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FROM: MISS J L CAMP

DATE: 14 October 1987

MR P CURWEN

PJ

INDEX OF OUTPUT OF THE PRODUCTION INDUSTRIES - AUGUST

The Chancellor has seen and was grateful for your minute of 13 October.

Janet Camp

MISS J L CAMP

8:2/3a

PERSONAL AND CONFIDENTIAL
until 11.30am 14 October 1987
then UNCLASSIFIED

Jane

FROM: **PETER CURWEN**
DATE: 13 October 1987

1. ~~MISS~~ **M O'MARA**
2. **CHANCELLOR OF THE EXCHEQUER**

The news on manufacturing output remains very encouraging. The Chief Secretary will want to be aware of these figures for tomorrow afternoon's meeting of the NEDC.

MOM 13/10

cc Chief Secretary
Financial Secretary
Economic Secretary
Paymaster General
Sir Peter Middleton
Sir Terence Burns
Mr Cassell
Mr Monck
Mr Burgner
Mr Scholar
Mr Sedgwick
Mr R I G Allen
Mr Davies
Mr Gray
Mr Pickford
Mr Brooks
Mr Hudson
Mr Dyer (+1 for No 10)
Mr Call
Mr Cropper
Mr Tyrie
Mr Stirling - CSO
HB/002

INDEX OF OUTPUT OF THE PRODUCTION INDUSTRIES - ~~JULY~~ AUGUST

This will be published at 11.30am on Wednesday 14 October.

2. The index of production rose by 0.8 per cent between July and August, by 0.9 per cent between the latest 3 months and the previous 3 months and by 3.1 per cent between the latest 3 months and the same period a year earlier.

3. Manufacturing output rose by 0.5 per cent between July and August, by 1.8 per cent between the latest 3 months and the previous 3 months and by 5.8 per cent between the latest 3 months and the same period a year earlier.

4. The index of manufacturing output has been revised downwards for recent quarters and this has particularly affected the five months to July 1987. These revisions have worked to boost the growth rate between the latest 3 months and the previous 3 months but to subdue the growth rate between the latest 3 months and the same period a year earlier.

5. **Recent movements**

percentage changes	Latest 3 months on previous 3 months	Latest 3 months on same period year earlier	August on July	Latest 3 months on 1979H1
Index of Production within which:	+0.9	+3.1	+0.8	+6.4
Manufacturing	+1.8	+5.8	+0.5	+0.7
Energy and Water	-1.2	-2.9	+1.9	+24.1

6. Within manufacturing, between the two latest three month periods, output has increased by 6 per cent in the metals industry, by 3½ per cent in textile and clothing and by 3 per cent in 'other manufacturing industries'. The growth of manufacturing output in July and August is evident across almost all industrial groups. However, the CSO believe that both months figures possibly overstate the underlying growth of output as manufacturers may have reduced their output by less than usual for the holiday season, thus producing unusually high seasonally adjusted figures. For this reason the CSO believe underlying growth in manufacturing is 5-5½ per cent a year. Manufacturing output in the latest 3 months remains at about the same level as the 1979 peak (0.7 per cent higher than in 1979H1, although the figure for August is still 2.2 per cent below the 1979 monthly peak).

7. Energy sector output has continued to recover well following the drop in oil output in June caused by the unusually high level of maintenance work. After allowing for the effects of maintenance work and the pipeline leak which affected extraction at the turn of the year, the CSO believe the underlying trend over the last few months looks broadly flat. However, despite the strong recovery since June, North Sea production levels over the spring and summer are still lower than in same period last year.

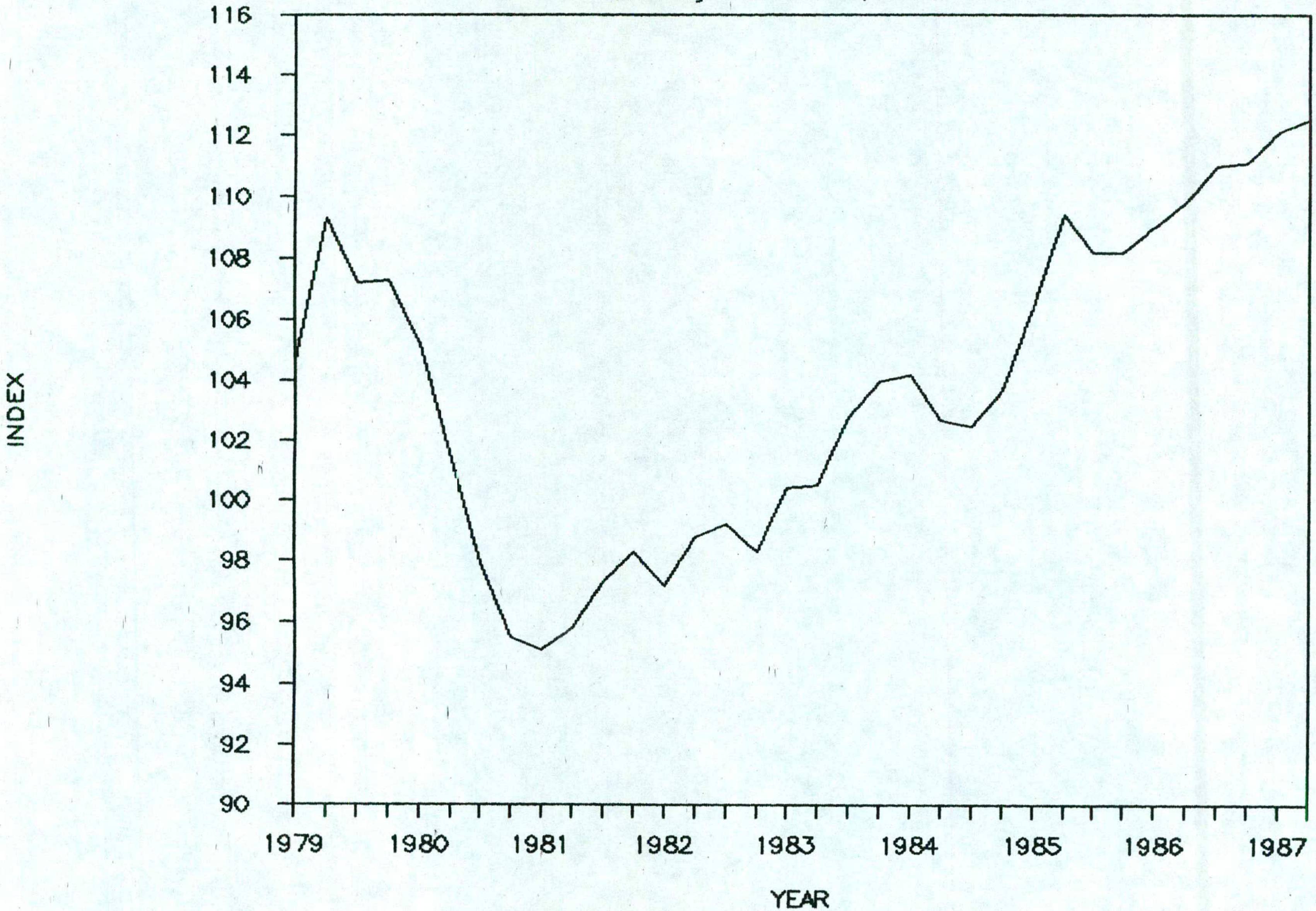
8. The increase in the index of production between July and August is accounted for by the strong rise in [seasonally adjusted] manufacturing output on top of the recovery in energy sector output. In the 3 months to August the index of production was 3.1 per cent higher than the same period a year earlier but this comparison is distorted by short-term fluctuations in oil extraction and the CSO believe that underlying growth is closer to 3½ per cent.

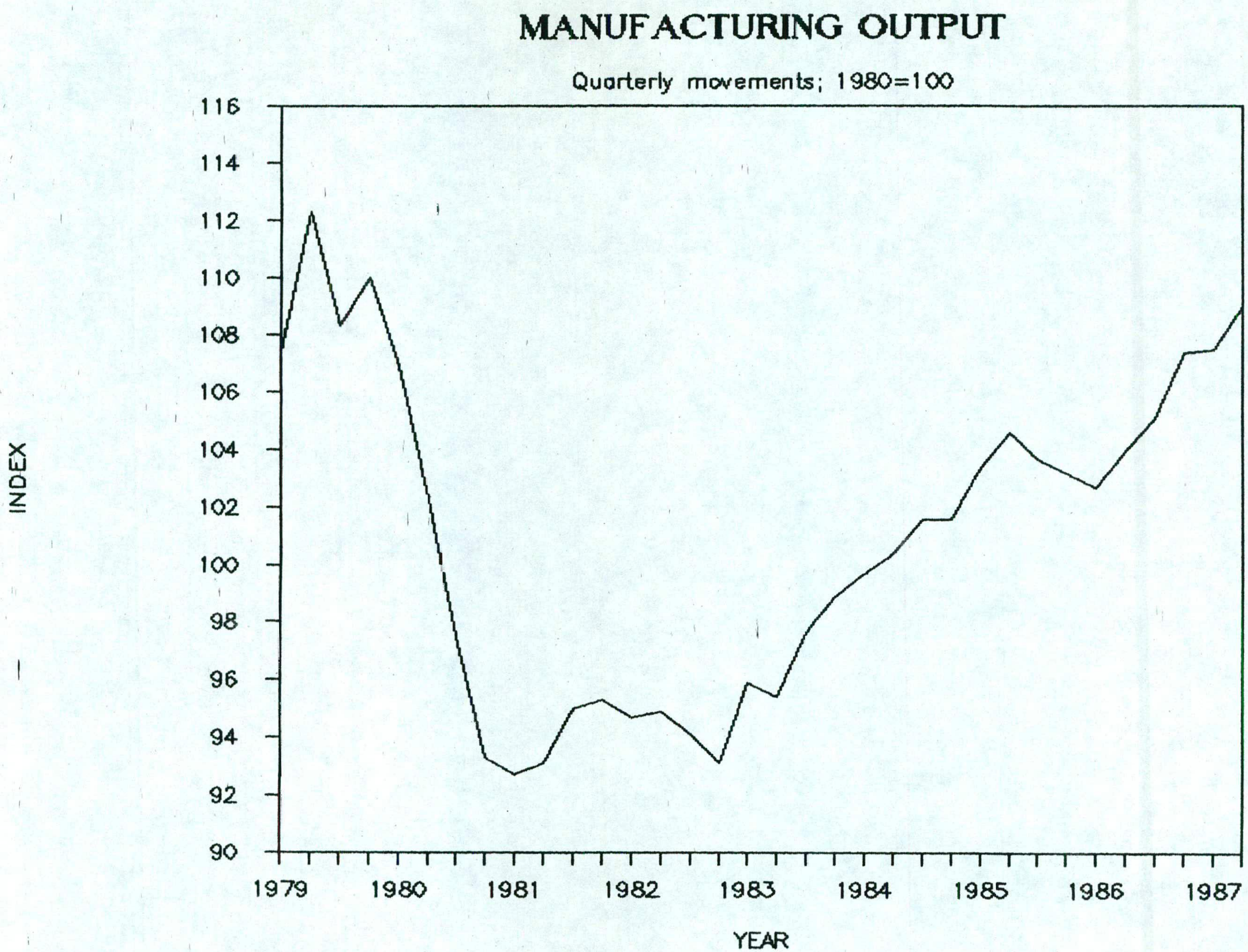
Peter. S. Curwen

PETER S CURWEN

INDUSTRIAL PRODUCTION

Quarterly movements; 1980=100




MANUFACTURING OUTPUT
Quarterly movements; 1980=100
INDEX
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YEAR

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Rex: will press brief say - if true - new all-time high? High. M.

MR D NORGROVE
Prime Minister's Office

INDEX OF OUTPUT OF THE PRODUCTION INDUSTRIES - AUGUST 1987

The provisional index of the output of the production industries for August 1987 will be published at 11.30 am tomorrow, Wednesday 14 October. A copy of the Press Notice is attached.

Latest figures

The August 1987 index of the output of the production industries - energy and manufacturing - is provisionally estimated at 115.3 (1980=100, seasonally adjusted), an increase of 1 per cent on July. For manufacturing the index was 111.5, an increase of ½ per cent on July (see also paragraph on bias adjustment below).

In the three months to August 1987, the output of the production industries was 1 per cent higher than in the previous three months; manufacturing output was 2 per cent higher. Some industry detail is given in the attached Table A.

Assessment

Manufacturing output reached a temporary peak in the second quarter of 1985 and then declined by over 1½ per cent by the first quarter of 1986. Since then manufacturing output has grown steadily with the exception of a slackening in growth in the first quarter of this year, which was largely a reflection of severe weather in January. The provisional figure for July shows a sharp rise compared with June with a further more moderate increase for August. However these figures are seasonally adjusted and it seems that in July and August manufacturers reduced their output by less than usual for this holiday period, leading to high figures for this time of year. As a result, in the three months to August, manufacturing output was 6 per cent higher than a year ago; but a fairer representation of the recent underlying growth rate in manufacturing would be slightly lower, perhaps 5 or 5½ per cent per year. In the three months to August, manufacturing output was at a similar level to the previous peak (numerically ½ per cent higher), which was in the first half of 1979.

Trends in the **energy** sector are more difficult to determine. Oil extraction was low at the end of last year due to a pipeline leak and again this June due to an unusually high level of maintenance work. After allowing for these factors, energy output looks broadly flat.

Since 1985 the output of **production industries** has grown steadily, reflecting the growth in manufacturing. (Published figures were almost flat between the third and fourth quarters of last year and depressed in June this year because of interruptions to oil extraction.) The provisional figure for July shows a sharp rise on June because of the increase in manufacturing and the recovery of oil extraction from its depressed level in June. A further increase for August largely reflects increased energy output. In the three months to August, the output of production industries was 3 per cent higher than a year ago, but this comparison is distorted a little by short-term fluctuations in oil extraction, and a fairer representation of the recent underlying growth rate in production industries would be about 3½ per cent per year.

Bias adjustment for manufacturing output

In line with revised procedures introduced in January last year, figures for manufacturing output in the latest six months include adjustments to try to allow for underestimation in the provisional estimates. The overall size of the bias adjustment is dependent on the size of any discrepancy between the growth in the CSO raw figures and the growth implied by the CBI figures. However, the historical month by month profile of the bias in the CSO figures contributes to the profile of the adjustment over the six month period for which it is applied. For this publication the estimation of the historical profile has been updated. The main result is that much less of the adjustment will be withdrawn after one month (see also Note 10 of Notes to Editors of Press Notice).

Revisions

Both the index of production and the index of manufacturing output have been revised downwards by around ½ per cent in the second quarter and in July 1987.

Figures for September 1987

Figures for September 1987 are scheduled for publication on Friday 13 November.

SKingaby

S D Kingaby
13 October 1987

Central Statistical Office

Table A

Copy No.

++ PERSONAL AND CONFIDENTIAL until release of Press Notice at 11.30 am on October 14 1987 and thereafter unclassified ++

Index of output of the production industries 1980=100

SUMMARY		Total production industries	Energy and water supply	Total manufacturing industries	Metals	Other minerals and mineral products	Chemicals and man-made fibres	Engineering and allied industries	Food, drink and tobacco	Textiles, footwear, clothing and leather	Other manufacturing
1985		108.1	120.1	103.7	112.7	94.6	119.1	104.0	101.0	101.9	99.0
1986		110.2	125.2	104.8	111.1	96.9	120.8	103.3	102.5	103.8	103.8
1986	1	109.0	126.7	102.7	109.3	93.6	118.4	101.3	100.9	103.1	100.4
	2	109.8	125.8	104.0	110.1	97.0	119.0	102.8	101.6	104.1	102.4
	3	111.0	127.2	105.1	109.3	97.9	120.9	103.6	102.8	103.2	104.7
	4	111.1	121.2	107.4	115.6	99.3	124.8	105.4	104.7	104.7	107.5
1987	1	112.1	124.9	107.5	114.5	97.9	126.6	105.4	104.8	102.0	108.6
	2	112.5	122.1	109.0	120.6	101.3	127.2	105.4	106.3	106.1	112.2
1987	J	111.9	118.9	109.4	125	103	124	106	106	106	113
	J	114.4	123.7	111.0	122	102	130	107	107	108	115
	A	115.3	126.0	111.5	127	103	129	108	107	110	115
Percentage change latest 3 months on:											
previous 3 months		+0.9	-1.2	+1.8	+6.0	+1.9	-0.1	+1.4	+0.8	+3.5	+3.2
a year earlier		+3.1	-2.9	+5.8	+13.8	+4.9	+6.4	+4.2	+4.2	+4.5	+9.8
1st quarter 1981(a)		+19.7	+20.8	+19.3	+25.6	+15.0	+32.8	+19.4	+7.0	+18.7	+22.2
1st half 1979(b)		+6.5	+24.1	+0.7	-4.3	-4.9	+17.9	-2.3	+6.7	-9.7	+2.9

DETAILED ANALYSIS		Coal and coke	Extraction of mineral oil and natural gas	Mineral oil processing	Other energy and water supply		Metals	Other minerals and mineral products	Chemicals	Man-made fibres	Metal goods not elsewhere specified
1985		67.2	150.3	98.6	105.9		112.7	94.6	120.4	74.0	99.4
1986		79.3	153.0	99.9	111.7		111.1	96.9	122.3	67.9	97.5
1986	1	80.1	154.3	96.3	114.6		109.3	93.6	119.7	74.6	96.2
	2	79.6	152.9	103.1	113.1		110.1	97.0	120.5	68.9	97.7
	3	78.3	157.8	101.0	111.2		109.3	97.9	122.5	65.8	97.9
	4	79.1	147.1	99.0	108.0		115.6	99.3	126.6	62.4	98.0
1987	1	75.9	153.0	95.7	113.0		114.5	97.9	128.6	59.4	98.1
	2	75.5	148.2	98.8	111.2		120.6	101.3	129.0	65.7	98.1
1987	J	77	137	98	117		125	103	126	59	98
	J	76	150	98	113		122	102	133	59	103
	A	78	153	107	114		127	103	131	67	104
Percentage change latest 3 months on:											
previous 3 months		+2.7	-4.7	+4.0	+3.9		+6.0	+1.9	-0.1	-3.3	+3.5
a year earlier		-1.8	-7.0	-0.7	+4.9		+13.8	+4.9	+6.7	-8.5	+4.7
1st quarter 1981(a)		-20.8	+36.5	+5.1	+18.6		+25.6	+15.0	+34.6	-31.6	+15.0
1st half 1979(b)		-19.2	+55.2	-10.5	+9.4		-4.3	-4.9	+20.6	-55.1	-17.3

DETAILED ANALYSIS continued		Mechanical engineering	Electrical and instrument engineering	Motor vehicles and parts	Other transport equipment	Food	Drink and tobacco	Textiles	Clothing, footwear and leather	Paper, printing and publishing	All other manufacturing
1985		91.8	131.0	87.4	94.4	103.9	95.0	98.3	105.0	98.3	99.8
1986		92.5	130.1	82.6	96.5	105.4	96.4	98.8	108.1	102.2	105.6
1986	1	91.8	126.0	81.4	94.4	103.7	95.1	98.4	107.2	99.3	101.7
	2	94.2	126.8	82.0	96.0	104.1	96.4	99.2	108.4	101.3	103.8
	3	92.0	131.5	81.3	97.9	105.7	96.6	97.6	108.0	102.4	107.5
	4	91.8	136.2	85.6	97.8	108.1	97.5	100.0	108.8	105.8	109.4
1987	1	89.5	139.5	83.7	97.6	107.0	100.3	99.1	104.6	105.1	112.7
	2	88.7	137.8	87.1	100.3	108.3	102.0	102.4	109.3	109.6	115.3
1987	J	90	137	91	100	108	102	103	109	110	117
	J	90	138	92	102	109	104	105	112	112	118
	A	90	140	93	102	108	104	105	114	112	118
Percentage change latest 3 months on:											
previous 3 months		+1.7	-1.4	+8.0	+2.0	+0.4	+1.4	+2.8	+4.0	+3.0	+3.4
a year earlier		-2.7	+6.9	+13.8	+4.1	+2.9	+7.3	+6.0	+3.5	+9.0	+10.6
1st quarter 1981(a)		+3.1	+49.1	+19.6	-3.9	+9.6	+1.8	+15.0	+22.0	+17.2	+28.2
1st half 1979(b)		-18.2	+33.7	-25.4	+8.1	+8.6	+2.9	-16.6	-3.3	+4.2	+1.5

(a) Last trough for production industries (b) Last peak for production industries

Personal numbered copies of the minute and attachment to:

Treasury	(Principal Private Secretary (Sir Peter Middleton
Cabinet Office	(Mr Jack Hibbert
Department of Trade and Industry	(Private Secretary Secretary of State's Office
	(Private Secretary Chancellor of the Duchy of Lancaster and Minister of Industry and Trade
	(Private Secretary to Robert Atkins
	(Private Secretary to John Butcher
	(Sir Brian Hayes (Mr H H Liesner (Mr A Whiting (Mr N Harvey (Mr S W Treadgold
Bank of England	(Mr R Leigh-Pemberton

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CSO(87)95
14 October 1987

INDEX OF OUTPUT OF THE PRODUCTION INDUSTRIES - AUGUST 1987

Output of the production industries in the three months to August 1987 is provisionally estimated to have increased by 1 per cent from the level of the previous three months; manufacturing output rose by 2 per cent.

