2	-0.5	7.6	0.0	-0.7
1984	-0.6	-3.9	1.0	4.7	2.5	-0.1
1985	0.6	-2.4	0.3	2.9	3.9	0.6
1986	-0.5	2.6	3.5	1.7	4.6	1.4
1985 Q1	1.5	-3.3	-0.2	6.6	3.2	1.1
Q2	0.2	-3.6	-0.4	2.0	3.5	-0.1
Q3	0.6	-2.4	0.9	0.8	4.4	0.5
Q4	0.0	0.4	0.5	2.1	4.2	0.8
1986 Q1	-0.7	1.4	1.6	2.4	6.8	1.1
Q2	0.2	2.8	2.7	1.0	6.4	1.
Q3	-0.8	3.4	4.4	2.7	3.4	1.5
Q4	-0.8	2.8	5.4	0.7	2.1	1.2
1987 Q1	-1.5	-0.2	5.4	0.2	2.1	-0.4

Source: IMF

* All series have been extensively revised since the last quarters (particularly for Japan and France).
data

10. Oil prices have remained close to OPEC's reference price of \$18.

11. Prices of other commodities (in nominal SDRs, as measured by the UN), which had been falling since 1984, are estimated (by the Bank) ^{to} have risen a little in the second quarter of this year.

Table 9: Nominal Commodity Prices (In nominal SDRs, (1980 = 100))

	Food	Agricultural Non-Food	Non-Ferrous Metals	Metal Ores	Oil
1983	94.1	104.5	95.3	103.2	116.2
1984	93.2	115.5	96.8	102.8	117.5
1985	85.2	99.9	91.1	101.0	113.5
1986	83.3	83.3	77.4	84.5	52.5
1986 Q1	90.2	87.9	82.2	90.8	80.4
Q2	86.3	84.1	78.5	85.5	46.0
Q3	79.0	79.0	74.7	80.6	38.5
Q4	77.7	82.0	74.5	81.0	45.2
1987 Q1	75.4	81.6	74.3	76.5	58.5
Q2 est*	76.7	84.4	76.8	79.1	57.9

Source: United Nations

* By Bank of England

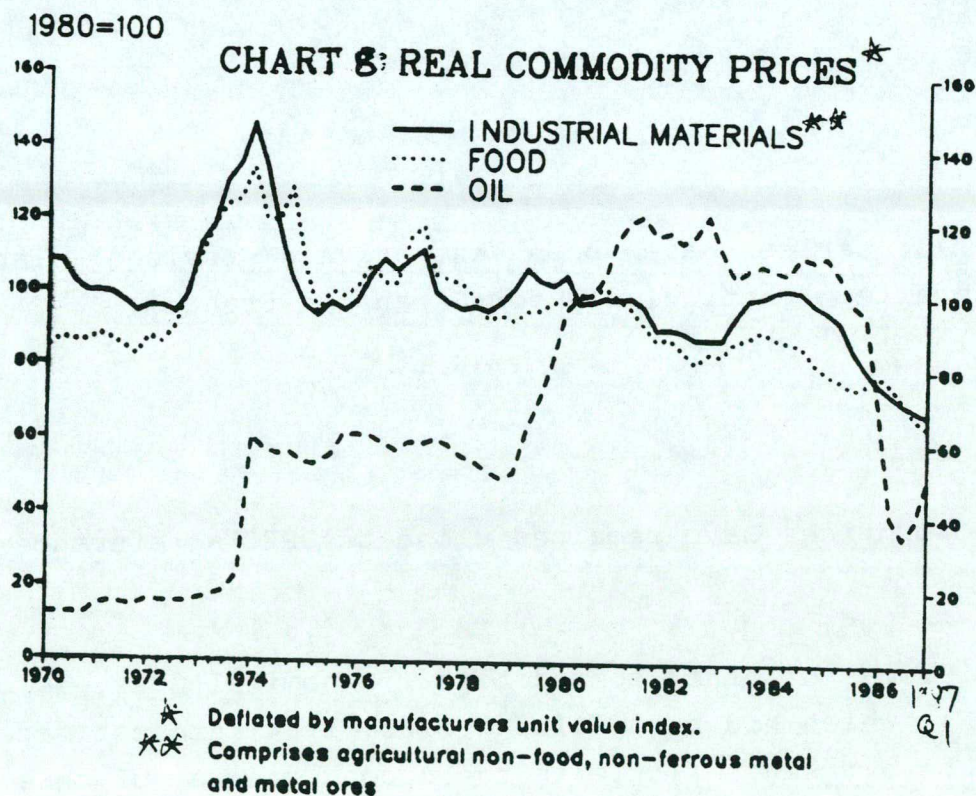


Table 10: Real Commodity Prices (1980 = 100)

	Food	Agricultural Non-Food	Non-Ferrous Metals	Metal Ores	Oil
1983	87.6	97.3	88.7	96.1	108.2
1984	86.2	106.7	89.4	95.0	108.6
1985	76.9	90.2	82.3	91.2	102.6
1986	73.5	73.4	68.3	74.5	46.2
1986 Q1	78.8	76.8	71.7	79.3	70.2
Q2	76.2	74.2	69.3	75.5	40.6
Q3	71.6	71.6	67.6	73.0	34.9
Q4	67.3	71.0	64.5	70.1	39.1
1987 Q1	64.9	70.1	63.9	65.8	50.3
Q2 est**	64.9	71.5	65.0	66.9	49.0

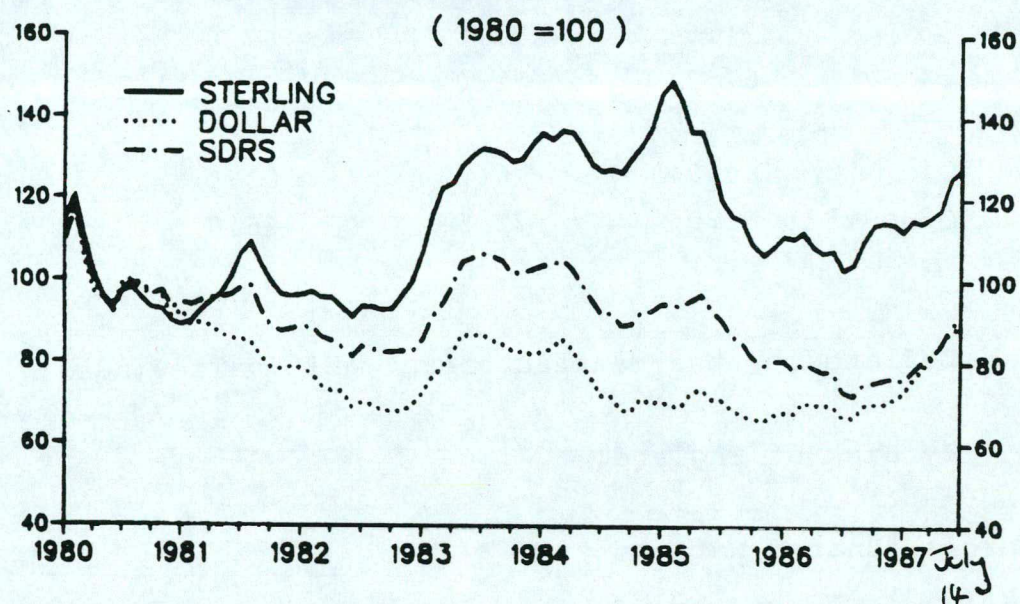
* Deflated by the manufacturers' unit value index.

** By Bank of England.

Source: United Nations

12. The Economist non-oil commodity price index (based on spot prices) shows an earlier turning point (1986Q3) (Chart 9). On 21 July the all-items index was 10 per cent higher than a year before (in SDR terms). Prices of non-food agricultural products and metals have risen over the past month, but food prices have fallen.

CHART 9 : ECONOMIST COMMODITY
PRICE INDICES



SECTION C: TRADE AND CURRENT BALANCES

13. Approximate figures for the volume of G5 exports to various trade blocs are shown in Table 11. (These are computed as exports at current prices deflated by total, not regional, unit value indices. The figures for total exports and exports to OECD include intra-G5 trade and are not seasonally adjusted).

14. The total volume of exports appears to have changed little over the course of last year. A fall in exports to non-OECD countries, especially oil producers, has offset a rise in exports to OECD countries.

Table 11: G5 Export Volumes (1980 = 100, not seasonally adjusted)

	Total	to OECD	to non-OECD	of which: OPEC	non-OPEC
1981	102	101	106	119	102
1982	99	98	100	122	94
1983	99	102	93	100	91
1984	107	113	95	84	98
1985	110	119	93	74	98
1986	110	122	86	60	93
1985 Q1	110	118	94	78	98
Q2	112	120	94	75	99
Q3	106	114	89	72	94
Q4	114	124	94	73	101
1986 Q1	107	118	84	64	90
Q2	112	124	86	64	93
Q3	106	118	84	55	92
Q4	115	127	89	57	98
1987 Q1	107	121	79	50	87

15. The US trade deficit and the German surplus appear to have stopped growing. The Japanese (dollar) surplus may be declining.