Output of the production industries (to August 1987)

The August index of the output of the production industries - energy and manufacturing - is provisionally estimated at 115.3 (1980=100, seasonally adjusted). In the three months to August 1987, production industries' output was 1 per cent higher than in the previous three months and 3 per cent higher than in the same period a year earlier.

Manufacturing output in the latest three months was 2 per cent higher than in the previous three months and 6 per cent higher than in the same period a year earlier (see also note 10 of Notes to Editors). Within manufacturing, the output of the metals industry increased by 6 per cent and that of textiles and clothing and of 'other manufacturing' industries by 3 per cent between the two latest three-month periods. The output of other minerals rose by 2 per cent and that of the engineering and allied and of the food, drink and tobacco industries by 1 per cent. There was little change in the output of the chemicals industry.

The output of the energy sector in the latest three months was 1 per cent lower than in the previous three months and 3 per cent lower than in the same period a year earlier.

By market sector, the output of the consumer goods industries increased by 2 per cent between the two latest three-month periods and that of both the investment and intermediate goods industries by ½ per cent.

Output of the production and construction industries (to second quarter of 1987)

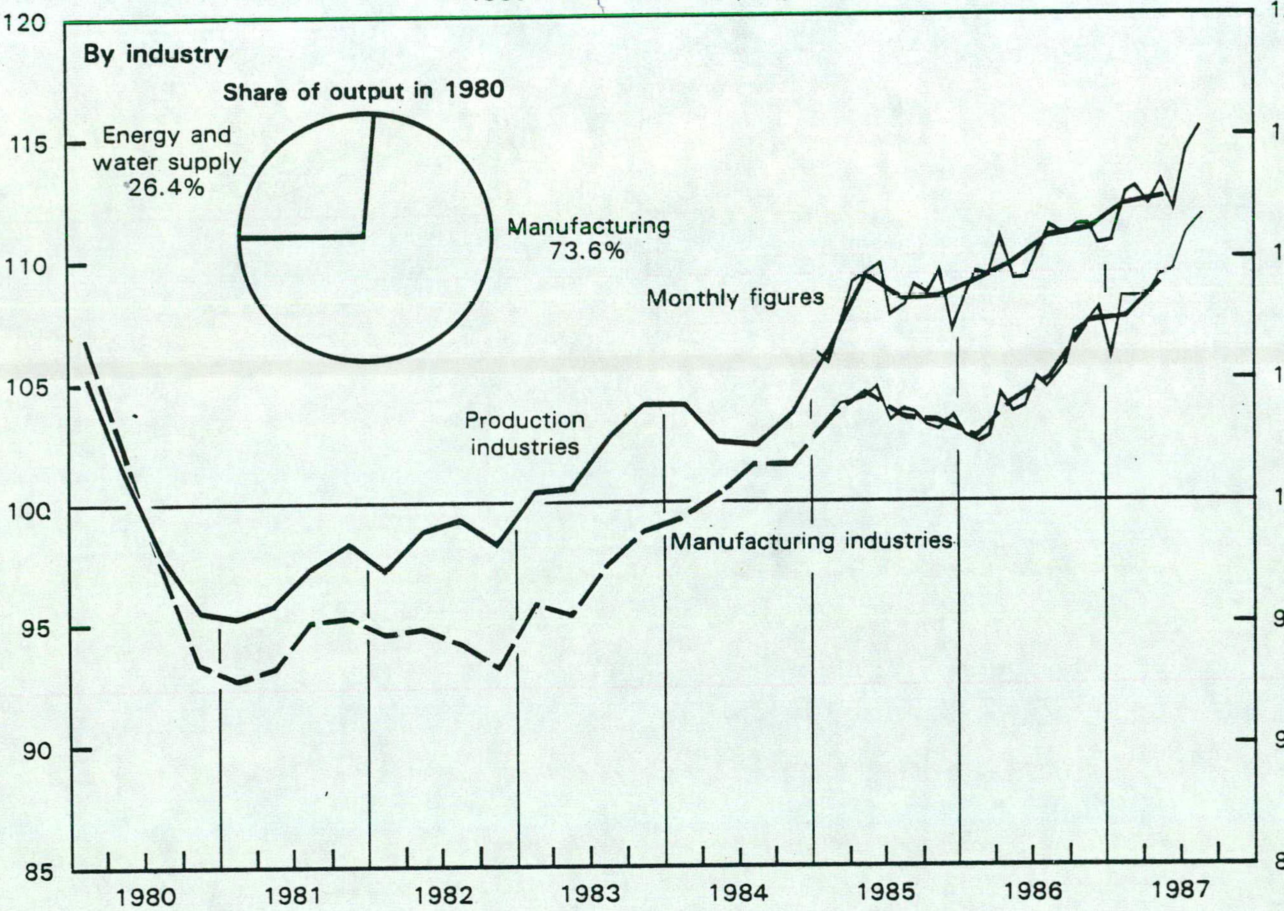
Output of the construction industry in the second quarter of 1987 is estimated to have been $3\frac{1}{2}$ per cent lower than in the previous quarter but 4 per cent higher than in the same period a year earlier; output of the production and construction industries in the second quarter was $\frac{1}{2}$ per cent lower than in the previous quarter but $2\frac{1}{2}$ per cent higher than in the second quarter of 1986.

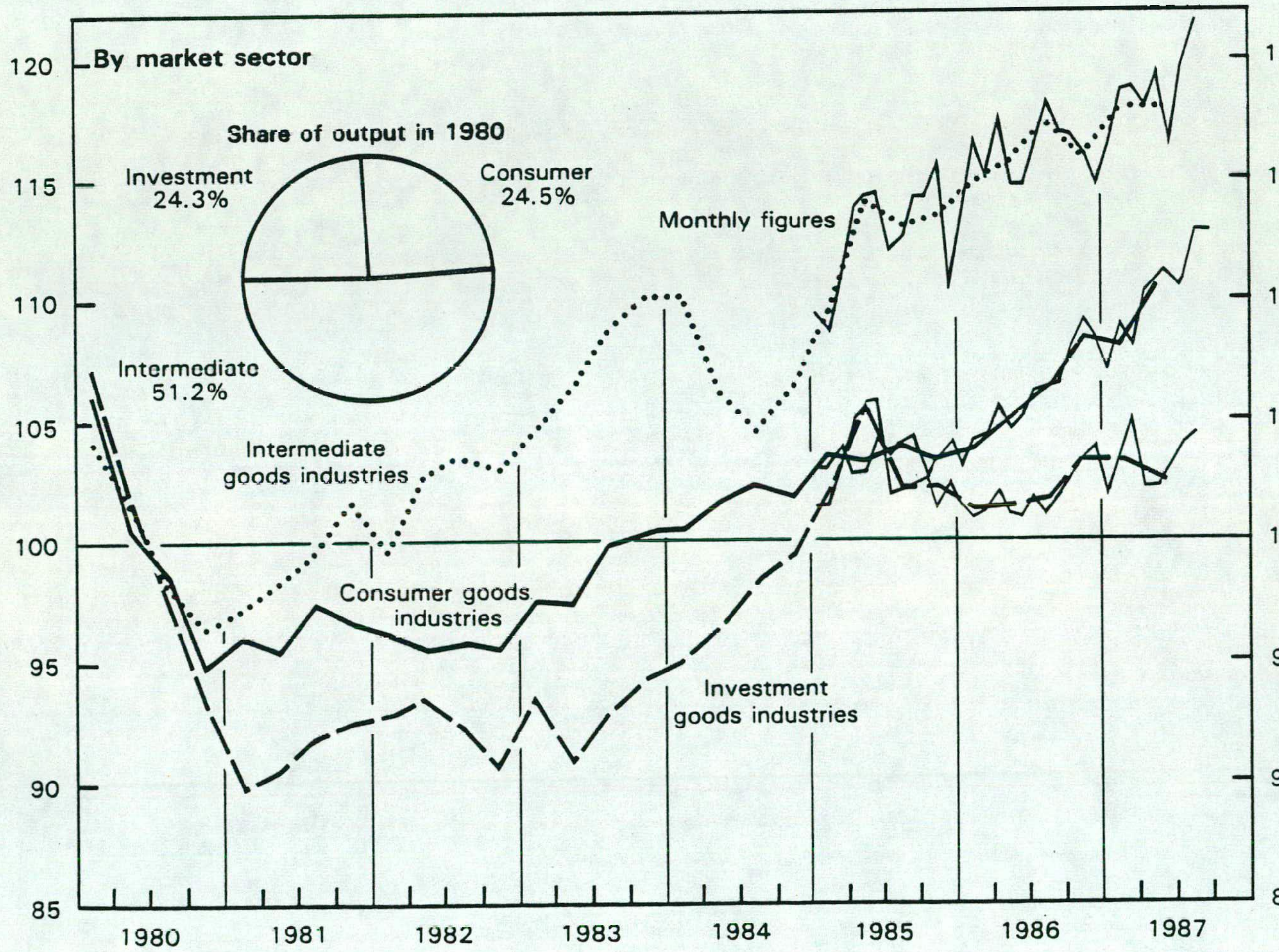
Revisions

Both the index of production and the index of manufacturing output have been revised downwards by around $\frac{1}{2}$ per cent in the second quarter and in July 1987.

INDEX OF OUTPUT OF THE PRODUCTION INDUSTRIES

1980 = 100 Seasonally adjusted





OUTPUT OF THE PRODUCTION INDUSTRIES(1)

(1980=100)

TABLE 1

	Broad industry groups: Production industries	Broad industry groups: Energy(2)	Broad industry groups: Manufacturing	Market sectors: Consumer goods	Market sectors: Investment goods	Market sectors: Intermediate goods
	Division 1-4	Division 1	Division 2-4			
Weights	1000	264	736	245	243	512
	DVIM	DVIN	DVIS	DVJP	DVJV	DVJZ
1981	96.6	103.8	94.0	96.4	91.3	99.2
1982	98.4	110.0	94.2	95.8	92.4	102.3
1983	101.9	115.9	96.9	98.8	93.0	107.6
1984	103.3	110.2	100.8	101.7	97.4	106.8
1985	108.1	120.1	103.7†	103.6	103.0	112.6
1986	110.2†	125.2	104.8	106.0	101.9†	116.0†
Seasonally adjusted						
1981 3	97.3	103.8	95.0	97.4	92.0	99.6
4	98.3	106.6	95.3	96.7	92.7	101.7
1982 1	97.2	104.1	94.7	96.1	92.9	99.7
2	98.8	110.0	94.9	95.7	93.7	102.9
3	99.2	113.2	94.1	95.9	92.4	103.7
4	98.3	112.8	93.1	95.6	90.6	103.0
1983 1	100.4	112.8	95.9	97.7	93.6	104.7
2	100.5	114.9	95.4	97.4	90.9	106.6
3	102.8	117.4	97.6	99.9	93.0	108.9
4	104.0	118.3	98.9	100.4	94.4	110.2
1984 1	104.2	116.8	99.7	100.7	95.0	110.2
2	102.7	109.1	100.4	101.8	96.6	106.1
3	102.5	104.9	101.6	102.4	98.3	104.5
4	103.7	109.8	101.6	101.9	99.6	106.6
1985 1	106.4†	114.9	103.4	103.6	102.2	109.6
2	109.4	122.7	104.6	103.4	105.6	114.2
3	108.2	120.6	103.7	104.0	102.2	113.0†
4	108.2	122.2	103.2†	103.4	102.2	113.5
1986 1	109.0	126.7	102.7	103.9	101.2†	114.9
2	109.8	125.8	104.0	105.2†	101.4	115.8
3	111.0	127.2	105.1	106.4	101.7	117.4
4	111.1	121.2	107.4	108.5	103.4	115.9
1987 1	112.1	124.9†	107.5	108.0	103.4	118.0
2	112.5	122.1	109.0	110.8	102.5	118.0
1985 A	108.0	119.4	103.9	104.1	102.2	112.6†
S	109.0	123.4	103.8	104.4	102.3	114.3
O	108.6	123.8	103.1	102.7	102.7	114.2
N	109.2†	126.6	103.0†	103.6	101.3	115.8
D	106.9	116.3	103.5	104.0	102.5	110.4
1986 J	108.3	123.8	102.8	103.0	101.4†	113.9
F	109.4	128.7	102.5	104.2	100.9	115.8
M	109.3	127.6	102.7	104.5	101.2	115.1
A	111.0	129.0	104.6	105.8	102.1	117.7
M	109.1	124.5	103.6	104.7†	101.2	114.9
J	109.2	123.9	103.9	105.2	101.0	114.9
J	110.7	126.4	105.0	106.1	101.9	116.9
A	111.3	129.3	104.8	106.3	101.1	118.3
S	110.9	125.9	105.5	106.7	102.0	117.0
O	111.3	123.2	107.0	108.0	102.7	116.9
N	111.3	122.1†	107.4	109.1	103.4	116.1
D	110.6	118.2	107.9	108.3	104.0	114.8
1987 J	110.7	124.4	105.8	107.1	101.9	116.4
F	112.6	124.6	108.3	109.0	103.4	118.7
M	112.9	125.6	108.3	108.0	105.0	118.9
A	112.3	123.0	108.5	110.4	102.2	118.0
M	113.2	124.5	109.2	111.3	102.3	119.4
J	111.9	118.9	109.4	110.7	103.1	116.5
J	114.4	123.7	111.0	112.9	104.1	119.8
A	115.3	126.0	111.5	112.9	104.4	121.6
Percentage change latest 3 months on:						
1. previous 3 months	+0.9	-1.2	+1.8	+2.1	+0.7	+0.5
2. a year earlier	+3.1	-2.9	+5.8	+6.0	+2.5	+2.2

(1) Output index numbers include adjustments, as necessary, to compensate for the use of sales indicators (see Notes to Editors).
(2) Includes water supply.

An obelus in the table indicates that the data are new or have been revised. The period marked is the earliest in the table to have been revised.

OUTPUT OF MANUFACTURING INDUSTRIES

(1980=100)

TABLE 2

		Metals	Other minerals and mineral products(1)	Chemicals and man-made fibres	Engineering and allied industries	Food, drink and tobacco	Textiles, clothing footwear and leather	Other manufacturing
		Class 21-22	Class 23-24	Class 25-26	Class 31-37	Class 41-42	Class 43-45	Class 46-49
Weights		25	41	68	325	99	52	126
		DVIT	DVIU	DVIV	DVIY	DVJE	DVJH	DVJK
1981		106.0	89.0	99.5	91.8	98.3	92.7	93.2
1982		103.2	90.9	99.6	92.9	99.8	91.3	90.8
1983		104.7	93.9	107.1	94.9	100.9	94.7	93.8
1984		107.9	95.1	113.9	99.5	101.9	98.1	97.8
1985		112.7†	94.6	119.1†	104.0	101.0	101.9	99.0
1986		111.1	96.9	120.8	103.3†	102.5	103.8	103.8
Seasonally adjusted								
1981	3	107.4	90.0	102.3	93.1	98.1	93.4	93.1
	4	113.3	88.6	101.4	93.6	98.5	94.3	92.9
1982	1	110.3	89.8	99.7	93.7	99.1	91.9	91.0
	2	108.1	91.8	99.5	93.6	100.2	91.3	91.2
	3	100.4	91.3	99.2	92.7	100.4	91.6	90.8
	4	93.9	90.8	99.8	91.6	99.6	90.3	90.2
1983	1	98.6	93.0	103.8	94.8	99.9	92.7	92.9
	2	104.8	91.4	106.5	93.1	98.7	93.4	92.8
	3	105.6	95.6	108.5	95.1	103.0	95.2	93.7
	4	109.9	95.4	109.8	96.7	101.9	97.4	95.7
1984	1	111.5	94.3	111.3	97.7	101.8	96.8	97.3
	2	104.5	95.4	112.1	98.8	102.8	97.7	98.4
	3	109.0	96.5	115.6	100.8	101.8	99.0	97.5
	4	106.8	94.3	116.4	100.9	101.2	99.1	98.1
1985	1	109.6†	93.0	120.3†	103.8	101.8	100.0	98.1
	2	114.7	95.0	120.9	106.1	100.4	101.7	97.8
	3	115.0	94.7	118.3	103.4	100.4	103.0	100.3
	4	111.7	95.6	116.8	102.6	101.3	102.9	99.8
1986	1	109.3	93.6	118.4	101.3†	100.9	103.1	100.4
	2	110.1	97.0†	119.0	102.8	101.6	104.1†	102.4
	3	109.3	97.9	120.9	103.6	102.8	103.2	104.7†
	4	115.6	99.3	124.8	105.4	104.7†	104.7	107.5
1987	1	114.5	97.9	126.6	105.4	104.8	102.0	108.6
	2	120.6	101.3	127.2	105.4	106.3	106.1	112.2
1985	A	117†	94	118	104	100	102	101
	S	113	95	119	103	101	103	100
	O	112	96	117	103	102	102	99
	N	112	96	118	102	100	105	100
	D	111	95	117	103	102	103	100
1986	J	111	96	121	102	99	102	100
	F	108	92	118†	101	102	104	100
	M	110	93	116	101†	102	103	101
	A	109	97	119	104	102	106	102
	M	111	96	118	102	102	103	102
	J	111	98	120	102	101	104	103
	J	110	97	120	104	103	103	105
	A	108	98	121	103	103	104	104
	S	110	98	122	104	103	103†	105
	O	113	99	126	105	104	105	107
	N	116	99	123	105	105	106	108
	D	118	100	126	106	105	103	108
1987	J	107	93	126	104	103†	103	108†
	F	121	100	127	105	107	102	110
	M	116	101	127	107	105	101	109
	A	116	100†	129	105	105	106	112
	M	121	102	128	105	108	106	112
	J	125	103	124	106	106	106	113
	J	122	102	130	107	107	108	115
	A	127	103	129	108	107	110	115
Percentage change latest 3 months on:								
1. previous 3 months		+6.0	+1.9	-0.1	+1.4	+0.8	+3.5	+3.2
2. a year earlier		+13.8	+4.9	+6.4	+4.2	+4.2	+4.5	+9.8

(1) Mainly building materials

An obelus in the table indicates that the data are new or have been revised. The period marked is the earliest in the table to have been revised.

OUTPUT OF PRODUCTION AND CONSTRUCTION INDUSTRIES (1)

(1980=100)

TABLE 3

	Production and construction Division 1-5	Construction Division 5	Production industries Division 1-4	Energy(2) Division 1	Manufacturing Division 2-4	Oil and gas extraction Class 13
Weights (parts per thousand of GDP(O))	424	63	361	95	266	44
	DVJN	DVJO	DVIM	DVIN	DVIS	DVIP
1981	95.6	89.9	96.6	103.8	94.0	110.3
1982	97.4	91.6	98.4	110.0	94.2	125.6
1983	101.0	95.3	101.9	115.9	96.9	137.6
1984	102.6	98.5	103.3	110.2	100.8	147.1
1985	106.8†	99.8	108.1	120.1	103.7†	150.3
1986	109.0	102.1	110.2†	125.2	104.8	153.0
Seasonally adjusted						
1981 3	96.4	90.9	97.3	103.8	95.0	111.4
4	96.6	86.9	98.3	106.6	95.3	114.5
1982 1	96.0	89.1	97.2	104.1	94.7	113.1
2	97.6	90.6	98.8	110.0	94.9	126.6
3	98.2	92.6	99.2	113.2	94.1	131.2
4	97.7	94.3	98.3	112.8	93.1	131.6
1983 1	99.4	93.7	100.4	112.8	95.9	131.3
2	99.3	92.1	100.5	114.9	95.4	132.6
3	102.1	97.7	102.8	117.4	97.6	141.5
4	103.1	97.8	104.0	118.3	98.9	145.2
1984 1	103.3	97.8	104.2	116.8	99.7	147.7
2	102.1	98.3	102.7	109.1	100.4	146.1
3	102.1	99.6	102.5	104.9	101.6	142.8
4	102.9	98.2	103.7	109.8	101.6	151.8
1985 1	105.5†	100.3	106.4†	114.9	103.4	153.9
2	107.9	99.5	109.4	122.7	104.6	152.6
3	106.8	98.7	108.2	120.6	103.7	145.0
4	107.1	100.8	108.2	122.2	103.2†	149.7
1986 1	107.5	98.9	109.0	126.7	102.7	154.3
2	108.6	101.7	109.8	125.8	104.0	152.9
3	109.8	102.8	111.0	127.2	105.1	157.8
4	110.2	105.1	111.1	121.2	107.4	147.1
1987 1	111.8	109.8	112.1	124.9†	107.5	153.0
2	111.5	105.9	112.5	122.1	109.0	148.2

(1) The long run series in column 3-5 are consistent with Table 1.
(2) Includes water supply.

An obelus in the table indicates that the data are new or have been revised. The period marked is the earliest in the table to have been revised.

NOTES TO EDITORS

1. The index numbers of output of the production and construction industries in this Press Notice are on the base 1980 = 100 and classified to the 1980 revision to the Standard Industrial Classification (SIC). These industries account for 42 per cent of gross domestic product; production industries alone accounts for 36 per cent. The index numbers were first published in this form in September 1983. The monthly index for the production industries covers only the energy (and water supply) Division 1 of the SIC, and manufacturing industries, Divisions 2 to 4 of the SIC. An index of production and construction broadly equivalent to the previously published "all industries' index of production" is available only quarterly. These changes were described in advance in March 1983 Economic Trends. A further article describing the effects of rebasing appeared in October 1983 Economic Trends.

2. The purpose of the index numbers is to measure changes in net output or value added (that is total outputs <u>less</u> total inputs) at constant (1980) prices. Conceptually, this should be estimated as the difference between outputs and inputs, each valued at the appropriate prices of the base year. However, this approach, known as double deflation, is difficult to apply reliably since it requires a great deal of information. In practice, movements in net output at constant prices are generally estimated by movements in gross output at constant prices. This yields satisfactory estimates, provided the ratio of gross to net output remains largely unchanged, as will generally be the case in the short-term. Further discussion of the concepts of measurement may be found in "Sources and Methods, Studies in Official Statistics No 37" (HMSO, 1985).

3. The index of production is a weighted average of 330 separate indicators, each of which describes the activity of a small sector of industry. These indicators are obtained monthly where possible but for a number of sectors, representing 17 1/2 per cent of activity, only quarterly data are available. Two Occasional Papers, one describing the weights and indicators and the other the sources used in compiling the index, are available.

4. Many of the basic series used to construct the index of production measure either final production or deliveries. Neither type of series takes account of changes in work in progress and series based on deliveries do not take account of changes in stocks of finished goods. All of the index numbers in this Press Notice have been adjusted where necessary, for estimated changes in stocks. An Occasional Paper describing these calculations is available.

5. More detailed tables on the index of production are published regularly in "British Business" and the "Monthly Digest of Statistics". The data in this Press Notice can be obtained in computer readable form via the CSO Databank service which provides macro-economic time series on magnetic tape. Details of the service offered and the Schedule of Charges may be obtained from the Database Manager, CSO Branch 9, Room 52/4, Government Offices, Great George Street, London SW1P 3AQ (telephone: 01-270-6386). CSO does not offer direct on-line access for these data, but a list of host bureaux offering such a facility is available on request from CSO.

6. Estimates of the output of the construction industry are compatible with those published by the Department of the Environment which are available only quarterly, one month in arrears of the corresponding quarters' estimates for the output of production industries. The aggregate index numbers no longer make use of preliminary estimates for the construction industry based, in advance of receipt of regular returns from the industry, on broad indicators of activity; they are thus delayed by one month but are better founded.

7. The index numbers in this Press Notice are all seasonally adjusted, to remove annually recurring month-to-month variations owing for example, to the incidence of holidays and other regular seasonal patterns of behaviour. The adjustments can only be derived from analysis of past data and may not be completely appropriate when holiday patterns change sharply. Unadjusted data may be obtained from CSO.

8. Estimates for the latest few months are always based on partial information and should be regarded as provisional and subject to revision as more complete data become available. During the lifetime of the 1975-based index, the average revision (regardless of sign) to the all-industries index for the latest month was one half of 1 per cent. It is recommended that, to obtain an assessment of short-term change, attention should be directed to the three-month-on-three month changes. The average revision to this latter measure was one quarter of a percentage point over the same period. An Occasional Paper is available from CSO describing the effects of revisions.

9. Occasional Papers (price £2.50 each) and off-prints of Economic Trends articles (price £1.50 each) are available from the Central Statistical Office.

10. <u>Bias adjustments for the index of manufacturing output</u>

In an attempt to allow for understatement in the provisional figures, an improved system of adjustments to manufacturing output was introduced in January last year. Some detail was included in note 12 of Notes to Editors in the January 1986 Press Notice and a fuller note on the methodology of the adjustment procedure is available on request from the CSO. The adjustment procedure makes use of smoothed monthly CBI figures on expectations of growth in output The overall size of the bias adjustment is dependent on the size of any discrepancy between the growth in the CSO raw figures and the growth implied by the CBI figures. However, the historical month by month profile of the bias in the CSO figures contributes to the profile of the adjustment over the six month period for which it is applied. For this publication the estimation of the historical profile has been updated. The main result is that much less of the adjustment will be withdrawn after one month. The bias adjustments, which are additive, included in the manufacturing figures this month are:

1987					
March	April	May	June	July	August
+0.2	+0.2	+0.4	+0.7	+1.0	+1.0

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thereafter unclassified

		Total production industries		Energy and water supply		Total manufacturing industries		
1979	J	99.3		96.6		100.3		
	F	106.7		98.2		109.7	107.4	
	M	107.9	107.0	96.1	99.0	112.2		109.9
	A	107.6		98.4		110.9		
	M	109.3		101.6		112.1	112.3	
	J	111.1		103.1		114.0		
	J	109.8		104.1		111.8		
	A	106.0		103.6		106.9	108.3	
	S	105.7		104.4		106.2		109.2
	O	106.2		101.6		107.9		
	N	107.8		100.8		110.3	110.0	
	D	108.0		97.5		111.8		
1986	J	108.3		123.8		102.8		
	F	109.4		128.7		102.5	102.7	
	M	109.3		127.6		102.7		
	A	111.0		129.0		104.6		
	M	109.1		124.5		103.6	104.0	
	J	109.2		123.9		103.9		
	J	110.7		126.4		105.0		
	A	111.3		129.3		104.8	105.1	
	S	110.9		125.9		105.5		
	O	111.3		123.2		107.0		
	N	111.3		122.1		107.4	107.4	
	D	110.6		118.2		107.9		
1987	J	110.7		124.4		105.8		
	F	112.6		124.6		108.3	107.5 – QI	
	M	112.9		125.6		108.3		
	A	112.3		123.0		108.5		
	M	113.2		124.5		109.2	109.0 – QII	
	J	111.9		118.9		109.4		
	J	114.4	113.9	123.7	122.9	111.0	110.6 – Latest 3 months.	
	A	115.3		126.0		111.5		
		6.43		24.1		0.69		

Ch

I think it's a bit strained to make too much of a song and dance about all-time high: most favourable comparison is latest 3 months on HI 1979, which (while valid) sounds forced.

AA

I agree. Better to wait until (?Q4) to have compare Q2 1979

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FM FCO
TO PRIORITY BANGKOK
TELNO GUIDANCE 74
OF 291500Z SEPTEMBER 87
AND TO PRIORITY QUITO, BELGRADE, DAKAR, JAKARTA, SOFIA
AND TO PRIORITY ISLAMABAD, PORT OF SPAIN, BONN, MADRID, LISBON
AND TO PRIORITY COPENHAGEN, ROME, LUXEMBOURG, BRUSSELS
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AND TO ROUTINE LUANDA, ST JOHNS, BAHRAIN, DHAKA, BRIDGETOWN
AND TO ROUTINE ALGIERS, NASSAU, BELMOPAN, LA PAZ, GABORONE
AND TO ROUTINE BRASILIA, RANGOON, YAOUNDE
AND TO ROUTINE SANTIAGO, PEKING, BOGOTA, SAN JOSE
AND TO ROUTINE ABIDJAN, HAVANA, NICOSIA, PRAGUE, CARACAS
AND TO ROUTINE CAIRO, TEGUCIGALPA, ADDIS ABABA, HELSINKI
AND TO ROUTINE BANJUL, EAST BERLIN, ACCRA, GEORGETOWN, KINGSTON
AND TO ROUTINE BUDAPEST, NEW DELHI, BAGHDAD, TEL AVIV, AMMAN
AND TO ROUTINE NAIROBI, SEOUL, KUWAIT, MASERU, LILONGWE
AND TO ROUTINE KUALA LUMPUR, COLOMBO, VALLETTA, MEXICO CITY
AND TO ROUTINE RABAT, LAGOS, MUSCAT, PANAMA CITY, LIMA, MANILA
AND TO ROUTINE WARSAW, DOHA, BUCHAREST, RIYADH, FREETOWN, MOSCOW
AND TO ROUTINE KHARTOUM, MBABANE, DAR ES SALAAM, TUNIS, ANKARA
AND TO ROUTINE ABU DHABI, SANAA, KINSHASA, HARARE, LUSAKA
AND TO ROUTINE UKMIS NEW YORK, UKMIS GENEVA
AND TO SAVING BRAZZAVILLE, SAN SALVADOR, SUVA, LIBREVILLE
AND TO SAVING GUATEMALA, HOLY SEE, REYKJAVIK, BEIRUT, MONROVIA
AND TO SAVING ANTANANARIVO, PORT LOUIS, ULAN BATOR, MAPUTO
AND TO SAVING KATHMANDU, PORT MORESBY, ASUNCION, VICTORIA
AND TO SAVING MOGADISHU, KAMPALA, HANOI, ADEN

PARIS FOR UNESCO OBSERVER SECTION
UNESCO
INTRODUCTION
1. THE 127TH SESSION OF UNESCO'S EXECUTIVE BOARD OPENED IN PARIS ON 23 SEPTEMBER AND CONTINUES UNTIL 16 OCTOBER. AMONG THE ITEMS ON THE AGENDA IS THE QUESTION OF THE ELECTION OF A DIRECTOR-GENERAL. THE EXECUTIVE BOARD WILL EVENTUALLY MAKE A RECOMMENDATION TO UNESCO'S GENERAL CONFERENCE WHICH IS ALSO TO BE HELD IN PARIS, FROM 20 OCTOBER TO 21 NOVEMBER.
PROCEDURALLY IT IS OPEN FOR ANOTHER PERSON TO CHALLENGE THE PERSON RECOMMENDED BY THE EXECUTIVE BOARD AT THE GENERAL

CONFERENCE. VOTING IS LIKELY TO TAKE PLACE ON 7 NOVEMBER.

2. THE NUMBER OF OFFICIAL CANDIDATES FOR THE POST HAS NOW REACHED ELEVEN: WICHIENCHAROEN (THAILAND), VALVERDE (ECUADOR), MARGAN (YUGOSLAVIA), MISHE (MAURITANIA), SA MACHADO (PORTUGAL), SOEDJATMOKO (INDONESIA), TODOROV (BULGARIA), YAQUB KHAN (PAKISTAN), MAYOR (SPAIN), SOLOMON (TRINIDAD AND TOBAGO) AND MOST RECENTLY, ON 23 NOVEMBER M'BOW, THE CURRENT SENEGALESE DIRECTOR-GENERAL WHO HAS OCCUPIED THE POST SINCE 1974 AND IS NOW PRESENTING HIMSELF FOR A THIRD TERM. MRS MANOLO OF THE PHILLIPINES, SUPPORT FOR WHOSE CANDIDATURE WAS WITHDRAWN BY HER GOVERNMENT, IS ALSO MAINTAINING HER INTEREST ON A PRIVATE BASIS.

3. NONE OF THE CHALLENGERS FOR M'BOW'S POSITION SO FAR ENJOYS UNIVERSAL OR EVEN WIDESPREAD SUPPORT AND THE RACE STILL APPEARS TO BE WIDE OPEN. YAQUB KHAN, WHO ENJOYS FRENCH SUPPORT, MARGAN, WHO IS AT PRESENT CHAIRMAN OF UNESCO'S BOARD, AND MAYOR ARE NAMES BEING TAKEN SERIOUSLY BUT THERE ARE GOOD REASONS WHY EACH ONE OF THEM IS CONSIDERED UNLIKELY TO SECURE UNQUALIFIED UNIVERSAL SUPPORT AMONG UNESCO'S MEMBER STATES. THE STRUGGLE FOR THE POST IS THUS LIKELY TO CONTINUE TO ATTRACT PUBLICITY DURING THE NEXT FEW WEEKS.

4. THE UNITED KINGDOM WITHDREW FROM UNESCO AT THE END OF 1985

AND IN 1986 WE ESTABLISHED A UNESCO OBSERVER SECTION WITHIN OUR EMBASSY IN PARIS IN ORDER TO MONITOR DEVELOPMENTS.

LINE TO TAKE

5. YOU NEED NOT TAKE THE INITIATIVE IN RAISING THE TOPIC OF UNESCO BUT IF, IN LIGHT OF THE INEVITABLE INTEREST NOW BEING SHOWN IN THE SUCCESSION ISSUE, YOU ARE ASKED ABOUT HMG'S POSITION EITHER BEFORE OR AFTER THE RESULTS OF THE ELECTION ARE ANNOUNCED YOU SHOULD RESPOND ON THE FOLLOWING LINES:

- SINCE THE UK WITHDREW FROM UNESCO AT THE END OF 1985 WE HAVE HAD NO STANDING IN THE QUESTION OF THE ELECTION OF THE DIRECTOR-GENERAL. INDEED WE HAVE TAKEN GREAT CARE NOT TO ASSOCIATE OURSELVES WITH LOBBYING FOR THE POSITION BY ANY CANDIDATE, HOWEVER WORTHY.

ADDITIONAL POINTS

6. DECISION TO WITHDRAW WAS BASED ON CAREFUL REVIEW OF RESULTS OF UNESCO'S 1985 GENERAL CONFERENCE. REPRESENTATIONS FROM OTHER MEMBER STATES, ORGANISATIONS AND INDIVIDUALS WERE ALSO CAREFULLY CONSIDERED.

7. PROGRESS MADE WAS INSUFFICIENT TO JUSTIFY A DECISION TO RESCIND NOTICE OF WITHDRAWAL (GIVEN A YEAR EARLIER). WITHDRAWAL FROM UNESCO WAS NOT AIMED AT UN SYSTEM AS A WHOLE.

8. HMG IS DETERMINED THAT SUPPORT FOR THE UN SHOULD BE SEEN AS SUPPORT FOR EFFECTIVE AND EFFICIENT ORGANISATIONS. UNFORTUNATELY UNESCO IS NOT SUCH A BODY. DECISION WAS BASED ON AN ANALYSIS OF BRITISH INTERESTS AND HOW BEST TO DEPLOY LIMITED RESOURCES FOR WHICH ALTERNATIVE AND MORE EFFECTIVE USES COULD READILY BE FOUND.