Table 12: Visible Trade balances of US, Japan and Germany*

(\$ billion, monthly averages, not seasonally adjusted (except for Japan))

	US	Japan	Germany
1984	10.3	3.7	1.7
1985	12.4	4.7	2.2
1986	13.9	7.7	4.5
1987 Jan	-12.3 (-13.7)	9.6 (8.0)	4.8 (4.5)
Feb	-15.1 (-14.0)	9.2 (8.3)	6.1 (4.7)
Mar	-13.6 (-14.1)	8.4 (8.5)	4.8 (4.9)
Apr	-13.3 (-14.0)	8.2 (8.3)	5.3 (5.0)
May	-14.4 (-14.1)	8.1 (8.5)	6.0 (5.2)

* Averages of past 12 months in brackets.

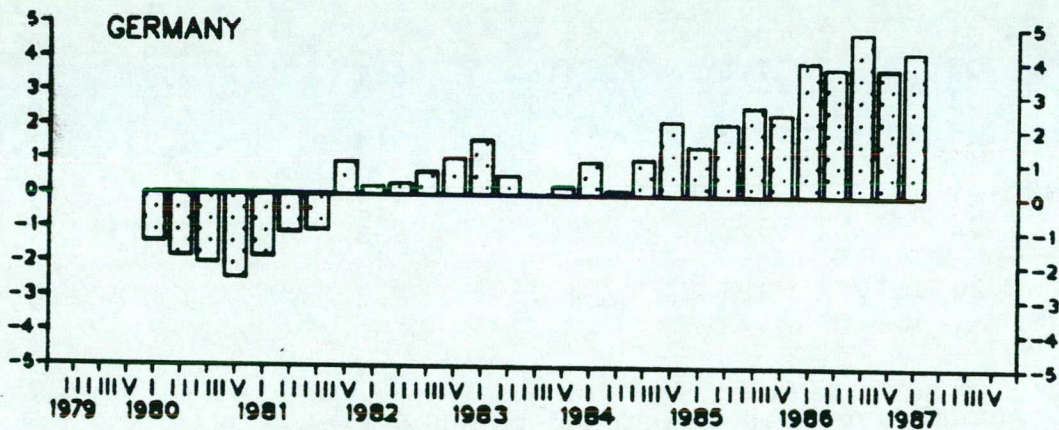
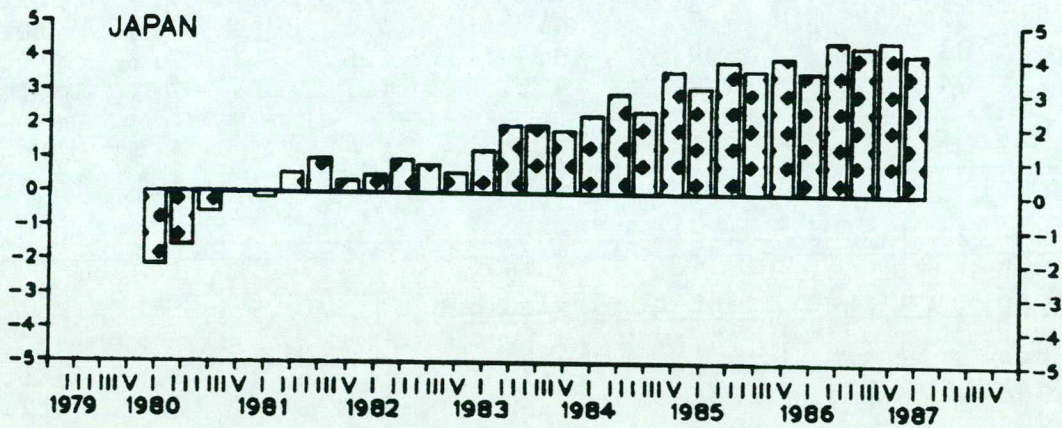
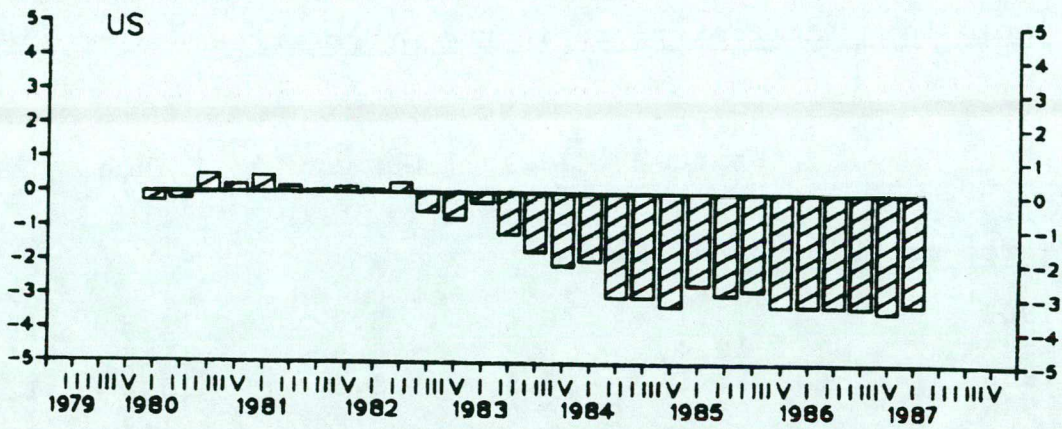
Table 13: Current Account of the G5*

(\$ billion)

	US	Japan	Germany	France	UK
1983	-46.0	20.8	4.1	-4.2	4.8
1984	-106.5	35.0	7.0	-0.8	2.1
1985	-117.7	49.2	13.2	-0.2	4.5
1986	-140.6	86.0	35.8	3.7	-0.2
1986 1	-34.0	15.9	7.7	1.0	1.5
2	-34.4	21.6	7.7	1.0	0.2
3	-35.3	23.8	11.3	0.8	-1.1
4	-36.8	24.1	9.3	1.0	-0.8
1987 1	-35.3	23.9	11.1	0.3	1.1

* Seasonally adjusted.

CHART 10: CURRENT BALANCES (AS % OF NOMINAL GNP)



SECTION D: INTEREST RATES, MONEY SUPPLY AND EXCHANGE RATES

16. Short rates in the United States rose earlier in the year, but have declined slightly since early June. Rates in Japan and Germany, which declined earlier in the year, have been fairly stable over the past few weeks.

Table 14: Interest rates in the G5 countries

	United States	Japan	Germany	France	UK	G5 weighted average
<u>Three-month interest rates</u>						
1983	9.1	6.4	5.8	12.5	10.1	8.6
1984	10.4	6.2	5.9	11.5	9.7	9.1
1985	8.1	6.5	5.5	10.0	12.3	8.0
1986	6.5	5.0	4.6	7.8	11.0	6.5
1986 Q1	7.6	6.2	4.6	8.8	12.4	7.5
Q2	6.7	4.7	4.6	7.4	10.2	6.4
Q3	6.0	4.7	4.6	7.2	10.0	6.1
Q4	5.8	4.5	4.7	7.7	11.2	6.1
1987 Q1	6.0	4.1	4.2	8.3	10.6	6.1
Q2	6.8	3.8	3.8	8.1	9.2	6.2
20 July	6.6	3.7	4.0	7.8	9.1	6.0
<u>Long-term government bond yields*</u>						
1983	11.1	7.7	8.1	13.6	11.2	10.3
1984	12.4	7.1	8.0	12.3	12.3	10.8
1985	10.6	6.4	7.0	10.8	11.1	9.4
1986	7.6	5.1	6.3	8.4	10.1	7.3
1986 Q1	8.6	5.5	6.5	9.6	10.7	8.0
Q2	7.6	4.8	6.1	7.9	8.9	7.0
Q3	7.3	4.8	6.1	7.7	9.7	6.9
Q4	7.2	5.1	6.4	8.4	11.1	7.2
1987 Q1	7.2	4.8	6.3	8.7	9.8	7.0
Q2	8.3	3.3	6.6	8.9	9.0	7.3
20 July	8.4	4.7	6.2	9.3	9.1	7.6

* Annual averages using end-month data.

17. Real interest rates are still historically high, but have fallen this year.

Table 15: Real Short-Term Interest Rates*

(in per cent)

	United States	Japan	Germany	France	UK	G5
1983	5.6	4.5	2.4	2.8	5.3	4.6
1984	5.9	3.8	3.4	3.5	4.5	4.8
1985	4.4	4.4	3.2	3.9	5.8	4.3
1986	4.5	4.5	4.9	5.1	7.3	4.9
1986 Q1	4.4	4.5	3.9	5.0	7.1	4.7
Q2	5.0	3.9	4.8	4.9	7.2	4.9
Q3	4.3	4.7	5.0	5.0	7.2	4.8
Q4	4.5	4.9	5.8	5.4	7.5	5.2
1987 Q1	3.8	5.4	4.7	4.9	6.4	4.6
Q2	2.9	4.0	3.7	4.6	4.8	3.6
July 20	2.7	4.0	3.8	4.2	4.7	3.4

* Three month money market rates deflated by change in consumer price index on year earlier.

Table 16: Price-Earnings Ratios

	1976-80	1981-85	1986	End-May 1987
United States	8.9	10.4	20.0	19.2
Japan	29.7	30.9	60.2	60.4
Germany	10.0	11.9	12.9	13.4
France	13.7	10.8	18.3	18.0
United Kingdom	8.3	11.8	18.5	18.6

18. Except in Germany, equity prices have increased much more strongly than company earnings since 1985.

19. Growth in M1 accelerated sharply last year in the G5 countries and remains fast. However this impression of monetary ease is probably unreliable given the effects, especially in the US and UK, of innovations (such as the paying of market-related interest on sight deposits) on the demand for this aggregate. The nominal growth of broad aggregates (M2 or M3) has not accelerated over the past two years like the growth of M1; nonetheless it has been appreciably faster than nominal GNP.