9. WITHDRAWAL HAS NOT DIMINISHED SUPPORT FOR INTERNATIONAL CO-OPERATION IN THE FIELDS COVERED BY UNESCO. THE MONEY WE WOULD HAVE SPENT ON A CONTRIBUTION TO UNESCO IS NOW BEING USED MORE EFFECTIVELY UNDER THE AID PROGRAMME. WE ARE ALSO CONTINUING TO SUPPORT AND PARTICIPATE IN CERTAIN WORTHWHILE UNESCO-RELATED ACTIVITIES.

10. BECAUSE THE GOVERNMENT CONTINUES TO ATTACH IMPORTANCE TO THE UNDERLYING PRINCIPLES OF UNESCO'S WORK A UNESCO OBSERVER SECTION WAS ESTABLISHED IN 1986 WITHIN THE BRITISH EMBASSY IN PARIS.

11. HMG IS PLEASED THAT IN 1986 UNESCO'S EXECUTIVE BOARD APPROVED OUR REQUEST FOR OBSERVER FACILITIES AT UNESCO BUT IN 1986 AND SO FAR IN 1987 THERE HAS BEEN LITTLE EVIDENCE OF REFORM AND NOTHING WHICH SUGGESTS THAT A REVIEW OF BRITISH POLICY TOWARDS UNESCO WOULD BE APPROPRIATE IN THE FORESEEABLE FUTURE. IF CONDITIONS CHANGED RADICALLY WE WOULD BE ABLE TO THINK AGAIN IN THE FUTURE, BUT IT WOULD BE A MISTAKE TO SUPPOSE THAT THIS IS A REALISTIC PROSPECT IN THE SHORT TERM.

CONTINGENCY LINE (A): (IN THE EVENT OF M'BOW BEING REPLACED BY ONE OF HIS CHALLENGERS.)

12. THE PROBLEMS FACING THE NEW DIRECTOR-GENERAL ARE FORMIDABLE ONES. WE WISH THE NEW INCUMBENT WELL WITH A TASK WHICH WE CONSIDER WILL BE LONG AND DIFFICULT.

13. HMG HAS NEVER SOUGHT TO PERSONALISE ITS CONCERN WITH THE STATE OF UNESCO. THE OCCUPANT OF THE POST OF DIRECTOR-GENERAL IS NO MORE THAN ONE, ALBEIT IMPORTANT, FACTOR IN THE OVERALL

SITUATION SURROUNDING UNESCO. OUR IMPRESSION HAS BEEN THAT THERE HAS BEEN NO EVIDENCE OF THE FUNDAMENTAL AND FAR-REACHING REFORMS WE CONSIDER NECESSARY. NOR HAVE WE SEEN SIGNS THAT SUCH REFORMS ARE LIKELY TO MATERIALISE IN THE NEAR FUTURE. MOREOVER OUR IMPRESSION HAS BEEN THAT THE CURRENT CONCENTRATION OF ATTENTION ON THE POST OF DIRECTOR-GENERAL HAS MEANT THAT THE MOMENTUM FOR REFORM HAS DIMINISHED EVEN FURTHER DURING 1987.

14. WE SHALL HOWEVER CONTINUE TO MONITOR DEVELOPMENTS CAREFULLY. WE SHALL KEEP AN OPEN MIND AND WE SHALL STUDY THE DETAILED RESULTS OF THE GENERAL CONFERENCE WHEN THEY BECOME AVAILABLE. HOWEVER, HMG WILL REQUIRE EVIDENCE OF FUNDAMENTAL AND FAR-REACHING REFORMS BEFORE THEY CAN REVIEW THEIR POSITION TOWARDS THE ORGANISATION.

CONTINGENCY LINE (B): (IN THE EVENT OF M'BOW'S RE-ELECTION AS DIRECTOR-GENERAL.)

15. WE DO NOT IN PRINCIPLE FAVOUR ANYBODY SERVING MORE THAN TWO TERMS AS A DIRECTOR-GENERAL OF A UNITED NATIONS SPECIALISED AGENCY BUT HMG HAS NEVER SOUGHT TO PERSONALISE ITS CONCERN WITH THE STATE OF UNESCO.

16. THE POST OF DIRECTOR-GENERAL IS NO MORE THAN ONE, ALBEIT IMPORTANT, FACTOR IN THE OVERALL SITUATION SURROUNDING UNESCO. HMG'S DECISION TO WITHDRAW FROM UNESCO WAS TAKEN IN 1985 AND WE HAVE SUBSEQUENTLY SEEN NOTHING TO SUGGEST THAT THAT DECISION WAS MISTAKEN.

17. WE SHALL HOWEVER CONTINUE TO MONITOR DEVELOPMENTS CAREFULLY. WE SHALL KEEP AN OPEN MIND AND WE SHALL STUDY THE DETAILED RESULTS OF THE GENERAL CONFERENCE WHEN THEY BECOME AVAILABLE. HOWEVER, HMG WILL REQUIRE EVIDENCE OF FUNDAMENTAL AND FAR-REACHING REFORMS BEFORE THEY CAN REVIEW THEIR POSITION TOWARDS THE ORGANISATION.

HOWE

YYYY

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ADDITIONAL 1

GUIDANCE

SAVING 21

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HOLY SEE
REYKJAVIK
BEIRUT
MONROVIA
ANTANANARIVO
PORT LOUIS
ULAN BATOR
MAPUTO
KATHMANDU
PORT MORESBY
ASUNCION
VICTORIA
MOGADISHU
KAMPALA
HANOI
ADEN

NNNN

3694/9ic

CONFIDENTIAL

The latest CYMS forecast is £0.1 billion lower than that used for the economic forecast.

FROM: ANDREW HOLDER
DATE: 15 October 1987

1. MR MOWL

2. CHANCELLOR OF THE EXCHEQUER

cc Sir P Middleton
Sir T Burns
Mr F E R Butler
Mr Anson
Miss Peirson
Mr Odling-Smee
Mr Sedgwick
Mr Turnbull
Mr McIntyre
Mr Pratt
Mr Cropper

CYMS
HOLDER TO CHEX 15/10

TREASURY ECONOMIC FORECAST: SOCIAL SECURITY EXPENDITURE IN 1987-88

You asked for a note on the uncertainty over the CYMS forecast for 1987-88 in the light of recent outturn data for certain types of benefit (Mrs Ryding's minute of 12 October).

2. DHSS forecasting of social security benefit expenditure had been less than satisfactory for some years. One improvement is the "Current Year Monitoring System" (CYMS: formerly FOSSE) which provides forecasts at monthly intervals of current year expenditure. This system has been fully operational only since June 1986 and so the track record is too short for a reliable assessment of its performance. The record until the end of 1986-87 was satisfactory. The maximum error, not attributable to economic or policy changes, was less than two-thirds of one per cent (equivalent to £250m per annum) over all months of 1986-87.

3. There was a very sharp rise in benefit expenditure between November 1986 and January 1987, resulting in a rather high CYMS forecast at that stage for 1987-88. Then between April and June 1987 there was an equally sharp fall, greater than it appears can be accounted for by the expected effects of the fall in unemployment. DHSS are very unsure of the causes of either the earlier rise or the later fall in benefit expenditure. Possible explanations of the fall (which was in Unemployment and Supplementary Benefits) are (i) effects of the recent strike (although local offices had reported no backlog of payments),

(ii) that claimants now coming off the register, as unemployment falls, were receiving above average benefit or (iii) a lower increase in the underlying growth rate of benefit expenditure than was previously indicated by CYMS.

4. CYMS uses time series methods to model the residuals from a number of different structural models, which relate benefit expenditure to causal variables. Many of these causal models have poor forecasting records. Low outturn data would normally produce a significant fall in the CYMS forecast for the rest of the year. However, because of the uncertain nature of the fall, DHSS have prevented the low outturns from exerting their full influence, and have therefore shown a level of benefit expenditure some £100 million to £150 million higher than would otherwise be forecast (on their own estimation).

5. The proper treatment of the outturn data depends on the nature of the fall. If the fall is the result of temporary factors, as would be the case with strike effects, the issue becomes one of whether, and if so when, the lost expenditure is recovered. The current CYMS forecast contains the implicit assumption that the fall is temporary but not recovered, whereas if the fall were temporary and the expenditure were recovered, the current forecast would be an under-estimate. If on the other hand it is due to underestimating the effects of falling unemployment, or to the estimate of underlying growth being too high, such a change should be forecast to continue and thus the current forecast could be a substantial over-estimate.

6. DHSS tell us that the position should be clearer in about two months. We and ST will be keeping in close touch with DHSS as they interpret further developments.

Andrew Holder

ANDREW HOLDER

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MDLIAN 8386

RESTRICTED
FM UKDEL OECD PARIS
TO ROUTINE FCO
TELNO 51
OF 240915Z JULY 89
INFO ROUTINE PARIS, WASHINGTON, BONN, TOKYO, OTTAWA, ROME
INFO ROUTINE UK REP BRUSSELS, MOSCOW, UKDEL IMF/IBRD, THE HAGUE

G7 SUMMIT: OECD DISCUSSION

SUMMARY

1. ELYSEE OFFICIAL GIVES OECD COUNCIL BRIEFING ON SUMMIT. LARGELY ROUTINE BUT SOME INSIGHTS ON FRENCH AND NON-G7 CONCERNS.

DETAIL

2. BOUDIER, OF ATTALI'S OFFICE AT THE ELYSEE, BRIEFED THE OECD COUNCIL ON 20 JULY ON G7 SUMMIT (ATTALI HAD ALREADY LEFT PARIS 'ON MISSION'). HIS COMMENTS LARGELY SUMMARISED WHAT WAS IN THE VARIOUS DECLARATIONS, BUT THE FOLLOWING POINTS MAY BE WORTH NOTING:

(A) THE SUMMIT WAS DOMINATED BY TWO SUBJECTS - DEVELOPMENT (ESPECIALLY DEBT) AND THE ENVIRONMENT:

(B) ON THE ECONOMIC SITUATION, PARTICULAR EMPHASIS HAD BEEN PLACED ON INFLATION (NOT THE SAME IN ALL G7, BUT ALL SHOULD FIGHT AGAINST IT), BUDGET DEFICITS, ECONOMIC AND MONETARY COOPERATION (FRENCH DID NOT RAISE THEIR IDEA OF FORMALISING EXCHANGE RATE POLICY BECAUSE NO G7 CONSENSUS IN ADVANCE):

(C) ON TRADE POLICY, ALL SUPPORTED MULTILATERALISM AND OPPOSED UNILATERALISM:

(D) ON DEBT, A SOLEMN REAFFIRMATION OF WHAT HAD ALREADY BEEN AGREED ON DEBT REDUCTION (CLAIMED BRADY PLAN SPRANG FROM MITTERRAND'S 1988 SPEECH AT UNGA):

(E) ON ENVIRONMENT, FULSOME PRAISE FOR OECD AND PLUG FOR ENVIRONMENT INDICATORS. MENTIONED CONCLUSION OF FRAMEWORK CONVENTION ON CLIMATE AS URGENT REQUIREMENT. EMPHASISED DEVELOPMENTAL PROBLEMS ASSOCIATED WITH ENVIRONMENTAL PROTECTION. BANGLADESH AN ESPECIAL INTEREST FOR FRANCE (BUT MENTION ALSO FOR UK CONFERENCE), AND RAIN FORESTS FOR FRG:

(F) THE POLITICAL DECLARATION ON EAST/WEST RELATIONS HAD BEEN THE SUBJECT OF MUCH DISCUSSION, WITH DEVELOPMENTS IN HUNGARY AND POLAND SEEN AS OF CENTRAL IMPORTANCE.

3. COMMENTS AND QUESTIONS BY COUNCIL MEMBERS WERE LOW-KEY (NO G7 MEMBER SPOKE), BUT SOME WORTH RECORDING:

(A-) IN REPLY TO QUESTIONING, BOUDIER SAID THAT DISCUSSION ON THE ECONOMIC SITUATION HAD BEEN LIMITED (GOOD ADVANCE WORK BY SHERPAS) WHEREAS YUGOSLAVIA, EAST/WEST RELATIONS AND DEBT HAD BEEN DISCUSSED IN DEPTH.

(B) A NUMBER OF REPRESENTATIVES SUGGESTED THAT THE OECD SHOULD HAVE A ROLE IN FOLLOW-UP TO THE EAST/WEST DECLARATION. BOUDIER RECOGNISEDTHIS MIGHT BE THE CASE. HE QUESTIONED WHETHER ADVICE SHOULD BE
RESTRICTED TO MANAGEMENT - THE PUBLIC SECTOR WOULD STILL BE VERY LARGE IN MOST EAST EUROPEAN COUNTRIES FOR MANY YEARS TO COME.

(C) NETHERLANDS WAS SCEPTICAL OF LIKELY SUCCESS OF ACTION TO CONTROLBANGLADESH FLOODING: DISCUSSION IN OECD (DAC) SUGGESTED NO VIABLE
SOLUTION IN SIGHT - TOO COSTLY. DID THE G7 HAVE NEW TECHNICAL INFORMATION OR A FINANCIAL ENVELOPE? BOUDIER RESPONDED NEGATIVELY ON BOTH POINTS: DETAILED WORK WOULD BE LEFT TO THE WORLD BANK (AND FINANCING TO DONORS):

(D) A NUMBER OF DELEGATIONS ASKED HOW AND WHEN THE G7 WOULD REPLY TO THE GORBACHEV LETTER. BOUDIER SAID THE LETTER WAS ADDRESSED TO MITTERRAND AS G7 SUMMIT CHAIRMAN. IT WOULD BE FOR THE LATTER TO FORMULATE THE REPLY, TAKING ACCOUNT OF REMARKS MADE BY SUMMIT PARTICIPANTS. BOUDIER WOULD NOT BE DRAWN FURTHER AND SAID IT WOULD BE FOR GORBACHEV TO DECIDE WHETHER TO PUBLISH MITTERRAND'S REPLY.

(E) NETHERLANDS ASKED WHETHER THE PASSAGE ON GREATER MONETARY COOPERATION HERALDED SOMETHING NEW. BOUDIER SAID IT WAS NOT JUST A RITUAL 'INCANTATION': THE G7 WANTED CLOSER CONTACT ON THE PROCESS BEGUN BY THE LOUVRE ACCORD.

(F) NETHERLANDS ASKED WHETHER THERE WAS ANY INTENTION TO USE SDRS TO FUND DEBT REDUCTION. BOUDIER SAID THERE WAS NO MENTION OF THIS INTHE ECONOMIC DECLARATION. IT MIGHT BE A POSSIBILITY AT SOME LATER STAGE, BUT MITTERRAND DID NOT THINK THE TIME RIPE YET: THERE WERE

ALREADY ADEQUATE RESOURCES FOR CURRENT G7 STRATEGY, ESPECIALLY IF OTHERS, INCLUDING COMMERCIAL BANKS, JOINED IN.

(G) ON DEBT GENERALLY, BOUDIER AGREED WITH THE NETHERLANDS THAT THE G7'S POSITION REPRESENTED AN ADVANCE ON PREVIOUS POSITIONS. BUT IN RESPONSE TO IRELAND (WHO SAID THAT ATTALI HAD EARLIER SPOKEN OF 'INSTITUTIONALISING' THE DEBT PROBLEM) BOUDIER DENIED THAT EITHER THE G7 OR FRANCE HAD ANY INTENTION OF DEVISING A FRAMEWORK TO EMBRACEALL ASPECTS OF THE DEBT PROBLEM. WHAT THE G7 WERE AFTER WAS AFRAMEWORK TO SOLVE THE PROBLEM OF COMMERCIAL DEBT: AND EVEN THERE THE ANSWER WAS NOT YET DEFINITIVE:

(H) UNASKED, BOUDIER VOLUNTEERED SOME COMMENTS ON THE ISSUE OF A NORTH-SOUTH CONFERENCE. THE FRENCH HAD RECEIVED A REQUEST FOR THIS FROM THE GROUP OF FOUR (SENEGAL, VENEZUELA, EGYPT AND INDIA): AND THERE HAD ALSO BEEN LOBBYING FROM THE 'FIRST SUMMIT OF THE WORLD'S POOREST PEOPLE' (BANGLADESH, PHILIPPINES, BRAZIL, ETC) WHICH MET IN PARIS DURING THE &G7 SUMMIT. ALTHOUGH FRANCE REMAINED IN FAVOUR OF A NORTH/SOUTH SUMMIT, MITTERRAND HAD DECIDED THAT THE PROPOSAL HAD NOT BEEN SUFFICIENTLY WELL-PREPARED TO BE SUBMITTED TO THE PARIS SUMMIT. BUT NO DOUBT IT WOULD NOW BE CAREFULLY CONSIDERED BY G7 MEMBERS:

(I) BOUDIER HAD NO INFORMATION TO GIVE ON THE PROPOSED DRUGS TASK FORCE.

COMMENT

4. ONLY THE NETHERLANDS SEEMED WELL-BRIEFED TO QUESTION BOUDIER (ALTHOUGH HIS VISIT WAS ANNOUNCED WELL IN ADVANCE). SOME REPRESENTATIVES DISPLAYED THE USUAL SUSPICION THAT THE G7 WAS WORKING TO BECOME A DIRECTORATE OF THE WESTERN WORLD (THOUGH BOUDIER WENT OUT OF HIS WAY TO CORRECT ANY SUCH IMPRESSION): AND THERE WAS SOME BRIDLING AT THE REMIT GIVEN TO OECD TO STUDY ENVIRONMENTAL INDICATORS - NOT IN THE OECD'S MINISTERIAL COMMUNIQUE AND THEREFORE, IT WAS SUGGESTED, SOMETHING THE G7 MIGHT LIKE TO FINANCE THEMSELVES (CANADA KEPT SILENT). THE CONSIDERABLE INTEREST DISPLAYED IN COUNCIL ON EAST/WEST RELATIONS WAS A FORETASTE OF LATER DISCUSSION ONOTHER ASPECTS OF POSSIBLE OECD INVOLVEMENT WITH EASTERN EUROPE (MY TELNO49 REFERS).

5. THERE WAS ALSO SOME CRITICISM IN THE CORRIDORS THAT ATTALI HAD VNOT COME HIMSELF TO BRIEF THE OECD, OR SENT A MORE SENIOR SUBSTITUTE.

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FRAME

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From: **J ODLING-SMEE**

16th October 1987

CHANCELLOR OF THE EXCHEQUER ✓

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Financial Secretary
Paymaster General
Economic Secretary
Sir Peter Middleton
Sir Terence Burns
Mr Byatt
Mr Cassell
Mr Sedgwick
Mr R Allen
Mr Melliss
Dr James
Mr Whittaker
Mr Cropper
Mr Call
Mr Tyrie

C/content?

CR 16/10

OK

RELEASE OF THE TREASURY MODEL

We are obliged by the Industry Act 1975 to make the Treasury model available to the general public. In practice this means that we release the latest version of the model once a year, by handing over a few computer tapes and explanatory notes to our contacts at the computer bureaux and universities. These are private exchanges and receive no publicity.