CHART 11 G5 MONEY SUPPLY

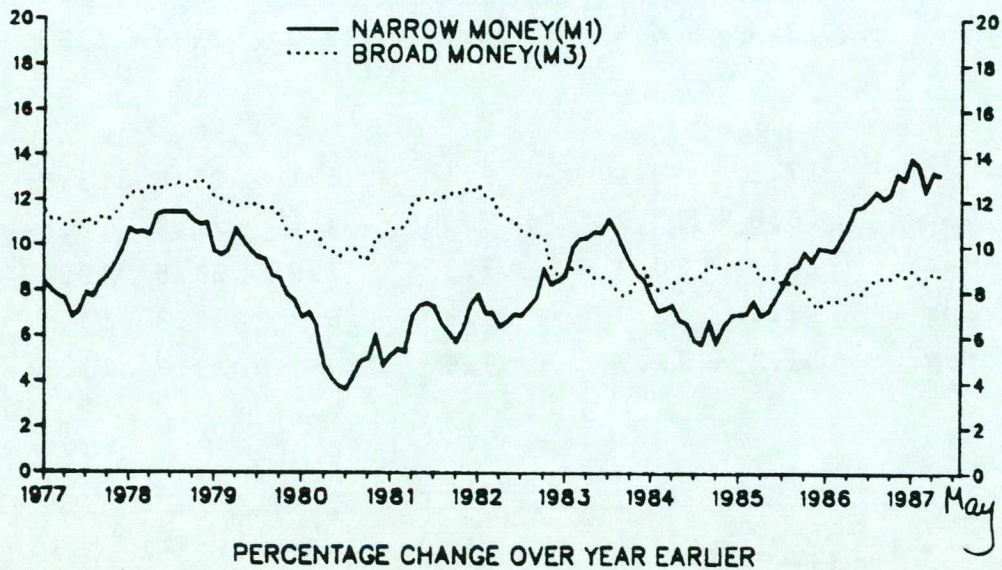
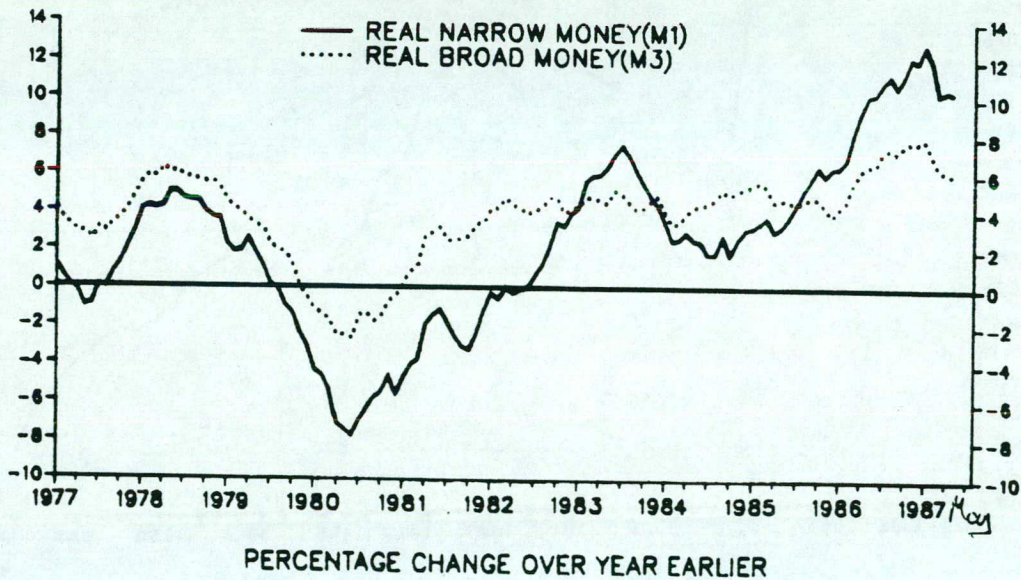


CHART 12: G5 REAL MONEY SUPPLY *



* Deflated by consumer prices

Table 17: Narrow money growth (M1, percentage change on a year earlier)

	US	Japan	Germany	France	UK	G5	UK MO
1980	6.2	2.6	2.4	8.8	4.1	5.1	8.5
1981	7.0	3.3	1.1	11.5	11.7	6.4	4.6
1982	6.6	5.8	3.6	11.8	17.0	7.4	0.9
1983	11.1	3.6	10.2	9.8	16.1	9.8	5.7
1984	7.0	2.8	3.2	10.4	14.0	6.6	5.6
1985	9.2	5.1	4.4	9.0	15.7	8.2	4.6
1986	13.4	6.9	8.9	8.0	22.2	11.6	4.0
1987 Jan	17.3	9.4	9.1	6.1	23.4	13.9	4.1
Feb	16.6	11.2	9.0	4.1	21.9	13.5	4.1
Mar	15.4	10.3	7.3	2.0	23.5	12.4	3.5
Apr	15.8	10.9	8.3	5.7	23.3	13.2	5.3
May	14.2	12.9	9.9	-	23.8	13.1(est)	4.4

CHART 13

G5 BROAD AND NARROW MONEY-VELOCITY OF CIRCULATION

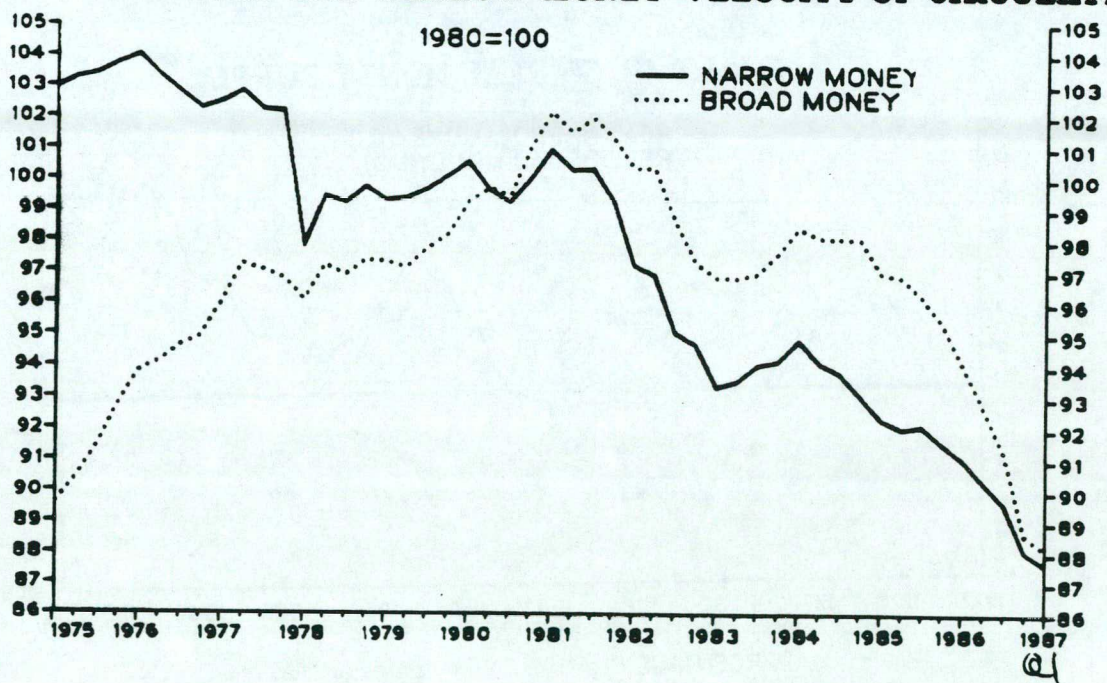


Table 18: Broad money growth (percentage change on a year earlier)

	US M3	Japan M2+CDs	Germany M2	France M3	UK £M3	G5	Germany CBM*
1980	9.2	9.2	9.4	11.2	15.0	10.0	4.8
1981	11.9	8.9	10.4	12.0	19.8	11.8	4.4
1982	10.9	9.2	6.8	11.5	19.2	10.7	4.9
1983	9.8	7.4	2.8	10.2		11.6	8.5
	7.3						
1984	10.1	7.8	3.4	9.8	9.3	8.6	4.8
1985	9.0	8.4	4.3	8.3	12.2	8.4	4.6
1986	8.1	8.6	4.3	5.4	18.1	8.2	6.4
1987 Jan	8.9	8.9	6.8	5.1	18.4	8.9	7.5
Feb	8.5	7.9	6.8	4.6	19.8	8.6	7.7
Mar	8.0	8.9	6.7	4.1	19.3	8.4	7.9
Apr	7.5	10.4	7.7	5.0	20.3	8.8	7.8
May	7.3	10.2	8.4	-	19.2	8.7(est)	8.3
Target	5.5-8.5	8		3-5			3-6

* Comprises 100 per cent of currency in circulation, 16.6 per cent of sight deposits, 12.4 per cent of time deposits and 8.1 per cent of savings deposits.

20. The dollar depreciated further over the first five months of the year, but has firmed since May. In effective terms, the dollar, deutschemark, and yen are now close to their levels at the time of the Louvre Agreement in late February.

Table 19: Effective exchange rate movements (1975 = 100)

	United States	Japan	Germany	France	United Kingdom
1980	93.7	126.4	128.8	94.4	96.0
1981	105.6	142.9	119.2	84.3	94.8
1982	118.0	134.6	124.4	76.6	90.4
1983	124.8	148.4	127.1	70.0	83.2
1984	134.6	156.7	123.8	65.7	78.6
1985	140.7	160.5	123.6	66.3	78.2
1986	114.8	203.1	137.3	70.1	72.8
\$ Peak - 27 February 1985	157.2	157.1	117.2	62.0	70.2
Plaza - 20 September 1985	139.6	156.6	125.5	67.2	82.0
Louvre - 20 February 1987	104.0	209.1	148.3	72.2	69.1
Latest - 21 July 1987	103.9	211.2	146.3	71.5	72.9

CHART 14. REAL AND NOMINAL EFFECTIVE EXCHANGE RATES

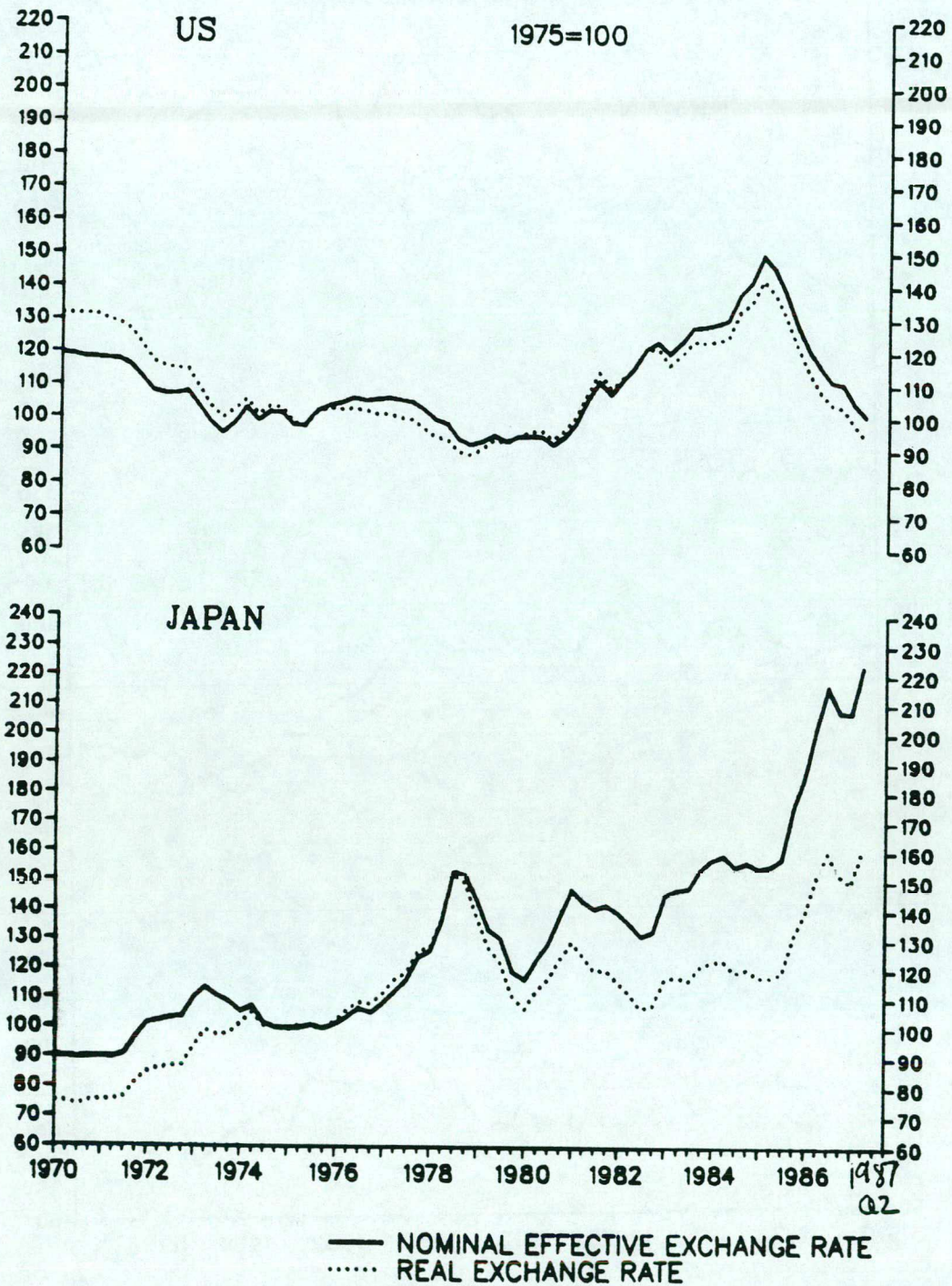
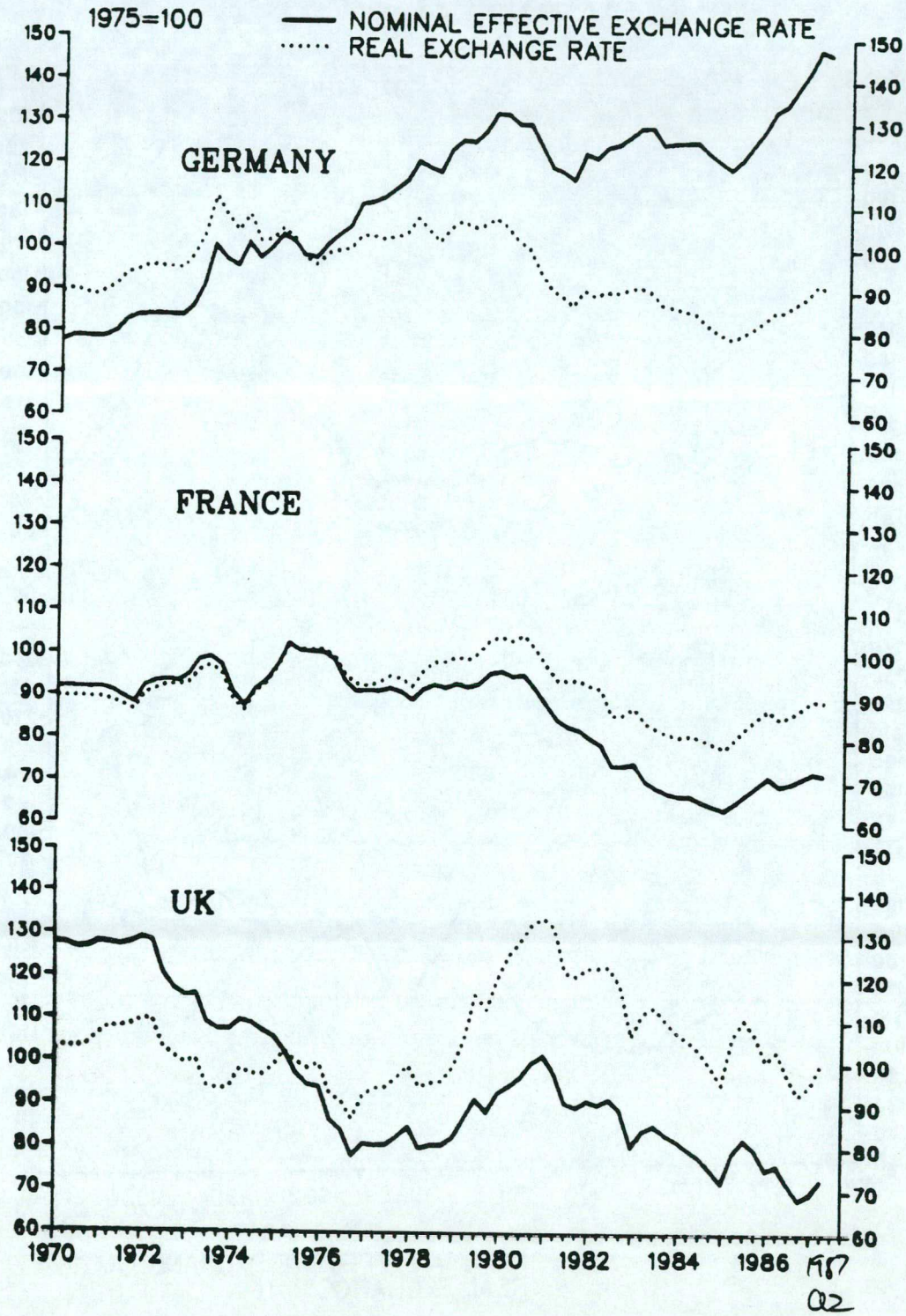
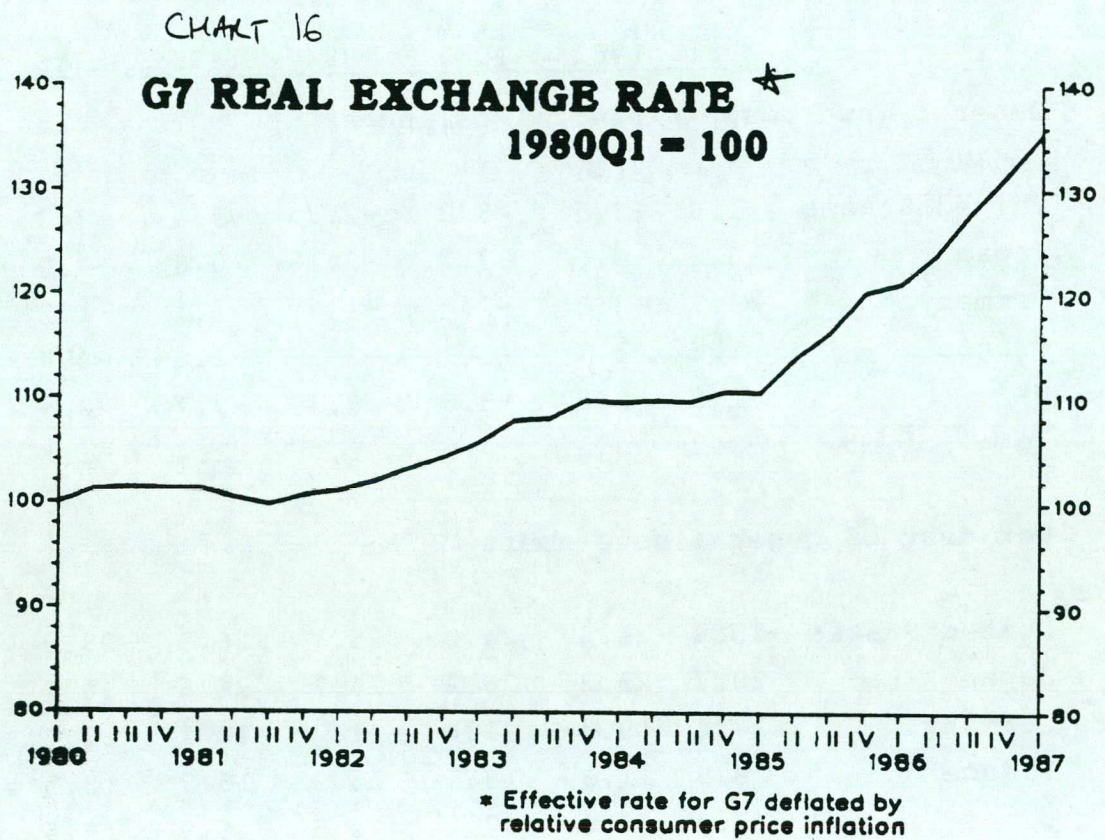