2. For many years now we have released the model in December or January. This year, however, we are releasing it this month to fit in with a change in our internal annual cycle of work on the model. The change is aimed at increasing our efficiency in the months leading up to the Budget. Our intention is to stick to October in future years.

3. The number of recipients of the model has declined gradually over the years. This year we expect only the Warwick Macro-economic Modelling Bureau, the ITEM Club (probably working through Oxford Economic Forecasting), and Dr Bray to take it. The Parliamentary Unit and all academic users access the model through the Warwick Bureau.

jcll

4. As usual there have been a large number of changes to the model, most of them minor. The main ones are summarised in the attached paper which is part of the documentation handed out to users. The most important are:

a. new equations for producer and retail prices;

b. a new equation for cash (notes and coin);

c. a new equation for exports of manufactures.

5. The new price equations attach a higher weight to the effects of unit labour costs and a lower weight to the effects of the prices of competing imports. They provide a much better explanation of what has happened over recent years than the previous equations did.

6. The new equation for cash depends, as its predecessor did, on a measure of transactions, interest rates, and financial innovation. But the proxy for transactions (consumption of non-durables excluding services) is now narrower than it was, and we have used different proxies for financial innovation. The equation explains past data much better than the earlier one did. It incorporates a lower interest rate elasticity which, together with the increased weight on domestic costs in the price equations, has the effect that expansionary fiscal policy is crowded out more rapidly (within three years when expenditure is increased) than was the case in the previous public model.

7. The change in the equation for exports of manufactures is fairly minor, consisting mainly of an increase in the elasticity with respect to cost competitiveness. It does not have much of an effect on overall model properties.

pp J ODLING-SMEE

TREASURY MACROECONOMIC MODEL: OCTOBER 1987 VERSION

1. This note summarizes the main changes since the last release of the model in January 1987. The model is being released in October, three months earlier than in the past, in response to users' wishes.

2. Details of how to operate the model are given in appendix 1, and the results of a standard simulations conducted on the model set up in the way described in appendix 1 are given in appendix 2. An equation listing accompanies this note. A revised model documentation consistent with the new model will be available shortly.

3. The main changes to the model are set out below sector by sector.

A. <u>Personal Sector</u>

(i) Stock of consumer durables (V1109)

The equation for the stock of durables, first introduced into the January 1987 version of the public model, was found to be sensitive to revisions of data when re-estimated on the 1986 National Accounts data. Further estimation work resulted in the equation which is incorporated into the latest version of the public model. The new equation has a relatively simple dynamic structure in which the short run response of the stock of durables to changes in inflation adjusted real disposable income shows only slight overshooting of the long run value. The new equation also incorporates a long run positive effect on the stock of durables from real net financial wealth of the personal sector - in the previous version this effect was only transitory. There is now also a levels effect from the variable reflecting excess demand for mortgages, which is defined as in group 58 of the model. The long run properties of the new equation are set out below:

Variable	Long run elasticity (per cent change in stock levels)
Inflation adjusted real income (1%)	1.56
Real net financial wealth (1%)	0.14
Real interest rates (1 percentage point)	-1.65
Excess mortgage demand (1%)	0.02

The long run income and interest rate responses are rather lower and higher respectively than in the previous version.

B. Prices

(i) Producer prices (V531)

The new producer price equation results from research using cointegration techniques to establish the long run properties of the equation in the first stage levels equation. The form of the dynamic terms was then investigated in the second stage equation. As with the previous equation the resulting equation contains restrictions which ensure that the equation has both static and dynamic homogeneity with respect to unit labour costs, import prices, nationalized industry and 'indirect-indirect' taxes taken together. These restrictions are data validated. The new equation gives a higher weight to unit labour costs, and a correspondingly lower weight to import prices in the long run. The long run responses with respect to the other explanatory variables have changed comparatively little and are consistent with the weights implied by the 1979 input-output tables. The long run elasticities are given below.

Variable	Long run elasticity (% change in PPIO)
Unit labour costs (ULCM)	0.59
Price of imported inputs into manufacturing (UMNFW)	0.075
Price of imports of finished manufactures (UMFMA)	0.18
Nationalized industries prices (PONI)	0.083
Indirect indirect Taxes (TXIMF)	0.055
Capacity utilization (CBI measure)(1)	-0.0014

(1) Semi-elasticity

The new equation also incorporates difference terms in manufacturing output to capture short term cyclical effects. These are also dynamic terms in the variables which have a long run effect with the exception of prices of imported finished manufactures and CBI capacity utilization. The response in the short run to prices of imported inputs is larger than in the long run.

(ii) Other retail prices (excluding petrol) (V511)

This new equation adopts a simple specification in which other retail prices excluding petrol, PROXP, are related, at constant rates of indirect taxes, only to producer prices with a unit coefficient in the long run. Changes in indirect taxes are fully reflected in changes in other retail prices in the long run. Short run dynamics are incorporated through the lagged dependent variable. The implied responses to costs, competitors' prices and the pressure of demand in the PROXP equation are therefore the same, apart from dynamic differences, as the corresponding responses in the producer price equation.

The implications of the new equations for producer and other retail prices are that in the short to medium term prices rise by more for a given increase in domestic costs, and less for a given increase in import prices, than in the January 1987 version of the public model. In the long run the change in the relative weight of labour and import costs leaves the effects unchanged because the price equations have static and dynamic homogeneity.

(iii) Retail prices

The retail price index and its components have been re-referenced so that January 1987 = 100. In addition the weights of the RPI components have been revised. The main change is that the weight of food has been raised and that of housing has been reduced. The weights within the housing component of the RPI have also been altered. These revisions partly reflect the normal annual revision of the weights. Also from February 1987 certain elements of the RPI, mainly within the housing sector, have been redefined in line with the Advisory Committee's report.

Retail prices	**January 1987 model**		**October 1987 model**	
Food (PRF)	0.2059		0.1670	
Housing (PRHX)	0.1186		0.15	
Nationalised industries (PRNI)(1)	0.0562		0.081	
Other retail prices (PRO)	0.617		0.602	
of which petrol prices		0.0624		0.0615

(1) The RPI in the model continues to count British Gas as a nationalised industry. This will be revised in due course.

(iv) New House Prices (V5803)

The equation for new house prices on the January 1987 public model has been replaced. The new equation uses the excess demand for mortgages (the same variable as in the new stock of durables equation), real personal disposable income, net of standard tax rate mortgage interest rate and a time trend, representing the effect of a growing housing stock on new house prices. There is also a short run positive effect from construction costs proxied by the deflator for investment in dwellings. The equation is specified as the price of new houses relative to consumer prices. The long run properties of the new equation are set out below

Variable	**Long run elasticity**
Consumer prices (1 per cent)	1.00
Real personal disposable income (1 per cent)	2.41
Mortgage interest rate (1 percentage point)	-1.78
Time trend (per cent per annum)	-3.57
Excess mortgage demand (1 per cent)	+0.03

equation differs from the previous one in the treatment of output expectations. The January public model used vector autoregression equations to derive contemporaneous and one and two step ahead values of expected manufacturing output. In practice these were frequently overwritten and expected output set equal to actual output. The equation in the October public model used in estimation a series based on the results of the question on expected output in the CBI survey and translated into quantitative terms using a method developed at NIESR (see 'The quantification of survey data on expectations' by S Wren-Lewis, National Institute Economic Review, August 1985). These are one period ahead output expectations which for simulation and forecasting purposes are assumed to grow in line with actual output. In other respects the equation is little changed. Constant returns with respect to expected output is retained, and the coefficients on the factor price effects are slightly larger in the long run than before and there is a rather slower speed of adjustment to changes in output.

D. Current Account

(i) Exports of manufactures (V2009)

The treatment of competitiveness in the exports of manufactures equation in the January 1987 public model was regarded as unsatisfactory, and the equation progressively underpredicted from the beginning of 1985. The equation which replaces it was estimated over the period 1973Q3 to 1985Q4. Competitiveness is measured by relative unit labour costs. This enters contemporaneously and gradual adjustment to the long run value, which is reached after nine quarters, is afforded by the operation of the lagged dependent variable. This gives a smooth dynamic response to changes in world trade and competitiveness. The equation also contains a logarithmic time trend with a negative coefficient, worth about -0.6 per cent on the level in 1987. The properties of the equation are summarized below:-

Elasticities

	Exports of manufactures volumes	
	Impact	**Long run**
World trade	0.716	1.00
Relative unit labour costs	-0.138	-0.39

The main effect of this equation is to increase the responsiveness of exports to changes in competitiveness. Overall model properties are little affected by this.

(ii) Exports of services (V2410)

The data for exports of services were substantially revised in the 1986 Pink Book. A similar specification to that of the previous equation was used in re-estimation, with the refinement that Major 6 GNP, the demand variable, has been weighted according to the pattern of UK trade in services. The re-estimated equation has a long run elasticity with respect to activity of 1.5, and with respect to competitiveness of 0.8, higher and lower respectively than in the previous equation.

(iii) Interest, profits and dividends

A large number of detailed changes have been made to the equations for the stocks of assets and liabilities in group 26 of the model. These changes include the use of end-quarter dollar and non-dollar exchange rates in place of average quarter dollar and effective exchange rates to calculate revaluation components. This change was desirable since the data on stocks is measured on an end quarter basis. A new method of calculation of the revaluation has also been introduced. This allows the dollar and non-dollar components to be revalued separately rather than using a combined multiplicative formulation. The equations affected by this re-specification are V2603, V2607, V2610, V2614, V2624, V2637, V2639, V2642, V2644, V2645, V2653 and V2654. Changes have also been made to the method of calculating price revaluations to portfolio stocks. A new variable WP1 which replace STANPA - the US equity index, and weights together French, German, Japanese and US equity indices is how used. This change effects V2607, V2644 and V2645.

E. Domestic Financial Sector

(i) Notes and coins equation (V8202)

The equation on the January 1987 public model was based on work originally carried out in 1983. The equation in the October public model has a number of new features. The scale variable is consumption of non-durables net of consumption of services (e.g. holidays and haircuts) and is therefore transactions based. It enters contemporaneously with a unit long run elasticity and fast dynamics. Although the equation has been specified in real terms inflation effects, whereby the demand for notes and coins falls as inflation rises, have been included explicitly. The interest rate used is the banks' deposit rate net of tax which has a small contemporaneous effect, a three quarter distributed lag and a semi-elasticity of unity. An important influence on the demand for notes and coins is financial innovation. In the new equation this has been captured by the number of cash dispensers and the proportion of manual workers in total employment. The variables for these are exogenous. The long run solution to this equation can be written as:

$$\log\left(\frac{CASH}{PC}\right) = \log CND1 - 0.1\ RBDEP\ (1 - TPBK) - 0.72\ \Delta^{4} \log PC$$

$$- 1.16 \times 10^{-5}\ .CDISP + 3.85\ .PROPM$$

where CASH is notes and coins in circulation
PC is consumer price deflator
CND1 is consumption of non-durables less services
RBDEP is the rate of interest on bank deposits
TPBK is the composite rate of tax on bank deposits
.CDISP is the number of cash dispensers installed
.PROPM is the proportion of manual workers

The new variable for consumption of non-durables less services, CND1, is assumed in the model to grow in line with total non-durables consumption.

The new equation leads to some changes in overall model properties. In particular the demand for money is now less elastic with respect to changes in interest rates and this tends to increase the warranted movements in interest rates in simulations in which a non-accommodating monetary policy is assumed.

(ii) Bank lending to ICC's (V8503)

The new stock of bank lending to ICCs equation (LENDICB) uses a comparatively simple specification in which activity (measured as real TFE), ICCs borrowing requirement expressed as a stock deflated by the TFE deflator (new variable SBRIC, V1232), CBI capacity and short term interest rates are used as explanatory variables. The equation is homogeneous with respect to prices. The long run elasticities are set out below

Long run elasticities for LENDICB

Activity	0.36
CBI Capacity	0.31
Stock of borrowing	0.39
Interest rates (semi-elasticity)	-2.0

This equation is not particularly firmly based: the speed of adjustment, interest rate and price homogeneity coefficients have been imposed.

(iii) Bank lending to financial institutions (V8505)

The changes made to this equation are relatively minor. The activity variable is now expressed as current price TFE which has an impact elasticity of 0.55 and a long run elasticity of 1.1. The interest rate semi-elasticity is -1.0, only slightly higher than in the previous equation.

F. <u>Public Sector</u>

A number of relatively minor changes have been made to the public expenditure and taxation variables on the model. The following are the more important:-

(i) Customs and Excise accruals adjustment.

In the October public model the accruals adjustment for car tax and wines and spirits duties are identified separately by variables CARAC (V4037) and .WISPAC (V4041) respectively. Formerly these were included in the VAT accruals adjustment, VATAC (V4030). This change enables VAT receipts to be identified precisely.

(ii) Fiscal adjustment variables

A variable for the accruals adjustment on the fiscal adjustment on income tax variable, TPIMB (V4120), is now included. This variable, TPIMAC (V4122), enables the accruals - receipts lag on PAYE to be correctly incorporated in those model runs in which the PSBR is assumed to be fixed.

(iii) Borrowing requirement identities

Changes have been made to the equations for the CGBR (V5104), local authorities borrowing from the market, LABRO (V5109) and public corporations net borrowing from the market, PCBRO (V5110). The changes have been made so as to make explicit the link between the borrowing requirements and the sectoral financial deficits (NAFAs). The equations have therefore been programmed in terms of the corresponding NAFA variables and variables which represent those financial flows which count towards the borrowing requirement but which finance the given NAFA. At the same time the opportunity has been taken to provide a more complete coverage (full coverage in the case of central government) in terms of model variables of the difference between the NAFA and borrowing requirements, thus leaving any residuals on the borrowing requirement variables to primarily reflect differences in seasonal adjustment between totals and components. Two additional exogenous variables representing miscellaneous receipts for local authorities and public corporations, .MISCLA (V5137) and .MISCPC (V5138) have been incorporated for this purpose.

4. There have been a number of minor changes to the model involving coefficient changes and minor respecification of variables.

MP2 DIVISION
October 1987

APPENDIX 1

OPERATION OF THE MODEL (October 1987 version)

The following paragraphs provide some advice on the operation of the model.

1. The system of liquidity adjustments

The procedure for operating the system of liquidity adjustments for simulation purposes is:-

(a) The base should be computed with the following T cards

T V0132 = V5240/(V1007 - V0702 - V0602)
T V0117 = V5239/(V1007 - V0702 - V0602)

Note that T cards operate only over the period during which the model is computed, two lagged values of V0132 and V0117 should therefore be entered by hand. At this stage it is prudent to set the switch variable, V0126, to zero.

(b) The model equations for manufactures stocks of finished goods, (V0102), stocks of work in progress, (V0127), stocks of material and fuel, (V0129), manufacturing investment, (V0128), and ICC's dividend payments, (V5233) contain terms in the ratio of net liquidity to TFE. In order to preserve the consistency of the adjustment system, the coefficients on these terms, (Z01087, Z01067, Z01075, Z01027, Z52012, Z52018) should be set to zero and the variables fixed by type 1 in the base run. The most economical way to accomplish this is to run groups 1 and 52 only by setting Z00101 99*1, Z00101, 0, Z00152, 0. In simulations the complete model is activated by setting Z00101 99*0 and of course removing the type 1 fixes.

(c) The system of adjustments is activated by setting the switch variable, V0126 to 1. This may be done either within the simulation or in the base run. If the latter, as always, it is sensible to do a no change simulation in order to check that the base is stationary. It is also sensible to type 1 fix V0132 and V0117.

2. Cash Limits

The cash limits system operates only on certain elements of central government expenditure, V0601, V0604, V0625, V1307, V1402, V5118. The system of cash limits is motivated by setting the squeeze variable, V0611 to a desired value in the interval zero to one over the simulation or forecast period. The former value provides for fixed public expenditure volumes, whilst the latter implies 100% cash limits, ie. the whole of any gap between inflation and cash planning factors is reflected in a change in expenditure volumes. In order to ensure no change in the starting values for the deflators, V0619, V0622, V0624, V0630, coefficients Z06025-Z06028 should be set to the beginning of the forecast/simulation period, eg. 19872. Note that central government expenditure in 1980 prices on wages and salaries, procurement, and capital expenditure, (V0401, V0604, V0625) is formally exogenous for all periods before the system of cash limits is assumed to operate. This provides an alternative mechanism for setting these categories of expenditure in volume terms; ie. set coefficients Z06025, Z06027-8 to some date beyond the end of the forecast/simulations.

Local authority expenditure is not formally included in the system and as a consequence some modification to the model is required if these categories of expenditure are to be subjected to cash limits. If 100% cash limits on local authority expenditure are to be included, the following is required:-

A151901	PIFB
A072202	ILADB, ILAOB
T	V0722 = V0710
T	V0723 = V0711
T	V1519 = V1501
Q	V0710 = V0722* (V1519/V1501) + R0710
Q	V0711 = V0723* (V1519/V1501)** R0711

3. Fixes

The following type 1 and type 2 fixes may be useful, although the operation of the model is, of course, at the discretion of the user.

(i) Balance in the national insurance fund; type 1 NICAC 4056, type 2 FUNBAL, V1315 as follows:

1315, .0006, 1326, 1315, .0006, 1327, 1315, .0006, 1328, 1315, .0006, 1329

(ii) Fixed money supply (MAGGWT), using short term interest rates. This requires the following Q card:

V6004 = V6004 - .025* (V8206 - W8206)*V6006/V8231

and the type 2 fix 8206, 0, 6004.

(iii) The building societies model may be solved in a number of different ways:-

(a) Building societies liquidity ratio unconstrained. This requires no fixes.

(b) Building societies liquidity ratio fixed using mortgages as the instrument. This requires 5808, -350, 5802.

(c) The 'excess demand' for mortgages may be fixed using the deposit rate. This requires 5812, -45.0, 6002.