CHART 15 REAL AND NOMINAL EFFECTIVE EXCHANGE RATES



21. As measured by the ratio, in common currency, of consumer prices in G7 to those in the rest of the world, the real exchange rate of G7 appears to have appreciated substantially since early 1985 (Chart 16). This reflects a tendency for developing countries in Asia and newly industrialised countries, such as Korea, Hong Kong, and Singapore, to link their currencies to the depreciating dollar.



SECTION E: BUDGET DEFICITS AND PUBLIC DEBT

22. General government financial deficits have been about constant on average in the G5 countries since 1984. The OECD's provisional forecast shows a decline this year on present policies, chiefly because a sharp decline is expected in the US deficit. The ratio of general government debt to GNP has continued to rise however (and is expected by the OECD to go on rising this year).

Table 20: General government financial balances and debt ratios

	1981	1982	1983	1984	1985	1986	1987 ^(b)	1988 ^(b)
General government financial balances^(a)								
United States	-1.0	-3.5	-3.8	-2.7	-3.4	-3.3	-2.7	-2.6
Japan	-3.8	-3.6	-3.7	-2.1	-0.8	-0.9	-0.9	-0.2
Germany	-3.7	-3.3	-2.4	-1.9	-1.1	-1.2	-1.5	-2.0
France	-1.8	-2.7	-3.1	-2.9	-2.6	-2.9	-2.7	-2.5
UK	-2.8	-2.3	-3.6	-3.9	-2.7	-2.9	-2.7	-2.7
Total of G5	-2.2	3.3	3.5	-2.6	-2.4	-2.5	-2.2	-2.1
Net debt of general government^(a)								
United States	18.8	21.4	24.0	25.1	26.8	28.8	29.9	30.6
Japan	20.7	23.2	26.2	26.9	26.5	26.2	26.6	25.9
Germany	17.4	19.8	21.4	21.7	22.1	22.2	23.0	24.1
France	9.9	11.3	13.4	15.2	16.7	18.5	20.4	22.0
UK	47.2	46.4	47.1	48.5	46.9	46.9	46.1	45.5
Total of G5	20.5	22.6	24.9	25.9	26.7	27.8	28.7	29.2

(a) Percentages of GNP

(b) OECD forecasts (June, 1987); for Japan these take no account of the recently announced expansionary package.

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JRP

FROM: JILL RUTTER
DATE: 24 July 1987

MR F E R BUTLER

cc:
Chancellor
Mr Anson
Mr Monck
Mr Turnbull
Mr Gieve
Mr Tyrie

BILATERALS AND STAR CHAMBER

The Chief Secretary was most grateful for your minute of 22 July.

2 He agrees, ~~saye~~ that he would prefer Mr Channon - or even Mr Fowler - to Mr Hurd. He will wish to discuss further.

JILL RUTTER
Private Secretary



FROM: A C S ALLAN
DATE: 23 July 1987

ps

PS/CHIEF SECRETARY

cc: Mr Butler

BILATERALS AND STAR CHAMBER

The Chancellor has seen Mr Butler's minute to you of 22 July. He has discussed Star Chamber membership privately with Lord Whitelaw - and apologises to Mr Butler and the Chief Secretary for not mentioning this before. The Lord Whitelaw agreed that we should go for Messrs Wakeham, Clarke, MacGregor and Parkinson. The Chancellor knows that both the last two would like to settle early and be available.

2. If we are in dispute with DTI and Mr Clarke is ruled out, the Chancellor would like to consider with Lord Whitelaw and the Chief Secretary who we might have to replace him; he is very doubtful about Mr Hurd, who is likely to be troublesome, and feels that Mr Channon is far from ideal. Meanwhile, no further action is required.

ACSA

A C S ALLAN



Mr Butler says he was
as I apologise to him
~~for~~ a CST for
was intended this (before)
that I discuss Stan
Archer membership
private with L'W last
month, & we agreed that
in addition to him & a
CST we should go for
Messrs Wakeham, Clarke,
Max Gynn & Parkinson.
I know that both ~~them~~
the last two but like to
still further of ^{it available}
over

If we are in
dispute with BTI,
& Mr. Clarke is ruled
out, I will direct to
Chasala with L'W ~~with~~
~~them~~ & no EST with
Whom we might
replace him.*
Meanwhile, no further
action is required.

* I am very doubtful
about Mr. Hunt, who is
far too troublesome,
& Mr. Chasala is far from
ideal. "

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FROM: F. E. R. BUTLER
22nd July, 1987.

CHIEF SECRETARY

Ch
Presumably no need
for CST to speak to Lord
Whitelaw? AA

c.c. **Chancellor**
Mr. Anson
Mr. Monck
Mr. Turnbull
Mr. Gieve
Mr. Tyrie

BILATERALS AND STAR CHAMBER

Miss Rutter's minute of 20th July asked for my advice on tactics viz a viz Star Chamber candidates.

2. We need six members of the Star Chamber: we had five last year and your predecessor felt we needed one more.

3. Lord Whitelaw, Mr. Wakeham (presumably) and you will be three. So we need three others.

4. I agree with you that the leading candidates are:-

Mr. Parkinson

Mr. MacGregor

Mr. Clarke

Others who could be considered have significant disadvantages:-

Mr. Hurd - a possibility if we have settled but this cannot be guaranteed

Mr. Younger - only if we have settled defence which looks unlikely

Mr. Ridley - we may not settle and anyway he is busy with other things

Mr. Channon - a possibility if we have settled

I exclude Sir Geoffrey Howe and Lord Havers because they are too senior and will not want to serve: Messrs. Rifkind,

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Walker and King on the grounds that they are unlikely to be supportive and anyway their blocks gain from increases in others; Messrs. Fowler, Baker and Moore because we are likely to be in dispute with them; and Lord Young because, if we have settled with DTI, the obvious choice is Mr. Clarke who served last year.

5. If any of the three first choices fall by the wayside, I think that the reserves are Mr. Hurd and Mr. Channon.

6. It looks reasonably likely that we will reach agreement in the bilaterals with Mr. MacGregor and Mr. Parkinson (on his main programme): the difficult area in his case is electricity. Even if we can bring a bilateral on that subject a little earlier in September than we otherwise would, we are not likely to have settled electricity before Star Chamber begins. But since electricity is such a specific issue, Lord Whitelaw might agree to Mr. Parkinson being on the Star Chamber before it is settled. Even so Mr. Parkinson may find it difficult to spare the time in October as he will be heavily engaged in work on the structure of the electricity industry after privatisation.

7. Mr. Clarke is also problematical: there are substantial issues at stake on the DTI, particularly on the trade-off between regional development and inner cities and on R & D: it could be expensive to settle with DTI prematurely in order to get Mr. Clarke onto the Star Chamber.

8. My advice is that we should have in mind Messrs. Parkinson, MacGregor and Clarke as members of the Star Chamber, with Messrs. Hurd and Channon as reserves. If you agree we will have this in mind in fixing the timetable for the bilaterals. I do not suggest you go further than that because it can be bad psychology to go into a bilateral wanting to get someone on the Star Chamber. In any case

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the point of decision on whether to settle or pursue will only come after you have completed the first round of bilaterals.

9. It would be worth doing two further things now:-

- i. Mentioning to Lord Whitelaw the names you have in mind to ensure that he has no objections;
- ii. asking Lord Whitelaw to sound Mr. Wakeham and make sure that he can make himself available: now that there is one less non-departmental Minister in the Cabinet he is really needed.

If you agree I will also mention to Mr. Unwin (Cabinet Office) the way our thoughts are going.

F.E.R.B.

F. E. R. BUTLER



FROM: JILL RUTTER
DATE: 20 July 1987

MR F E R BUTLER

pur

cc:
Chancellor
Mr Anson
Mr Monck
Mr Turnbull
Mr Gieve
Mr Tyrie

BILATERALS

The Chief Secretary has one further point not recorded in my minute to Mr Gieve of today. That is on the tactics vis-a-vis potential Star Chamber candidates.

2 The Chief Secretary believes that we should agree our preferred Star Chamber composition and try to get as far as possible with those candidates in round one or complete them first in round two insofar as possible.

3 The Chief Secretary would be grateful for advice on possible candidates. His view is that Messrs. Parkinson, MacGregor and Clarke all have attractions. Since allies will be hard to find he believes that this is a matter that needs early consideration.

4 He would be grateful for your advice on this.

Ch
(Already dismissed
with Lord (Shutlan))

*I have [initials]
CSI -*

HA

Jill Rutter

JILL RUTTER
Private Secretary



FROM: JILL RUTTER
DATE: 20 July 1987

MR GIEVE

CC:
Mr F E R Butler
HEGs
Mrs Butler
Mr Allan | 2
Miss Walker
Mr Hoare
Mr Tyrie

TIMETABLE AND BRIEFING FOR BILATERALS

The Chief Secretary was most grateful for *you* very comprehensive note of 17 July. The Chief Secretary is content subject to the following points.

Timetable

2 The Chief Secretary is content with the timetable you propose, subject to the point that Lord Young has already asked if we could arrange for an early bilateral on DTI. The Chief Secretary hopes we can aim for that, subject to the point in paragraph 5 (ii) on the agenda letters for the nationalised industries.

Briefing meetings

3 The Chief Secretary is content with the idea of pre-meetings three days before bilaterals. He would also welcome officials assembling 15 to 30 minutes before the bilateral for any last minute tactical talk. We will make sure that we fix meetings on this basis.

Format

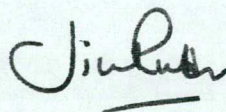
4 The Chief Secretary is generally content with the format you propose but would be grateful if the following could also be included:

- (a) a note on manifesto commitments and any current action in Cabinet Sub Committees. He would also be grateful to be warned of any Prime Ministerial statements that could be used in support of bids.
- (b) the Chief Secretary would be grateful if the key points could include points to put spending departments on the defensive (i.e. overruns or underspending if it indicates over bidding last year; any unexpected in-year bids, excessive running costs, efficiency failings etc etc).

Core briefs

5 The Chief Secretary would welcome as many core briefs as possible by 5 August.

6 The Chief Secretary's only regret is that with the admirable brief provided, there is no opportunity to have a women's affairs bilateral!



JILL RUTTER
Private Secretary

FROM: JOHN GIEVE
DATE: 17 July 1987

1. MR F E R BUTLER
2. CHIEF SECRETARY

FRS
17.7

cc HEGs
Mrs Butler
Mr Allan
Miss Walker
Mr Hoare
Mr Tyrie

TIMETABLE AND BRIEFING FOR BILATERALS

It is necessary now to plan the diary for bilaterals and it would be helpful to know how you would like your briefing for the meetings to be organised.

Timetable

2. I attach a list of the meetings we think you will need to hold. We have identified 19 firm candidates. In addition, meetings may be necessary with Forestry Ministers and the Attorney General although we hope to be able to settle these by correspondence and official meetings.

3. We propose that in the relevant cases you should consider proposals for nationalised industries and departmental expenditure at the same meetings and that you should use the bilaterals to sort out any issues affecting the smaller departments for which your colleagues are responsible, for example, Ordnance Survey and OPCS.

4. On the timing of meetings, we suggest your aim should be to complete the first round of bilaterals by Friday 18 September. This would leave a further two weeks for second round meetings and any other steps prior to the natural break in proceedings created by the party conference in the week beginning 5 October. I expect that, like your procedessors, you will also wish to devote much

the first week in September to internal briefing sessions in preparation for the Ministerial meetings. This would point to arranging the "first round" meetings in the 12 working days between 3 September and 18 September. That will mean 2 meetings on most days.

5. The main constraint on the order of the timetable is likely to be your colleagues' availability. The Foreign Secretary, in particular, spends much of September abroad and it would be wise to fix a day for him soon. But in arranging the programme, your office will wish to bear in mind:

i. DM are submitting advice separately on defence and that may lead to a meeting in the next fortnight;

ii. the agenda letters on the nationalised industries will not be going out until the beginning of September which points to having the DTI, Energy, Transport, and Environment meetings in the second half of the period;

iii. we think you will need a separate meeting on regional assistance (as last year) with Lord Young and the territorial Ministers; there could be advantage in holding that after your first bilateral with Lord Young;

iv. it may be worth having an early "first reading" on some of the large and difficult programmes eg health and social security;

v. it may be possible to hold early meetings with the Inland Revenue and Customs and Excise;

vi. it may be helpful for you to deal with the departments with large bids for local authority capital fairly closely together (ie Environment, Transport, Education, and Personal Social Services);

vii. it may well be impossible to get through the whole agenda for Environment in particular in one meeting so it

may be sensible to plan for 2 "first round" meetings there; separate meetings for health and social security will also be needed;

viii. the forecasts of agricultural spending will change (and probably get higher) during September and we see advantage in having that bilateral as late as possible.

6. In considering tactics in September you will want to consider the possible composition of Star Chamber. We think this should bear mainly on the approach you adopt in your 'second round' bilaterals and need not influence the order of the first round.

Briefing Meetings

7. Your predecessors have found it helpful to hold briefing meetings before each bilateral. We think it would be desirable for these generally to be held 3 days or more in advance of the bilaterals so as to give time for your briefing to be augmented and changed to reflect your comments. I suggest your office might set up a timetable for the briefing meetings at the same time as they line up the actual bilaterals.

8. One of the lessons of the last two Surveys has been that it can be useful to have a short de-briefing immediately after each Ministerial meeting to take stock of the position, plan the next steps and commission further work. Your office might provide for these sessions in their timetable.

Briefing format

9. Last year divisions adopted a common format for briefing for bilaterals. This is set out at Annex B and Annex C illustrates what it might look like in practice for a Department of Women's Affairs. The key features of the structure are:

- i. a core brief setting out the overall objectives, proposals on tactics, key points to make, and a list of the additional

briefing material that could be prepared by way of self-standing annexes; these core briefs should generally be two pages long with an absolute maximum of three pages; in order to avoid having your fallback position at the top of the first page of your brief (where it is difficult to hide from colleagues across the table) we have put the summary table at the bottom of the final page of the core brief where it can easily be found but is less visible;

ii. a briefing table to a common format, showing your opening and fallback positions on each bid and option and on the total; these tables are designed to match the layout of the tables attached to your agenda letters [the opening positions and fallbacks will be those agreed for the particular meetings; our overall forecast of the likely outcome of negotiations will be shown separately where it is different from the fallback];

iii. annexes on particular bids or groups of bids these will generally include an annex on running costs and manpower.

10. We suggest that groups should let you have the core briefs and tables for the main departments by 5 August, when I gather you will still be taking papers. They would focus on the main issues of substance and handling and provide a starting point from which you could commission further specific material if you wanted. You could react either in August so that the extra briefing would be available on your return at the beginning of September. Alternatively the initial core briefs could form the basis of the briefing meetings in early September.

11. One advantage of this format for briefing is that it is relatively easy to update the core brief and to augment it with additional material as negotiations develop through September and October.

12. In order to give expenditure groups time to prepare initial briefing, it would be most helpful to have your reactions to the proposed timetable and format early next week.

John Gieve

JOHN GIEVE

INITIAL BILATERAL MEETINGSSPONSORING MINISTERS/HEADS OF DEPARTMENTSCOVERAGEFirm Meetings

Defence Secretary	MOD
Foreign Secretary	FCO-ODA, FCO-Diplomatic Wing
Agriculture Ministers	IBAP & CAP, Domestic Agriculture
Trade and Industry Secretary	DTI, ECGD, Nationalised Industries, OFT
Industry, Scottish, Welsh Secretaries	Regional assistance
Energy Secretary	Energy (Department) and national industries
Employment Secretary	DE Group
Transport Secretary	Transport (Department and nationalised industries)
Environment Secretary	Housing, DoE-Other, PSA, nationalised industries, Ordnance Survey
Home Secretary	Home Office
Education Secretary	Education and Science
Lord Chancellor	LCD
Social Services Secretary	Health, Personal Social Services, Social Security, OPCS
Scottish Secretary	Scotland
Welsh Secretary	Wales
Northern Ireland Secretary	Northern Ireland
Minister of State (Privy Council Office)	OAL, Management and Personnel Office
Permanent Secretary/Inland Revenue	Inland Revenue
Permanent Secretary/Customs and Excise	Customs and Excise

Possible Meetings

Attorney General	Crown Prosecution Service, Treasury Solicitors Department
Scottish Secretary and other Forestry Ministers	Forestry

1986 SURVEY: SUGGESTED FORMAT FOR BILATERAL BRIEF (ideally 2 and NO MORE than 3 pages long)

[NB: Standard briefing note form should be used wherever possible]

Briefing table attached at Appendix I.