(iv) Other 'standard' fixes

Type 1 0404

PACE+£386M IR FIX changes from PUBSIM BASE

Difference Table 1

	1 GDP %	2 Consum-ers expend-iture %	3 Real pers disp inc %	4 Unem-ploy ment 000's	5 Aver-age earn-ings %	6 RPI %	7 Nominal GDP at market prices %	8 MAGGWT %	9 £M3 %	10 Short interest rates % pts	11 Exch-ange rate %	12 Competitive-ness rel wage costs %	13 Curr-ent bal-ance £m	14 PSBR £m	15 Non NS ICCS NAFA £m
1988	0.62	0.28	0.40	-128.5	0.82	0.74	1.33	0.84	1.19	0.00	-0.68	0.07	-1046	1054	-387
1989	0.60	0.35	0.47	-126.1	1.51	1.31	1.95	1.21	1.44	0.00	-1.08	0.35	-1289	1074	-539
1990	0.54	0.32	0.48	-125.0	2.26	1.96	2.58	1.67	1.80	0.00	-1.56	0.63	-1355	1157	-639
1991	0.46	0.28	0.49	-122.9	3.05	2.66	3.26	2.22	2.27	0.00	-2.11	0.87	-1382	1244	-752
1987/88	0.61	0.17	0.30	-124.2	0.35	0.37	0.91	0.56	0.82	0.00	-0.37	-0.03	-761	880	-277
1988/89	0.64	0.31	0.44	-128.5	0.98	0.87	1.49	0.94	1.27	0.00	-0.78	0.11	-1137	1117	-417
1989/90	0.59	0.35	0.47	-125.2	1.69	1.47	2.10	1.31	1.51	0.00	-1.20	0.42	-1313	1110	-518
1990/91	0.52	0.31	0.48	-124.9	$\boxed{2.46}$	2.13	2.74	1.80	1.91	0.00	-1.69	0.70	-1360	1175	-672
1991/92	0.45	0.27	0.50	-121.8	3.25	2.85	3.44	2.36	2.39	0.00	-2.26	0.93	-1388	1233	-810
1987 QTR 2	0.59	0.13	0.27	-119.7	0.16	0.22	0.71	0.35	0.44	0.00	-0.19	-0.04	-114	254	14
QTR 3	0.65	0.17	0.28	-124.4	0.25	0.31	0.87	0.57	0.86	0.00	-0.34	-0.16	-217	223	-71
QTR 4	0.61	0.18	0.30	-124.9	0.43	0.42	0.97	0.64	0.97	0.00	-0.44	-0.03	-209	227	-97
1988 QTR 1	0.59	0.22	0.35	-127.6	0.56	0.52	1.08	0.67	0.98	0.00	-0.52	0.10	-221	176	-124
QTR 2	0.63	0.30	0.38	-126.8	0.72	0.69	1.28	0.81	1.16	0.00	-0.63	0.00	-255	284	-51
QTR 3	0.63	0.26	0.43	-131.4	0.89	0.80	1.40	0.91	1.28	0.00	-0.74	0.05	-268	287	-110
QTR 4	0.64	0.34	0.46	-128.2	1.08	0.92	1.56	0.97	1.31	0.00	-0.83	0.14	-302	308	-102
1989 QTR 1	0.64	0.36	0.50	-127.5	1.24	1.05	1.71	1.05	1.34	0.00	-0.92	0.22	-311	239	-154
QTR 2	0.62	0.36	0.44	-125.3	1.43	1.26	1.90	1.20	1.45	0.00	-1.04	0.29	-320	265	-128
QTR 3	0.58	0.34	0.47	-127.7	1.59	1.40	2.01	1.25	1.45	0.00	-1.13	0.40	-323	267	-144
QTR 4	0.57	0.35	0.47	-124.1	1.78	1.53	2.16	1.33	1.50	0.00	-1.24	0.47	-334	303	-113
1990 QTR 1	0.57	0.35	0.51	-123.9	1.96	1.67	2.30	1.46	1.63	0.00	-1.36	0.53	-335	275	-132
QTR 2	0.56	0.34	0.45	-124.1	2.17	1.91	2.53	1.65	1.79	0.00	-1.51	0.58	-343	276	-168
QTR 3	0.52	0.30	0.47	-127.7	2.36	2.06	2.66	1.73	1.84	0.00	-1.63	0.68	-335	281	-188
QTR 4	0.50	0.31	0.48	-124.3	2.55	2.20	2.81	1.83	1.92	0.00	-1.75	0.75	-341	324	-151
1991 QTR 1	0.50	0.30	0.51	-123.5	2.73	2.36	2.96	1.98	2.07	0.00	-1.89	0.80	-341	294	-165
QTR 2	0.47	0.28	0.46	-122.8	2.95	2.61	3.20	2.19	2.25	0.00	-2.05	0.83	-343	313	-181
QTR 3	0.45	0.25	0.49	-124.7	3.14	2.77	3.34	2.28	2.32	0.00	-2.18	0.91	-344	308	-210
QTR 4	0.44	0.27	0.51	-120.5	3.35	2.92	3.52	2.41	2.43	0.00	-2.32	0.96	-354	329	-196
1992 QTR 1	0.43	0.28	0.54	-119.4	3.55	3.09	3.68	2.56	2.57	0.00	-2.47	1.02	-348	282	-223

Cols 1-3,5-9,11-12 are percentage changes from base run

PACE+£386M, IR FREE changes from PUBSIM BASE

Difference Table 1

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
	GDP	Consum -ers expend -iture	Real pers disp inc	Unem -ploy ment	Aver -age earn -ings	RPI	Nominal GDP at market prices	MAGGWT	£M3	Short interest rates	Exch -ange rate	Competive -ness rel wage costs	Curr -ent bal- ance	PSBR	Non NS ICCS NAFA
	%	%	%	000's	%	%	%	%	%	% pts	%	%	£m	£m	£m
1988	0.15	-0.24	0.20	-68.8	0.66	0.76	0.76	0.00	0.22	0.69	0.68	1.60	-160	1552	-422
1989	-0.13	-0.46	0.05	-19.2	0.85	1.04	0.75	0.00	0.29	0.96	0.94	2.14	-113	2278	-369
1990	-0.34	-0.67	-0.10	17.3	0.86	1.13	0.58	0.00	0.40	1.11	1.13	2.32	2	3079	-191
1991	-0.54	-0.88	-0.26	50.6	0.73	1.15	0.33	0.00	0.66	1.26	1.36	2.39	3	3889	-189
1987/88	0.36	-0.11	0.23	-102.4	0.35	0.48	0.69	0.00	0.06	0.66	0.63	1.20	-296	948	-540
1988/89	0.10	-0.29	0.18	-56.7	0.74	0.84	0.79	0.00	0.22	0.76	0.74	1.73	-160	1772	-383
1989/90	-0.19	-0.52	0.01	-7.9	0.86	1.07	0.71	0.00	0.32	0.99	0.98	2.19	-52	2496	-271
1990/91	-0.40	-0.72	-0.14	24.8	0.84	1.15	0.53	0.00	0.45	1.17	1.21	2.39	-3	3275	-204
1991/92	-0.57	-0.92	-0.30	59.1	0.68	1.13	0.27	0.00	0.73	1.29	1.40	2.36	-4	4103	-172
1987 QTR 2	0.49	0.06	0.23	-114.7	0.19	0.29	0.68	0.00	-0.20	0.59	0.53	0.81	-49	235	11
QTR 3	0.44	-0.09	0.23	-110.3	0.26	0.45	0.73	0.00	0.01	0.76	0.72	1.14	-120	214	-165
QTR 4	0.29	-0.21	0.22	-98.1	0.42	0.56	0.68	0.00	0.17	0.74	0.73	1.43	-69	245	-212
1988 QTR 1	0.21	-0.18	0.24	-86.4	0.51	0.60	0.67	0.00	0.25	0.54	0.56	1.42	-59	254	-173
QTR 2	0.19	-0.16	0.21	-73.0	0.62	0.74	0.79	0.00	0.17	0.69	0.69	1.55	-23	399	-23
QTR 3	0.14	-0.29	0.19	-64.7	0.70	0.81	0.80	0.00	0.21	0.73	0.71	1.64	-46	426	-108
QTR 4	0.06	-0.35	0.17	-51.2	0.80	0.88	0.80	0.00	0.24	0.78	0.76	1.81	-32	473	-118
1989 QTR 1	-0.01	-0.35	0.14	-37.9	0.82	0.93	0.78	0.00	0.26	0.83	0.80	1.94	-59	474	-134
QTR 2	-0.08	-0.37	0.05	-24.4	0.86	1.04	0.82	0.00	0.22	1.01	0.98	2.18	-35	551	-51
QTR 3	-0.17	-0.54	0.03	-13.6	0.85	1.08	0.73	0.00	0.31	1.00	0.99	2.21	-26	592	-117
QTR 4	-0.24	-0.58	-0.01	-1.0	0.87	1.09	0.67	0.00	0.36	0.98	0.99	2.22	8	660	-67
1990 QTR 1	-0.26	-0.58	-0.03	7.5	0.85	1.07	0.63	0.00	0.39	0.96	0.97	2.16	1	692	-35
QTR 2	-0.29	-0.58	-0.08	13.5	0.88	1.12	0.66	0.00	0.33	1.11	1.12	2.29	0	754	1
QTR 3	-0.37	-0.73	-0.11	19.4	0.86	1.15	0.56	0.00	0.41	1.15	1.18	2.38	-7	786	-88
QTR 4	-0.44	-0.78	-0.16	28.7	0.84	1.16	0.49	0.00	0.49	1.21	1.25	2.45	7	847	-69
1991 QTR 1	-0.48	-0.80	-0.20	37.6	0.78	1.16	0.42	0.00	0.56	1.23	1.29	2.43	-4	887	-48
QTR 2	-0.51	-0.82	-0.25	46.0	0.77	1.17	0.40	0.00	0.60	1.30	1.39	2.45	-8	952	-28
QTR 3	-0.57	-0.93	-0.28	55.1	0.71	1.15	0.29	0.00	0.71	1.24	1.35	2.36	-1	992	-79
QTR 4	-0.60	-0.95	-0.32	63.9	0.66	1.12	0.23	0.00	0.77	1.26	1.39	2.31	16	1058	-33
1992 QTR 1	-0.61	-0.96	-0.36	71.4	0.58	1.09	0.16	0.00	0.85	1.33	1.48	2.30	-11	1101	-32

Cols 1-3,5-9,11-12 are percentage changes from base run

LATEST SCORECARD

ps2/39R

SECRET AND PERSONAL

pmp

FROM: CATHY RYDING
DATE: 16 October 1987

PS/CHIEF SECRETARY

cc Sir P Middleton
Mr F E R Butler
Mr Anson
Mr Monck
Mr Turnbull
Mr Luce
Mr Sedgwick
Mr Gieve
Mr Mowl
Mr Hansford
Mr Tyrie
Miss Walker

THE SURVEY SCORECARD

The Chancellor has seen Mr Gieve's minute to you of 14 October.

2. The Chancellor has noted that he still has to decide money GDP figures. He would be grateful for a submission on this in the light of the decisions on growth and GDP deflators (as soon as we have taken the latter).

CR

CATHY RYDING

P/026

SECRET AND PERSONAL

SCORECARD

No 3 of 15 Copies

GIEVE TO CST 14/10

FROM: JOHN GIEVE

DATE: 14 October 1987

CHIEF SECRETARY (+1)

minutes out separately.

NB! I still have to think X! I will like a submission on the draft of the minute on grounds CST defends as soon as we have taken the latter in

cc Chancellor
Sir P Middleton
Mr F E R Butler
Mr Anson
Mr Monck
Mr Turnbull
Mr Luce
Mr Sedgwick
Mr Mowl
Mr Hansford
Mr Tyrie
Miss Walker

THE SURVEY SCORECARD

I attach our latest scorecard at Annex A and at Annex B a table showing the changes since the version I sent up last Friday. It is in much the same format as the tables for Star Chamber but includes the forecast outcomes.

2. The overall totals are not greatly changed at 4.6/5.8/7.5 (the last year is down by £0.1 billion). The main changes to programmes reflect the settlements you have reached in the last few days on Defence, Transport, and Education. There are also changes on Wales and Agriculture to reflect the progress of negotiations there.

Implications for the planning totals

3. On the basis of reserves of 4/7/10 (as compared with 3.5/5.5/7.5 in the last White Paper) the scorecard would point to increases in the published planning totals of £3.1 billion 1988-89 and £5.3 billion 1989-90 before taking account of any changes in privatisation proceeds or changes to economic assumptions).

Real growth rates and ratios to GDP

4. The position here is not changed since last week. In order to illustrate the implications for both growth rates and ratios, we need to make assumptions about:

a. **Privatisation Proceeds** - Mr Moore's submission of 8 October to the Chancellor discusses the options; we have assumed below that we will publish a figure of £5½ billion in each year;

b. **Debt Interest and National Accounts Adjustments** - On the basis of the latest forecast, debt interest is expected to fall over the Survey period and the other accounts adjustments to rise; we have assumed below that we will publish a schematic £25.5 billion in 1987-88 and £26 billion in each of the next three years;

c. **GDP Deflator in 1988-89** - You will be considering this with the Chancellor tomorrow; we have assumed below that we will publish an increase of 4½%;

X d. **Money GDP** - Again the Chancellor will be considering this in the light of the forecast; we have assume a growth rate of 8½% in 1987-88, 7½% in 1988-89, 6% in 1989-90 and 5½% in 1990-91.

e. **Outturn in 1987-88** - Latest indications are for a shortfall on plan of well over £1 billion; we have used a figure of £1 billion below.

5. On these assumptions, the published growth rates in public expenditure and the ratios to GDP would be as follows:

	1987-88	1988-89	1989-90	1990-91	1987-88 to 1990-91
Planning total (inc pp) - percentage real growth	1.3	1.7	2.6	2.2	2.2
GGE (exc pp) - percentage real growth	0.7	1.1	1.6	1.4	1.4
- percentage of GDP	42¾	42	41½	41¼	
[PEWP 1987	44	42¾	42¼	-]	

C Genoardi

pp JOHN GIEVE

ANNEX A

SECRET
SUMMARY SCORECARD

Date of last update: 14/10/87

(£million)

	1988-89 BASELINE	1988-89 DEPT POSITION	1988-89 OUTCOME	1988-89 HMT POSITION	1989-90 BASELINE	1989-90 DEPT POSITION	1989-90 OUTCOME	1989-90 HMT POSITION	1990-91 BASELINE	1990-91 DEPT POSITION	1990-91 OUTCOME	1990-91 HMT POSITION
TOTAL ALREADY AGREED	128,874.8	3,525.2	3,525.2	3,525.2	133,130.1	4,626.6	4,626.6	4,626.6	136,405.9	5,800.4	5,800.4	5,800.4
BEING CONSIDERED BY GROUP												
FCO - Overseas Development Administration	1,399.0	76.8	31.2	16.0	1,441.0	152.1	51.6	21.3	1,477.0	232.2	71.7	28.4
DHSS - Health and Personal Social Services	16,932.0	738.0	680.0	554.0	17,743.0	960.0	760.0	544.0	18,187.0	1,427.0	1,170.0	880.0
TOTAL	18,331.0	814.8	711.2	570.0	19,184.0	1,112.1	811.6	565.3	19,664.0	1,659.2	1,241.7	908.4
STILL IN BILATERAL DISCUSSIONS												
Ministry of Agriculture, Fisheries and Food	747.0	34.2	31.3	28.3	749.0	39.0	36.8	33.8	768.0	30.4	30.4	30.4
Wales	1,933.0	58.0	50.0	42.0	1,995.0	41.0	32.0	24.0	2,045.0	34.0	24.0	18.0
Other Departments	604.0	35.5	29.8	9.1	620.0	63.8	41.9	20.8	636.0	117.2	91.1	61.5
Chancellor's Departments (excl LAPR/MIRAS)	2,069.0	137.6	94.5	80.7	2,149.0	185.9	93.6	76.2	2,203.0	220.5	99.2	76.8
Territorial consequences: Scotland		86.8	80.0	65.2		112.9	89.4	64.0		167.9	137.6	103.5
: Wales		43.4	40.0	32.6		56.5	44.7	32.0		83.9	68.8	51.8
: N Ireland		23.9	22.0	17.9		31.1	24.6	17.6		46.2	37.9	28.5
TOTAL ADDITIONS TO PROGRAMMES	152,558.8	4,759.4	4,584.0	4,371.0	157,827.1	6,268.9	5,801.2	5,460.3	161,721.9	8,159.7	7,531.1	7,079.3

ANNEX B

SECRET 16/10/87

SUMMARY OF CHANGES IN FORECAST OUTCOME
SINCE LAST SCORECARD

	1988-89 CHANGE IN FORECAST OUTCOME	1989-90 CHANGE IN FORECAST OUTCOME	1990-91 CHANGE IN FORECAST OUTCOME
Ministry of Defence	0.0	0.0	0.0
FCO - Overseas Development Administration	0.0	0.0	0.0
FCO - Diplomatic, Information, Culture	0.5	0.0	0.0
European Communities	0.0	0.0	0.0
Intervention Board for Agricultural Produce	0.0	0.0	0.0
Ministry of Agriculture, Fisheries and Food	0.0	0.0	0.0
Forestry Commission	0.0	0.0	0.0
Department of Trade and Industry	0.0	0.0	0.0
Export Credits Guarantee Department	0.0	0.0	0.0
Department of Energy	0.0	0.0	0.0
Department of Employment	0.0	0.0	0.0
Department of Transport	0.0	-10.0	3.0
DOE - Housing	0.0	0.0	0.0
DOE - Other Environmental Services	0.0	0.0	0.0
DOE - Property Services Agency	0.0	0.0	0.0
Home Office	2.0	-2.0	0.0
Lord Chancellor's Department	0.0	0.0	0.0
Department of Education and Science	-17.5	-21.9	-27.0
Office of Arts and Libraries	0.0	0.0	0.0
DHSS - Health and Personal Social Services	0.0	0.0	0.0
DHSS - Social Security	0.0	0.0	0.0
Scotland: negotiable	0.0	0.0	0.0
Wales: negotiable	1.4	-2.5	-5.3
Northern Ireland: negotiable	0.0	0.0	0.0
Chancellor's Departments	0.0	0.0	0.0
Other Departments	0.0	0.0	0.0
Nationalised Industries	0.0	0.0	0.0
Local Authority Relevant	0.0	0.0	0.0
Territorial Consequences	-3.5	-8.2	-9.8
TOTAL ADDITIONS TO PROGRAMMES	-17.1	-44.6	-39.1

SECRET

pugs

FROM: A C S ALLAN

DATE: 19 October

PS/CHIEF SECRETARY

cc Mr F E R Butler
Mr Anson
Mr Monck
Mr Turnbull
Mr Gieve
Miss Walker

BRIEF FOR STAR CHAMBER

The Chancellor has seen Mr Gieve's minute of 16 October, with speaking notes for use today. As I have passed on to you orally, he would be inclined to make it clearer that we will be able to meet the Cabinet remit on PEWP ratios only (a) thanks to the group progress we have made this year (1987-88) and (b) because low PSBRs help contain the burden of debt interest; neither of which has anything to do with the current Survey.

ACSA

A C S ALLAN

BRIEF FOR STAR CHAMBER

P/33

SECRET

SCORECARD 2 of 9

I wd be inclined to make clearer that we will stay [within] the Cabinet remit re PSBR ratios only (a) thanks to the good progress we have made this year (1987-88) ~~[illegible]~~ and (b) because low PSBR helps contain the burden of debt interest; neither of which has anything to do with the current survey. ~~[illegible]~~ (See X & Y) [illegible]

FROM: J GIEVE
DATE: 16 October 1987

CHIEF SECRETARY

cc Chancellor
Mr F E R Butler
Mr Anson
Mr Monck
Mr Turnbull
Miss Walker

BRIEF FOR STAR CHAMBER

I attach some speaking notes for use on Monday at the first meeting of Star Chamber.