1. OVERALL OBJECTIVES FOR PROGRAMME

Introductory paragraph on overall objectives for the programme as a whole [eg containment; net reductions; concede only irresistible increases]

2. HANDLING THE BILATERAL

This should start with an assessment of the prospects for reaching a settlement eg aim to settle in one meeting; will probably have to have another meeting; will need to go to Star Chamber.

In the light of this, it should go on to set out an agenda for the meeting which the Chief Secretary should seek to agree at the outset: whether to stick to the programme as a whole, or to look at each bid/reduction in return, how issues might be grouped, what sequence to take them in. (NB. Running costs and manpower, if discussed at all, will need to be treated as a separate issue and changes in gross provision or receipts for local authority capital should be separately identified).

This section should then go on to discuss the extent to which the Chief Secretary should move to the fall back position eg concede at this meeting; wait for the next meeting; offer in correspondence [this will obviously relate to the assessment of the prospects for reaching a settlement above].

Finally, it should discuss the best way of ending the meeting eg offer to meet again; offer to give further consideration; Chief Secretary offers to write; Chief Secretary asks departmental minister to write; agree to meet the Star Chamber.

3. KEY POINTS TO MAKE

This section should include the key positive and defensive points which the Chief Secretary is advised to make at the meeting, including both general points about the programme as a whole and points on individual bids. It should anticipate the main points likely to be made by the departmental minister.

4. DETAILED BRIEFING

This section should indicate what additional briefing material could be prepared, as a way of inviting the Chief Secretary to say whether he wants anything else. This should take two forms:

- a series of annexes, depending on the agenda agreed for the meeting, covering areas of the programme, or bids and reductions in turn. If requested by the Chief Secretary, these should be set out in the format suggested at *Appendix II*.
- any further general or more detailed notes of wider relevance.

OVERALL OBJECTIVES

	1988-89	1989-90	£ m 1990-91
Department's proposal	x	x	x
Treasury's opening position	x	x	x
Treasury's fallback	x	x	x
[Forecast outcome	x	x	x]

BRIEFING TABLE: NB The entries in this table should refer directly to the lines in the bidding letter table

Department X

£million
(except
where
stated)

1986-87 1987-88 1988-89 1988-89 1990-91

A. Baseline (1),(2)

- cash	x	x	x	x	x
- (per cent increase on previous year)		(+x%)	(+x%)	(+x%)	(+x%)

B. Proposed additions ⁽¹⁾	Opening Position			Fallback		
	1988-89	1989-90	1990-91	1988-89	1989-90	1990-91
B1...	x	x	x	x	x	x
B2...	x	x	x	x	x	x
B3...	x	x	x	x	x	x
Total	x	x	x	x	x	x

C. Proposed reductions ⁽¹⁾						
(i) identified by Departmental Minister						
C1...	x	x	x	x	x	x
C2...	x	x	x	x	x	x
Subtotal	x	x	x	x	x	x
(ii) Further proposals by CST						
C3...	x	x	x	x	x	x
C4...	x	x	x	x	x	x
C5...	x	x	x	x	x	x
Total	x	x	x	x	x	x

D. TOTALS	1988-89	1989-90	1990-91	1988-89	1989-90	1990-91
1. implied net change from baseline ⁽²⁾ (B)-(C)	x	x	x	x	x	x
2. Implied new programme total ⁽²⁾ (A)+(B - C)	x	x	x	x	x	x
- cash						
- percent increase on previous year	x%	x%	x%	x%	x%	x%
3. Forecast outcome - cash	-	-	-	x	x	x
- percent increase				x%	x%	x%

(1) Running costs and LA capital elements to be separately identified in each case.
(2) Excluding LA relevant current and IFR items.

£million

Opening Position

Fallback

E. Gross running costs
(percent increase
on previous year)

Percent increases in running
costs per man year

	x (x)	x (x)	x (x)	x (x)	x (x)	x (x)
	x	x	x	x	x	x

1.4.88

1.4.89

1.4.90

1.4.91

F. Manpower

Present plans

	x		x		x	-
--	---	--	---	--	---	---

Departments proposal

	x		x		x	x
--	---	--	---	--	---	---

Treasury opening position

	x		x		x	x
--	---	--	---	--	---	---

Fallback

	x		x		x	x
--	---	--	---	--	---	---

DETAILED BRIEFING ON BIDS/REDUCTIONS - suggested layout.

[TITLE] - eg title of bid/reductions, and letter in briefing table, or title of general programme area, and letters of bids/reductions to be covered.

£ million

	Opening Position			Fallback		
	88-89	89-90	90-91	88-89	89-90	90-91
Bid B1	x	x	x	x	x	x
Reduction C2	x	x	x	x	x	x

1. TREASURY OBJECTIVES/NEGOTIATING POSITION

(eg) - Accept/reject/accept conditionally etc

[1a (optional) ISSUES. A couple of sentences could be included, if appropriate on any key issues underlying the bids]

2. POINTS TO RAISE

This section should include main attacking points for use by the Chief Secretary including:

- any points on the absence or poor quality of information on output and performance targets.

3. POINTS TO WATCH OUT FOR

This section should anticipate the main arguments likely to be put forward by the departmental minister and include defensive points which the Chief Secretary should make in response.

1. OVERALL OBJECTIVES FOR PROGRAMME

Overall objective - to secure net reduction from programme as a whole. Bids mostly resistable. Programme currently planned to rise significantly in real terms, and clearly over - provision in some areas - as options indicate. Up to Minister to reorder priorities within lower baseline. NB Because of political sensitivity, programme has always been difficult; this year, Ministers may be less sympathetic to previous "hands-off" approach.

2. HANDLING THE BILATERAL

Assessment - Because of political sensitivity programme will probably have to go to Star Chamber (and-see 5 below - this may be better from your point of view).

Agenda - start by emphasising, as in bidding letter, that you must insist on net reduction to baseline. Seek agreement to taking each bid in turn as basis for discussion, followed by discussion of running costs and manpower.

Detail - Unlikely to be necessary to go into much detail, with possible exception of workplace creche subsidy bid, which is most controversial.

Move to fallback - since programme almost certain to go to Star Chamber, better to concede little now and offer fall back then if necessary. Given real terms profile, Star Chamber may well have more sympathy with Treasury position.

End meeting - by accepting that, given inability to agree, will have to wait for collective consideration by Star Chamber.

3. KEY POINTS TO MAKE

General

- programme has done extremely well in previous surveys because of political sensitivity - note significant real growth under present plans - programme risen faster than any other programme since Government came to office.
- do not accept that Prime Ministerial commitment to "do whatever is necessary to improve the lot of women in society" rules out sort of reductions currently proposed.
- struck by absence of information on output and performance in Survey Report on baseline; suggests that Minister asking for more money without very clear idea of what is being achieved with money already available.

On particular bids/reductions

- workplace creche subsidy; acknowledge Women's Employment Conditions Survey recommended substantial increase in subsidy, but believe insufficient account taken of tax relief on employers subsidy.
- local authority day nurseries; significant increases agreed in last survey. Note that average rate of places filled less than 70 per cent.
- Women's rights advisers; acknowledge political commitment to maintain ratio of advisers to adult female population but
 - (i) time lag in "topping up" to maintain ratio not ruled out and
 - (ii) implications of bid as whole for gross running costs unacceptable
- reduce maternity allowance by 2 weeks - UK provision extremely generous by international standards - UK second highest among OECD countries; next most generous country, France, offers 4 week less than UK.

- review of womens employment measures - accepted by Cabinet that scope for savings on programme; suggest savings of this order an account pending outcome of Review entirely reasonable.

4. DETAILED BRIEFING

Additional briefing offered, as follows:-

i) Detailed notes on bids and reductions, eg extend free nappy scheme

ii) Further general background notes on

- Review of Womens Employment measures
- Maternity and Early Child Care programme
- Womens Employment Conditions Survey.

OVERALL OBJECTIVES

	1988-89	1989-90	1990-91
Department's bids	+50	+60	+70
Treasury - opening position	-35	-35	-35
- fallback	-15	-20	-20
Forecast outcome	-	-10	-15

Department of Women's Affairs

£million

A. Baseline (1),(2)	1986-87	1987-88	1988-89	1989-90	1990-91
- cash	300	340	380	420	500
- (per cent increase on previous year)		13.3%	11.8%	10.5%	19.0%

B. Proposed additions ⁽¹⁾	Opening Position			Fallback		
	1988-89	1989-90	1990-91	1988-89	1989-90	1990-91
B1 Increase workplace creche subsidy	-	-	-	5	5	5
B2 Extend free nappy scheme	-	-	-	-	-	-
B3 150 extra LA day nurseries (LA cap)	10	10	15	10	10	15
B4 100 extra womens rights advisers (RC)	-	-	-	-	-	5
Total	10	10	15	15	15	25

C. Proposed reductions ⁽¹⁾						
(i) identified by Departmental Minister						
C1 Lower take up of domestic help grant	-5	-5	-5	-5	-5	-5
Subtotal	-5	-5	-5	-5	-5	-5
(ii) Further proposals by CST						
C2 Reduce paid maternity leave by 2 weeks	-10	-10	-10	-5	-5	-10
C3 Review of womens employment measures	-20	-20	-20	-10	-15	-20
C4 Introduce contribution towards cost of womens refuges	-10	-10	-15	-10	-10	-10
Total	-45	-45	-50	-30	-35	-45

D. TOTALS	1988-89	1989-90	1990-91	1988-89	1989-90	1990-91
1. implied net change from baseline ⁽²⁾ (B)-(C)	-35	-35	-35	-15	-20	-20
2. Implied new programme total ⁽²⁾ (A)+(B - C)	345	385	465	365	400	480
- cash						
- percent increase on previous year	1.5%	11.6%	20.8%	7.4%	9.6%	20%
3. Forecast outcome cash percent increase				380 11.8%	410 7.8%	485 18.3%

(1) Running costs and LA capital elements to be separately identified in each case.

(2) Excluding LA relevant and IFR items.

	1988-89	1989-90	1990-91	1988-89	1989-90	£million 1990-91
	<u>Opening Position</u>			<u>Fallback</u>		
E. Gross running costs (£m)	60	61.5	63	60.5	62.3	64.2
(percent increase on previous year)	3½%	2½%	2½%	4%	3%	3%
Percent increase in running costs per man year	4½%	3½%	3%	5%	4%	3%

1.4. 88 1.4.89 1.4. 90 1.4. 91

F. Manpower

	600	600	590	-
Departments proposal	600	700	690	690
Treasury opening position	600	550	500	500
Fallback	600	650	650	650

CONFIDENTIAL

mp

FROM: B T GILMORE
DATE: 24 July 1987

CHIEF SECRETARY

cc **Chancellor**
Sir P Middleton
Mr F E R Butler
Mr Anson
mr Hawtin
Miss Peirson
Mr Turnbull
Mr Burr
Miss Noble
Mr Gibson
Mr Kaufmann
Mr A F Jackson
Mr Tyrie

✓

ESAC REPORT ON STUDENT AWARDS: DRAFT GOVERNMENT REPLY

I attach a revised draft reply to Mr Baker's letter of 20 July on this subject, strengthened in the light of your views (Miss Rutter's minute of today's date).

B.T.G.

B T GILMORE

CONFIDENTIAL

DRAFT LETTER FROM THE CHIEF SECRETARY TO THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE

copies as indicated

ESAC REPORT ON STUDENT AWARDS: DRAFT GOVERNMENT REPLY

Thank you for your letter of 20 July.

2. I am glad you can accept my redraft of the first sentence of paragraph 5. But I must make it clear that I am not content to leave the point of substance unresolved, as you seem to suggest. I cannot accept that we should say or imply that it is the Government's view that the maintenance award is not enough to live on. That is an important point, not only for student awards but for DHSS policies also. If you have any reservations on this score, then we must settle them, and we must do so with our other colleagues whose interests you place at risk.

3. I can not, of course, accept your redraft to deal with recommendation 2. It reintroduces the very same phrase, "Government contribution", which we have agreed to omit. You can deal with this by dropping the second half of the fourth sentence, which is new and seems to be unnecessary.

4. I was surprised at your reference to the booklet "Grants to Students". As you point out my predecessor did suggest the insertion of the reference to "clarifying". He also asked that the terms of the 1987 edition be cleared with the Treasury. I now understand that your officials - in the full knowledge of the views which my predecessor, Norman Tebbit and Nicholas Lyell all expressed on this point - have decided on a formulation which is not even neutral ("The maintenance award is paid towards your support...") without a further word to anyone. While I would hope that points of this sort need not

rise to Ministerial level, they are bound to do so if your officials feel they are free to ignore the express views of Ministers. Could you please have the word 'towards' changed? I suggest "the grant is to support you during...".

5. I leave it to you whether, on that basis, the revised booklet "removes any possibility of misunderstanding".

6. I am copying this letter to Willie Whitelaw, other members of H Committee and to Sir Robert Armstrong.

PRIME MINISTER



CH/EXCHEQUER	
REC.	27/5/1987
ACTION	CST
COPIES TO	

3

REFORM OF MAINTAINED FURTHER EDUCATION: CONSULTATION PAPER

At last Tuesday's meeting of E(EP) Committee we agreed to proceed with my proposals for the reform of maintained further education. As approved by colleagues, I announced our general intention to Parliament on Thursday and promised a consultation paper. The next step is to issue this and I now circulate a draft. The paper covers England only, because Peter Walker intends to issue his own version. I understand that that is expected to contain the same proposals, but go on to consider their application to higher education institutions, which in Wales are not being transferred to the new polytechnics and colleges sector but are remaining, at least for the time-being, under local authority control.

2. The attached draft is deliberately low-key, as E(EP) concluded it should be. It emphasises the Government's wish to draw on the experience and views of those involved, and our recognition of the importance of flexibility.

3. As to content, the broad approach is the same as was set out in the memorandum for E(EP). However, there is a number of detailed points to which I should draw colleagues' attention:

- (i) paragraph 2.6.ii. proposes that college governing bodies should not be obliged either to make use of LEA common services and common purchasing arrangements or to participate in common service and supply contracts negotiated by the LEA with a private contractor after the introduction of the delegation regime. I think it would be a significant constraint on colleges if they did not have this freedom. Common services and contracts are one of the areas which in practice will offer most scope for efficiency savings. But clearly our line on this must be consistent with Nicholas Ridley's plans for local authority contracting. I understand that officials are already in touch;

CONFIDENTIAL

- ?
- (ii) paragraph 2.6.iii proposes that governing bodies should have as much freedom to carry forward surpluses and deficits as the practice of each local authority allows. I see carry forward also as contributing significantly to colleges' freedom of manoeuvre. I recognise that it must cause colleagues difficulty if we were to require LEAs to allow their colleges to carry forward. But I hope there will be no objection to our encouraging each local authority to allow its colleges as much flexibility as is compatible with its practice across the range of its operations;
- (iii) the E(EP) memorandum said that capital would be excluded from delegated budgets. I now feel, however, that that would be unnecessarily restrictive. Clearly all decisions on major building projects should remain the responsibility of the LEA. But for delegation to be worthwhile, it ought to allow colleges to take some decisions for themselves about how to spend such funds as are available on capital equipment, small building projects and repairs and maintenance. Yet if we give LEAs responsibility for all capital decisions, then the college would not have that freedom. Again, I recognise that colleagues will not want my proposals to undermine existing controls on local authority capital spending. But I hope they will be willing to consider the scope for flexibility, and will not object to the issue being raised along the lines of paragraph 5 to Annex C of the draft paper.

4. I need to issue the consultation paper early next week, so I would be grateful for any comments by 4 pm on Friday, 31 July.

5. I am copying this minute and the attachment to all members of E(EP), to Tom King and to Sir Robert Armstrong.

KB.

KB

Department of Education and Science

27 July 1987

ESRC

3

SENIOR STAFF IN CONFIDENCE

From: SIR PETER MIDDLETON

Date: 27 July 1987

Ch
Bad news. Prof Peter
Hall interviewed very well
& has been recommended by
to board. Baker is likely
to accept him. Urgent word
with PEM first thing?
AA

CHANCELLOR

ESRC

W. Spiller

Ian Byatt would be interested in the job of Chairman but is unwilling to apply.

2. The existing list is not very impressive - with the possible exception of Neufeld of IBM who nobody knows.

3. The appointment is for the Secretary of State advised by the Civil Service Commission who will be conducting the interviews.

4. You could say to Mr Baker that this is an important post. We want someone who will spend effectively rather than liberally. We certainly do not want anyone who will become a thorn in the Government's flesh. The Civil Service candidates do not look impressive. But you know that Ian Byatt (a Deputy Secretary here) is willing to serve if pressed. You would be willing to press him if asked. He would clearly be an acceptable Chairman as he is already a respected member of the ESRC. I have mentioned it to David Hancock who agreed. And Byatt would be more likely than any of the present list to carry on in the value for money tradition of Douglas Hague - but with a certain amount of greater tact.

PS

PP P E MIDDLETON



H M Treasury

Parliament Street London SW1P 3AG

Switchboard 01-233 3000

Direct Dialling 01-233

I C R Byatt
Deputy Chief
Economic Adviser

Dear Peter,

You wrote to me about the
succession to Douglas Hague at the ESRC.

I had thought about the job
series and - for various reasons - did
not apply. (I would, of course, have
told you if I had decided to.)

But it is an interesting assignment
and if it were thought that I was
the right person, I would be very
ready to take it on.

Yours ever,
Ia

APPOINTMENTS IN CONFIDENCE

SIR PETER MIDDLETON

*sd better have
- hand with T about
this*

From: R B SAUNDERS

Date: 3 July 1987

cc Sir T Burns

ESRC

I have at long last heard from Sir David Hancock's office about this. A short-list has been selected. But, because of a technical deficiency in the earlier advertisement, the post has been formally re-advertised. The closing date is now 22 July, although they are not seriously expecting any new names to come forward.

2. The list is as follows:

Professor Peter Hall (Geography - Reading University)

Professor M Jeeves (Psychology - St Andrews)

Dr E L Neufeld (IBM)

Professor J F Pickering (Industrial Economics - UMIST)

Mr E H M Price (Director of Economics and Statistics,
Department of Energy - Under Secretary)

Professor P B Warr (Head of Social and Applied Psychology
Unit, MRC/ESRC)

Reserve:

Mr G L Reid (Chief Economic Adviser (Under Secretary) -
Department of Employment).



R B SAUNDERS

Private Secretary