2. I suggest you hand the paper round to members of the Group and then give them time to read it before bringing out the main points - on the lines attached. The background notes attached on particular departments are intended to supplement the paper.

3. Since the meeting will take place several days before the Group is due to meet the Foreign Secretary, you may well be asked to spell out the implications of the settlements for the Planning Totals, the ratios to GDP, the prospect for tax cuts, and the size of Reserves. You may also be asked about the timetable for Cabinet. I suggest you take the following lines on these issues:

Money GDP and fiscal prospect - the economists are still working on the forecast and it is not yet clear what it will show.

X **Ratios to GDP** - the forecast is not yet complete so I am not sure what the final ratios will be. As I said in my paper, it looks as though we will meet Cabinet's remit to stay within the ratios set out in the last White Paper but the decrease year on year in the three years may be minimal.

Inflation - [do not volunteer the revised figures for the RPI and GDP deflator but, if asked directly, take the following line] In the light of the early work on the forecast, new economic assumptions have been circulated to the departments that need them to recost their programmes. The changes include a higher figure than before for the RPI in September 1988 - 4¾ per cent; for the GDP deflator the current year's assumption is being slightly reduced from 4½ to 4¼ per cent while the assumption for next year is being slightly increased from 4 to 4½ per cent.

Reserves - after two Surveys which have led to substantial increases to the Planning Total, we do need to provide larger reserves if we are to make our new planning totals credible. We have not yet taken final decisions on the numbers.

Current year - it seems likely now that we will undershoot the Planning Total in 1987/88 almost entirely because of higher privatisation proceeds and capital reciepts by local authorities. This does not provide any reason for increasing levels of gross spending.

Privatisation proceeds - the last White Paper provided for proceeds of £5 billion a year. We expect to exceed that this year and the Chancellor is considering whether to raise the estimate for future years also. No decision has yet been taken.

Cabinet timetable - (subject to confirmation from Vancouver) we are now hoping to report to Cabinet on 29 October, with the Oral Statement and publication on the following Tuesday, 3 November.

JSG. Gieve

J GIEVE

SECRET

INTRODUCTORY STATEMENT TO STAR CHAMBER

My memorandum to the Group sets out the current state of play.

2. In July Cabinet asked me to conduct bilateral discussions with spending Ministers with a view to holding as close as possible to the existing Planning Totals and also to keep public expenditure, leaving aside privatisation proceeds, as a ratio to national income within the figures set out in the last White Paper.

3. I am glad to report that I have been able to reach agreement with most colleagues. The one major programme that is still outstanding is **Aid**.

4. In July, we faced total bids of approaching £8 billion in 1988-89, £11 billion in 1989-90 and £14 billion in 1990-91. As you will see, the settlements I have reached have reduced these figures by a little less than half.

5. This has involved some very difficult policy decisions. The annex to my paper mentions the most important and politically sensitive of these but every department will face a number of more minor but nonetheless painful measures.

6. Nonetheless, as my paper makes plain, such increases to programmes pre-empt the greater part of the existing Reserves. Moreover, we need larger Reserves than we have provided in previous years not least to give credibility to our plans for 1989-90 and 1990-91 following two Surveys in which we would have added to the existing Planning Totals.

7. As a result, we will not be able to avoid substantial increases to the existing Planning Totals.

8. This will imply a more rapid rate of real growth of public spending than we have been prepared previously to allow. The

early indications from the forecast are that the increases will be consistent with the Cabinet remit to remain within the ratios set out in White Paper though the annual decline in the ratios in the survey years could well be minimal.

9. Clearly it will not be easy to present such increases to the markets which are already concerned about the possibility that the economy may be overheating.

Particular Programmes

10. In considering the remaining issue on the aid programme, you will not only wish to bear the overall picture in mind, but also the nature of the settlements I have reached with other colleagues.

11. Perhaps the main points of sensitivity are the following:

Social security. The Secretary of State has agreed to introduce the new income-related benefits at a lower real level than was foreshadowed in the 1985 White Paper; he will be announcing this ~~next~~ shortly ~~week~~ and will at the same time announce no uprating of Child Benefit in 1988 and a toughening of the Housing Benefit tapers.

Nationalised industries. The financial targets for the English and Scottish electricity industries have been raised and that will involve an average price increase of about 8½ per cent in April. There will also be substantial real increases in water charges - needed to finance higher investment, and savings in other industries including coal.

Industry. Although there is additional provision - much of it for Airbus and estimating changes - the Secretary of State is planning a major change in regional policy on which the Chancellor of the Duchy may wish to speak later.

Employment. The Secretary of State has agreed to make major savings in the light of the fall in unemployment. This will involve closing two schemes and making substantial savings elsewhere.

Scotland. The block formula provides low figures this year because several comparable ~~to~~ English programmes - especially housing and other environmental services - are reduced by higher capital receipts. This effect is compounded for Scotland by the need to finance a higher increase in local authority relevant expenditure provision than in England from the formula consequentials on other programmes.

Other. There are also reductions in other programmes, for example in agricultural R&D and capital grants, and some of the Home Office programmes.

12. Against these savings are increases in a wide range of programmes; many of which were irresistible. They include the increases in provision for local authority relevant spending agreed in July and massive estimating increases on social security. There are also large estimating increases for our contributions to the European Community and ECGD.

13. Much of the increase for health falls into the same category, in particular the knock-on effects of this year's pay awards and the increased demand in the Family Practitioner Services and on AIDS related costs. Leaving AIDS aside, the increase for the main hospital programme is equivalent to about 1 per cent a year in real terms - considerably lower than the real terms growth implied in the last White Paper.

14. The increases for defence are also large in absolute terms, but still leave the plans for the Survey years well below the current level of spending in real terms.

Aid

14. It is that background - both the difficulties we face on the totals and the difficult decisions that have been involved in other settlements - that has informed my offer on the Aid programme.

SECRET

BACKGROUND ON PROGRAMMES

I attach a table comparing the bids and outcomes for the main programmes considered at bilaterals (ie excluding local authority relevant and territorial formula consequentials). The figures are not directly comparable to the bids as they stood at any particular date. In general we have taken the higher of the figures for July or the beginning of September. However, we have adjusted the figures for EC contributions and ECGD to reflect the latest estimating increases.

2. In total you will see that you have faced bids of 7.0/9.6/12.3 excluding local authority relevant which is broadly consistent with the figures quoted in your speaking note of 8/11/14 including local authority relevant. The outcome is also consistent with the statement there that you have reduced the bids by approaching half (including local authority relevant).

3. The following notes on the main programme are intended as an aide memoire on the issues that have come up.

Defence

£ million

	1988-89	1989-90	1990-91
Bid	551	815	954
Outcome	221	485	664

4. After rapid real terms growth from 1979 to 1985, the programme has fallen back and the new plans imply a further fall in real terms in the next three years. Mr Younger has yet to reconcile these with his medium-term planning and that will be difficult. He intends to do so in the long terms costings exercise and to bring considered proposals forward next year.

FCO diplomatic

Bid	-2	+5	+6
Outcome	-13	-11	-10

The main change here is a reduction in the estimated cost of overseas operations resulting from changed exchange rates and overseas price movements. You have also reduced the BBC external services capital programme pending a full review of Orfordness and have given the FCO less than they wanted on running costs, accommodation expenses, and the BBC current.

MAFF

Bid	37	50	43
Outcome	31	37	30

(Assuming some contribution to Mr King's difficulties)

Additions for ALURE and a lot of other minor programmes - many of them estimating increases - are partly offset by reductions in capital grants (10/15/16), ADAS (0/3/3) and increased industry funding for R&D (0/5/10). He has also agreed to reduce the IBAP figures on account of CAP reform.

DTI

Bid	291	351	290
Outcome	280	289	194

The main change is the abolition of RDGs. You will wish to ensure that Mr Clarke tells the Group about this. However, the bulk of the increase is accounted for by Airbus (116/142/84) and other estimating increases.

Energy

The main subject here is electricity and coal. The bids were

	+425	+899	+1000
and the outcome was	+137	+25	-162

The main feature here is an increase in electricity prices but there are also substantial reductions in coal investment.

Employment

Bid	208	235	235
Outcome	38	-6	-62

The settlement is reported in the paper in terms that have been agreed with Mr Fowler's office (he is clearly intent on displaying his hair shirt). In addition to closing the two schemes mentioned, the main changes are from requiring increased contributions from employers to the Youth Training Scheme and from limiting the premium in the community programme when it goes to benefit to £10.

Transport

Bid	143	163	144
Outcome	30	25	31

Additional receipts helped you to resist increases on local authority capital. The main increases are for national roads and bridges in particular following a recent report which showed they were in a bad condition.

Housing

Bid	522	674	788
Outcome	81	13	-2

Mr Ridley reached a global settlement on housing and other which permitted a large increase in gross capital spending both over baseline and over 1987-88. It includes an increase of some £50 million for the Urban Programme in 1988-89, initial funding for Housing Action Trusts, and more for renovation. The settlement also covered the cost of the housing benefit consequences of rent deregulation and revised rent assumptions.

Home Office

Bid	162	234	224
Outcome	81	112	103

This is nearly all prisons building (60/95/91) and other prisons expenses. Mr Hurd has agreed to absorb a large number of other small bids.

Education

Bids	567	688	783
Outcome	260	328	327

Mr Baker withdrew a great many of his bids. The increases provide mainly for university restructuring, science and maintains sector capital. In addition, 56/71/73 were the costs of the academic pay award which were agreed during the last Survey subject to certain conditions and a further 10/45/55 reflected the agreed costs of the National Curriculum and the transfer of polytechnics and colleges.

Health

Bid	1021	1454	2280
Outcome	710	800	1220

The settlement is described in the paper. Some background numbers are:

the cost of the 1987 pay awards was 334/350/363; and

- the revised estimate of FPS costs was a further 65/110/331.

You agreed in addition 60/60/60 for AIDS costs and 75/40/40 for the restoration of the cuts made last year on account of prescription charges. Adding those up gives increases of 534/560/794. A further £110 billion in the last year reflected demographic growth.

Social security

Bid	1474	2032	3557
Outcome	907	1737	3223

This is nearly all estimating increases plus the cost of providing compensation for the 20 per cent rates contribution. Against that you agreed specific saving measures delivering 244/270/270 mainly from the new income-related benefits and the housing benefit taper.

SECRET

COMPARISON OF BID AND OUTCOME

	1988-89 DEPT POSITION	1988-89 OUTCOME	1989-90 DEPT POSITION	1989-90 OUTCOME	1990-91 DEPT POSITION	1990-91 OUTCOME
Ministry of Defence	551.0	221.0	815.0	485.0	954.0	664.0
FCO - Overseas Development Administration*	83.0	31.2	158.1	51.6	238.2	71.7
FCO - Diplomatic, Information, Culture	-2.1	-12.9	4.6	-10.8	6.1	-9.5
European Communities	350.0	350.0	520.0	520.0	233.0	233.0
IBAP	-131.0	-159.7	-6.9	-160.8	101.9	-65.3
Ministry of Agriculture, Fisheries and Food*	36.7	31.3	49.5	36.5	42.7	30.1
Forestry Commission	6.9	6.1	11.4	8.7	10.9	8.6
Department of Trade and Industry	291.0	280.0	351.0	289.0	290.0	194.0
Export Credits Guarantee Department	51.4	51.4	66.7	66.7	84.9	84.9
Department of Energy	43.0	34.6	56.6	38.8	58.6	1.0
Department of Employment	208.0	37.6	234.9	-6.0	235.2	-61.7
Department of Transport	143.4	30.0	162.6	25.0	144.4	31.0
DOE - Housing	522.0	81.0	674.0	13.0	788.0	-2.0
DOE - Other Environmental Services	192.0	-141.5	193.0	0.0	189.0	0.0
DOE - Property Services Agency	45.4	10.0	42.0	-10.0	48.6	-10.0
Home Office	162.0	80.8	233.7	112.2	223.6	102.5
Lord Chancellor's Department	54.9	17.0	75.1	22.8	127.3	57.1
Department of Education and Science	567.4	259.5	687.9	327.7	782.9	326.9
Office of Arts and Libraries	49.9	35.6	62.9	46.5	68.6	52.9
DHSS - Health and Personal Social Services	1,021.0	710.0	1,454.0	800.0	2,280.0	1,220.0
DHSS - Social Security	1,474.3	907.4	2,032.0	1,736.8	3,556.6	3,222.8
Scotland: negotiable	18.0	35.7	30.6	35.9	33.5	27.0
Wales: negotiable	53.8	58.0	50.7	41.0	51.9	34.0
Northern Ireland: negotiable	18.5	13.2	32.6	27.5	60.5	55.3
Chancellor's Departments (inc LAPR/MIRAS)*	192.7	144.5	275.4	153.6	340.3	190.2
Other Departments *	41.3	29.8	77.9	41.9	127.1	91.1
Nationalised Industries°	938.3	344.7	1,222.0	24.2	1,237.7	-330.1
TOTAL ADDITIONS TO PROGRAMMES	6,982.8	3,486.3	9,567.3	4,716.8	12,315.5	6,219.5

* Forecast outcome

° excluding LA relevant and territorial consequentials

Proportion of bids conceded (per cent)	49.9	49.3	50.5

SECRET

BACKGROUND BRIEF

White Paper

£ billion

	1987-88	1988-89	1989-90	1990-91
Planning totals	148.6	154.2	161.5	-
Including - Reserves	3.5	5.5	7.5	-
- Privatisation proceeds	5.0	5.0	5.0	-
- GGE exçl pp	178.7	184.6	192.8	-
- % of GDP	44	42.75	42.25	-

Average real growth rates 1986-87 to 1989-90

Planning total - 1.3%

GGE excl pp - 1.0%

Economic assumptions

GDP deflator	- new	4.25	4.5	3.5	3
% increase	- FSBR	4.5	4	3.5	3
	- PEWP	3.75	3.5	3	-
Unemployment	- new	2.7	2.6	2.6	2.6
(GB narrow) million	- FSBR (unpublished)	2.8	2.8	2.8	2.8
	- PEWP	3.05	3.05	3.05	3.05
Interest rates	- new	10	10	9	9
(20 year gilts) %	- FSBR	9	9	9	9
RPI to Sept Q	- new	4.2	4.75	3.25	
	- FSBR	4.25	3.75	3.25	

Ready Reckoner - 100,000 unemployment £200 million

1% RPI £400m

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PMP

To: MINISTER FOR TRADE

Copy No. (3) 28

See [illegible] [illegible] on p 3. [illegible] [illegible] (not [illegible])

From: Peter Stibbard
US/S2
V/260 Ext. 4872

19 October 1987

OVERSEAS TRADE FIGURES FOR SEPTEMBER 1987

THE CURRENT ACCOUNT

In September, the value of exports was £7.0 billion and imports £7.6 billion, so that visible trade, seasonally adjusted on a balance of payments basis, shows a deficit of £0.7 billion compared with the record deficit of £1.5 billion in August.

The Central Statistical Office continue to project a surplus on invisibles of £0.6 billion for months in the third quarter so that the current account is provisionally estimated to have been in broad balance in September, compared with a deficit of £0.9 billion in August. The current account for the first three-quarters of 1987 shows a deficit of £0.8 billion.

TABLE 1: CURRENT BALANCE, VISIBLE TRADE AND INVISIBLES
(Table 2 of Press Notice)

Seasonally adjusted
Balance of Payments
Basis
£ million

	Current Account Balance	Visible Trade Balances			Invisibles Balance
		Total	Oil	Non-oil	
1985	+2919	-2178	+8104	-10282	+5097
1986	- 980	-8463	+4056	-12519	+7483
1987 Q2	- 174	-2361	+1033	- 3395	+2187
Q3	-1293A	-3093	+ 942	- 4035	+1800A
1987 July	- 310A	- 910	+ 284	- 1194	+ 600A
Aug	- 929A	-1529	+ 374	- 1903	+ 600A
Sept	- 55A	- 655	+ 284	- 939	+ 600A
1987 Jan-Sept	- 796A	-6590	+3140	- 9729	+5794A

A = Projection or part projection

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In the three months ended September there was a deficit on visible trade of £3.1 billion - a surplus on trade in oil of £0.9 billion, offset by a deficit in non-oil trade of £4.0 billion. Between the three months ended June and the latest three months, the visible trade deficit increased by £0.7 billion; the surplus on oil fell by £0.1 billion while the deficit on non-oil trade rose by £0.6 billion.

EXPORTS

The value of exports in September was £435 million (6½ per cent) higher than in August. Exports of oil decreased by £102 million between the two months and exports of the erratic items increased by £121 million. Excluding oil and the erratic items, exports rose by 7½ per cent between August and September.

In the three months ended September, total export volume was 3½ per cent higher than in the previous three months and 6½ per cent higher than in the same period last year. Excluding oil and the erratic items, export volume increased by 6 per cent between the three months ended June and the latest three months to stand 9½ per cent up on a year ago. The underlying level of non-oil export volume now seems to have been rising in recent months and is above the high level reached at the end of last year.

TABLE 2: EXPORTS BY VALUE AND VOLUME (Tables 1, 4 and 7 of Press Notice)

Bop Basis, Seasonally Adjusted

	VALUE (£m)		VOLUME (1980 = 100)	
	Total	Total Less Oil and erratics	Total	Total less Oil and erratics
1985	78111	57685	118.7	114.9
1986	72843	59238	123.1	117.7
1987 Q2	19381	15885	126.3	122.4
Q3	20301	16841	130.5	129.6
1987 July	6776	5564	131.3	129.3
Aug	6545	5430	126.4	125.1
Sept	6980	5846	133.9	134.4

By value, exports of manufactures during the three months ending September were 7 per cent up on the previous three months and the rises were fairly evenly spread across the main commodity categories.

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Also by value, total exports rose by 4½ per cent between the three months ended June and the latest three months. The rise in exports to the developed countries was 5½ per cent - within which exports to the rest of the European Community, and to North America rose by 3 per cent and 13 per cent respectively.

IMPORTS

The value of imports in September was £438 million (5½ per cent) lower than in August. Imports of oil and of the erratic items were little changed from the August level. Therefore, excluding oil and the erratic items, imports also fell by 5½ per cent between August and September.

½

In the three months ended September, total import volume was 7 per cent higher than in the previous three months and 8½ per cent higher than in the same period last year. Excluding oil and the erratic items import volume rose by 8 per cent in the latest three months to stand 12 per cent up on a year ago. The underlying level of non-oil import volume has been increasing ~~strongly~~ in recent months and is ~~well~~ above that reached at the end of last year.

not a helpful contrast with exports

X

TABLE 3: IMPORTS BY VALUE AND VOLUME (Tables 1, 4 and 7 of Press Notice)

Bop Basis, Seasonally Adjusted

	VALUE (£m)		VOLUME (1980 = 100)	
	Total	Total less oil and erratics	Total	Total less oil and erratics
1985	80289	68719	126.0	142.8
1986	81306	73491	134.2	150.9
1987 Q2	21742	19639	140.7	159.6
Q3	23394	21358	150.7	172.3
1987 July	7686	6954	147.6	167.5
Aug	8073	7404	154.9	178.0
Sept	7635	7000	149.6	171.5

-3½%

By value, imports rose by 7½ per cent between the three months ended June and the latest three months. Increases over that period in the main categories of manufactures were mostly around 10 per cent; a notable exception was passenger motor cars, which increased by 21 per cent.

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Again in value terms, imports from the developed countries rose by 8 per cent over the latest three months, with arrivals from the European Community countries up by 7½ per cent, from North America up by 10 per cent and from the other developed countries by 15 per cent. Imports from the developing countries increased by 19 per cent between the two three month periods.

TRADE IN MANUFACTURES

Figures showing trade in manufactures on a balance of payments basis will be published in the November edition of the Monthly Review of External Trade Statistics following the release of the press notice. On present estimates they show a deficit in the three months ended September of £2.2 billion compared with a deficit of £1.9 billion in the previous three months. The deficit on trade in manufactures in the first nine months of this year stands at £4.8 billion compared with a deficit of £3.7 billion in the first nine months of 1986.

TABLE 4: TRADE IN MANUFACTURES (SITC 5-8) (Table 16 of Press Notice, quarterly data only)

£ million
Seasonally Adjusted
Balance of Payments Basis

	Exports	Imports	Balance
1985	52271	55273	-3002
1986	54486	59977	-5491
1987 Q2	14686	16547	-1860
Q3	15520	17755	-2235
1987 July	5203	5828	- 625
Aug	4894	6178	-1284
Sept	5423	5750	- 327

PUBLICATION

The press notice containing the September figures is scheduled for release on Friday 23 October 1987.

P J STIBBARD

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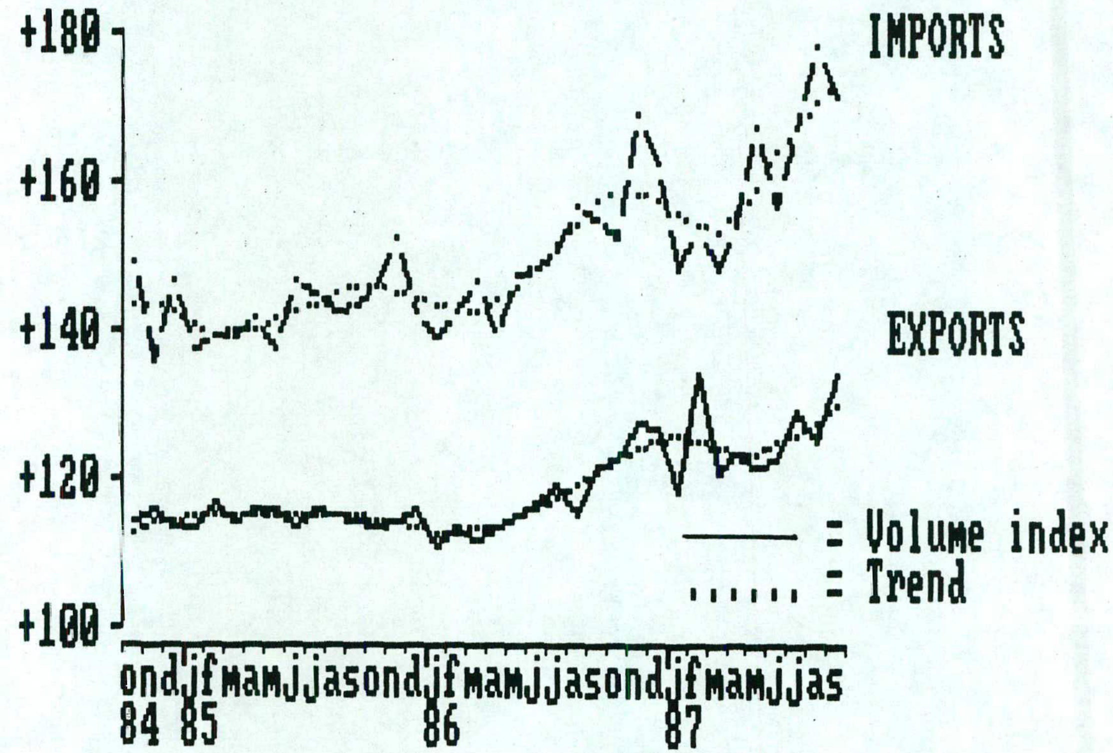
SECRET & PERSONAL UNTIL RELEASE OF PRESS NOTICE ON 23.10.87

VOLUME INDICES EXCLUDING OIL AND THE ERRATIC ITEMS

Balance of Payments Basis 1980=100 Seasonally adjusted



CIRCULATION LIST

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	8	Sir Peter Middleton (HM Treasury)
	9	Governor of the Bank of England
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	22	Mr P J Stibbard)
	23	Mr W E Boyd)
	24	Mr E J Wright) Dept of Trade and Industry
	25	Mrs A Brueton)
	26	Miss C Siddell)
	27	Miss H Chapman)
	28	Mr D Packer)

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 4887
GTN 215)
(Switchboard) 01-215 7877

Mr A Allan
Principal Private Secretary
Chancellor of the Exchequer
H M Treasury
Parliament Street
LONDON
SW1 3AG

PWP

20 October 1987

I am attaching a copy of the draft Press Notice on the Current Account of the United Kingdom Balance of Payments in September. The draft was agreed earlier today at the usual interdepartmental meeting.

Publication is set for Friday 23 October at 11.30 am and I should be grateful if you would arrange for the Notice to be cleared by 12.00 noon Thursday 22 October and to inform me accordingly.

A copy of this letter and draft Press Notice is being sent to Sir Peter Middleton and Mr Davis, H M Treasury.

Yours sincerely

W. E. Boyd

W E BOYD

Ch

We have successfully got the [illegible] imports sentence changed

AA

Well done

N.

(Phoned through to Boyd).

999–64 M423

REVISED DRAFT

COPY 3
No. (19)

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THE CURRENT ACCOUNT OF THE UNITED KINGDOM
BALANCE OF PAYMENTS

SEPTEMBER 1987

The current account for September, seasonally adjusted, was estimated to have been in deficit by £55 million compared with a deficit of £929 million in August. In September, exports - seasonally adjusted on a balance of payments basis - were valued at £6980 million and imports at £7635 million so that the trade in goods was in deficit by £655 million.

The balance on invisibles is projected to be in surplus by £600 million, a large surplus on the transactions of the private sector and public corporations being partly offset by a deficit on Government transactions.

JULY TO SEPTEMBER 1987

In the three months ended September, the current account showed a deficit of £1.3 billion compared with a deficit of £0.2 billion in the previous three months. There was a deficit on visible trade of £3.1 billion in the latest three months compared with a deficit of £2.4 billion in the three months ended June. The surplus on invisibles in the latest three months is projected at £1.8 billion.

CURRENT ACCOUNT

TABLE 1 — £ million, Seasonally adjusted

	Current Balance	Visible Trade			Invisibles Balance b
		Balance	Exports fob	Imports fob	
1985	+ 2919	-2178	78111	80289	+ 5097
1986	- 980	-8463	72843	81306	+ 7483
1986 Q3	- 910	-2891	17553	20444	+ 1981
Q4	- 960	-2725	19340	22065	+ 1765
1987 Q1	+ 672	-1135	19637	20772	+ 1807
Q2	- 174	-2361	19381	21742	+ 2187
Q3	- 1293	-3093	20301	23394	+ 1800
1987 April	+ 203	- 526	6610	7136	+ 729
May	- 367	-1096	6372	7467	+ 729
June	- 11	- 740	6399	7139	+ 729
July	- 310a	- 910	6776	7686	+ 600a
Aug	- 929a	-1529	6545	8073	+ 600a
Sept	- 55a	- 655	6980	7635	+ 600a
Jan-Sept 1987	- 796	-6590	59318	65908	5794

a Invisibles for July to September 1987 are projections.

b Monthly figures are one third of the appropriate calendar quarter's estimate or projection. Information relating to credits and debits can be found in Table 3.

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VISIBLE TRADE IN SEPTEMBER

There was a deficit on visible trade in September of £655 million compared with a deficit of £1529 million in August. The surplus on oil was £284 million, £90 million less than in August. The deficit on non-oil trade decreased by £964 million.

Total exports in September were valued at £6980 million, which was £435 million (6½ per cent) higher than in August. Exports of oil decreased by £102 million between the two months while exports of the erratic items increased by £121 million. Excluding oil and the erratic items, exports rose by 7½ per cent between August and September

Total imports were valued at £7635 million in September, which was £438 million (5½ per cent) lower than in August. Imports of oil fell by £11 million between the two months and imports of the erratic items fell by £23 million. Excluding oil and the erratic items, imports also fell by 5½ per cent between August and September.

RECENT TRENDS

Visible balance

In the three months ended September, there was a deficit on visible trade of £3.1 billion - a surplus on trade in oil of £0.9 billion being offset by a deficit on non-oil trade of £4.0 billion. Between the three months ended June and the latest three months, the deficit on visible trade increased by £0.7 billion - the surplus on oil fell by £0.1 billion while the deficit on non-oil trade increased by £0.6 billion.

B

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Exports

Exports amounted to £20.3 billion in the three months ended September, £0.9 billion (4½ per cent) more than in the previous three months. Exports of oil and of the erratic items were unchanged. Excluding oil and the erratic items, exports increased by £1.0 billion between the three months ended June and the latest three months.

By volume, exports rose by 3½ per cent between the three months ended June and the latest three months to be 6½ per cent higher than the same period a year ago. Excluding oil and the erratic items, export volume increased by 6 per cent to be 9½ per cent higher than in the same period last year. The underlying level of non-oil export volume now seems to have been rising in recent months and is above the high level reached at the end of last year.

Imports

Total imports were valued at £23.4 billion in the latest three months, £1.7 billion (7½ per cent) higher than in the previous three months. Imports of oil rose by £0.1 billion over the three months ended September and imports of the erratic items fell by £0.2 billion. Excluding oil and the erratic items, imports grew by 8½ per cent between the three months ended June and the latest three months.

Total import volume in the latest three months was 7 per cent higher than in the previous three months and 8½ per cent higher

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than in the same period last year. Excluding oil and the erratic items, import volume rose by 8 per cent in the latest three months to be 12 per cent higher than in the same period last year. The underlying level of non-oil import volume has been rising in recent months, and is above that recorded at the end of last year.

Terms of trade and unit values

The terms of trade index remained unchaged between the three months ended June and the three months ended September with the export unit value index increasing by 1 per cent and the import unit value index increasing by 1½ per cent. Compared with the same three months of last year, the export unit value index rose by 6½ per cent and the import unit value index by 6 per cent. As a result the terms of trade index is the same now as a year ago.

Export unit values for fuels rose 5½ per cent between the three months ended June and the latest three months while the unit value index for non-oil exports rose by 1 per cent. Within the total for non-oil exports, most sectors showed small increases in unit values. The largest rises were of 3 per cent in the unit values of passenger motor cars and of 2 per cent in the unit values of both semi-manufactures excluding chemicals and of other consumer manufactures.

Import unit values for fuels rose by 2 per cent between the three months ended June and the latest three months and the unit value

D

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for non-oil imports rose by 1½ per cent. Import unit values for manufactures rose by 1 per cent over the latest three months; within this import unit values for chemicals and other consumer goods each rose by 2½ per cent.

Analysis by area

Exports to the developed countries grew by 5½ per cent between the three months ended June and the latest three months. Exports to the European Community countries grew by 3 per cent in the latest three months; exports to North America grew by 13 per cent and exports to the other developed countries increased by 16 per cent. Deliveries to the developing countries rose by 4 per cent between the three months ended June and the latest three months.

Imports from the developed countries increased by 8 per cent over the latest three months with arrivals from the European Community countries up by 7½ per cent, arrivals from North America up 10 per cent and arrivals from the other developed countries up by 15 per cent. Imports from the developing countries increased by 19 per cent between the three months ended June and the latest three months.

E

NOTES TO EDITORS

INVISIBLES

1 Estimates of invisibles are based on a variety of sources, mostly inquiries of those engaging in the various transactions. These are usually sample inquiries, and are variously held on quarterly, annual or periodical bases. For some components, data for recent periods are therefore incomplete and subject to significant estimation errors.

2 The figures shown for the invisibles balance in most months are the estimates for the relevant quarters, taken from the balance of payments accounts, expressed at a monthly rate. For the most recent months, however, the figures are projections, which are rounded to the nearest £100 million to emphasise their approximate nature. These projections are superceded by preliminary estmates from the balance of payments accounts when they are published around the middle of March, June, September and December. (This modifies the procedure described in the December 1986 issue of Economic Trends; a review of the timetable concluded that more time should be allowed to prepare these preliminary estimates to improve their quality and reduce the likelihood of revisions within relatively short periods).

ADJUSTMENT FOR UNPROCESSED DOCUMENTS

3 Following an investigation by Customs and Excise into the effects of industrial action on the processing of import and export entries the figures for April to July have been adjusted to take account of unprocessed documents attributable to those months. These adjustments have been made to the Balance of Payments based figures (tables 1 to 7 and 16), but not to the OTS figures (tables 8 to 15). ~~There are no adjustments for August~~. The amounts involved are as follows:

Adjustment for unprocessed documents

	April	May	June	July	£ million
Exports	+32	+57	+72	+47	
Imports	+64	+23	+35	-	

MONTHLY REVIEW OF EXTERNAL TRADE STATISTICS

4 The Monthly Review supplements the information contained in this Press Notice. It gives longer historical runs of data and contains charts, tables on the UK Balance of Payments, UK exports and imports on an Overseas Trade Statistics basis, and certain international comparisons. The Monthly Review is available from the Department of Trade and Industry at the address given below for an annual subscription of £43 which includes the annual supplement. Individual copies are priced at £3, (£7 for the annual supplement).

STANDARD NOTES

5 There is a set of standard notes that describe the basis on which the figures in this Press Notice are compiled including the differences between the Balance of Payments (BOP) and the Overseas Trade Statistics (OTS) figures. Copies can be obtained from the address below.

AREA (tables 11 and 15)

6 Low value consignments ie items of an individual value less than £475, are not analysed by country and are therefore excluded from the area data in tables 11 and 15. In addition the method of seasonal adjustment leads to further differences between the sum of areas and figures for total trade.

Enquiries about the Standard Notes, and the Monthly Review, should be addressed to S2A, Room 255, Department of Trade and Industry, 1 Victoria Street, London SW1H OET, Telephone: 01-215 4895.

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INDEX OF TABLES

Table 2

CURRENT BALANCE, VISIBLE TRADE AND INVISIBLES
(Balance of Payments basis)

£ million seasonally adjusted

		Current Balance	Visible Trade					Invisible Balance b
			Exports fob	Imports fob	Visible Balance	of which Oil	Non-Oil	
1985		+ 2919	78111	80289	- 2178	+ 8104	- 10282	+ 5097
1986		- 980	72843	81306	- 8463	+ 4056	- 12519	+ 7483
1986	Q3	- 910	17553	20444	- 2891	+ 621	- 3512	+ 1981
	Q4	- 960	19340	22065	- 2725	+ 785	- 3510	+ 1765
1987	Q1	+ 672	19637	20772	- 1135	+ 1164	- 2300	+ 1807
	Q2	- 174	19381	21742	- 2361	+ 1033	- 3395	+ 2187
	Q3	- 1293	20301	23394	- 3093	942	- 4035	+ 1800
1987	Jan	+ 85	6235	6752	- 517	+ 383	- 900	+ 602
	Feb	+ 401	6973	7174	- 202	+ 328	- 529	+ 603
	March	+ 185	6429	6846	- 417	+ 454	- 870	+ 602
	Apr	+ 203	6610	7136	- 526	+ 423	- 949	+ 729
	May	- 367	6372	7467	- 1096	+ 365	- 1461	+ 729
	June	- 11	6399	7139	- 740	+ 245	- 985	+ 729
	July	- 310a	6776	7686	- 910	+ 284	- 1194	+ 600a
	Aug	- 929a	6545	8073	- 1529	+ 374	- 1903	+ 600a
	Sept	- 55a	6980	7635	- 655	+ 284	- 939	+ 600a
% Change								
Latest 3 months - on previous 3 months			+ 4½	+ 7½				
- Same 3 months one year ago			+ 16	+ 14				

a Invisibles for July to September 1987 are projections.

b Monthly figures are one third of the appropriate calendar quarter's estimate or projection.

Table 3

INVISIBLES

£ million seasonally adjustec

		All Sectors						Private Sector and Public Corporations[d]		
		Credits	Debits	Balance	of which Services	Interest Profits Dividends	Transfers	Credits	Debits	Balance
1984		77061	71203	+ 5858	+ 3481	+ 4216	- 1839	71761	62373	+ 9388
1985		79784	74687	+ 5097	+ 5381	+ 2992	- 3276	75134	64724	+10410
1986		76202	68719	+ 7483	+ 4990	+ 4686	- 2193	71094	59111	+11983
1985	Q1	21694	20605	+ 1089	+ 1132	+ 908	- 951	20449	17911	+ 2538
	Q2	20159	18644	+ 1515	+ 1470	+ 748	- 703	19117	16427	+ 2690
	Q3	19351	17615	+ 1736	+ 1500	+ 1118	- 882	18129	14953	+ 3176
	Q4	18580	17823	+ 757	+ 1279	+ 218	- 740	17439	15433	+ 2006
1986	Q1	18916	16932	+ 1984	+ 1265	+ 792	- 73	17562	14907	+ 2655
	Q2	18451	16698	+ 1753	+ 1188	+ 1118	- 553	17139	14296	+ 2843
	Q3	19245	17264	+ 1981	+ 1251	+ 1505	- 775	17957	14660	+ 3297
	Q4	19590	17825	+ 1765	+ 1286	+ 1271	- 792	18436	15248	+ 3188
1987	Q1	19696	17889	+ 1807	+ 1241	+ 1349	- 783	18043	14828	+ 3215
	Q2	19652	17465	+ 2187	+ 1554	+ 1258	- 625	18194	14764	+ 3430

d ie excluding general Government transactions and all transfers.

EXPORT AND IMPORT UNIT VALUE AND VOLUME INDEX NUMBERS

Table 4

(Balance of Payments basis)

Indices 1980 = 100

	Unit Value (Not seasonally adjusted)			Volume (seasonally adjusted)	
	Exports	Imports	Terms of Trade[e]	Exports	Imports
1985	143.5	145.2	98.8	118.7	126.0
1986	136.6	134.0	101.9	123.1	134.2
1986 Q3	134.3	130.1	103.2	122.6	139.0
Q4	138.1	136.8	100.9	130.5	144.0
1987 Q1	140.7	140.0	100.5	130.0	133.2
Q2	141.2	136.2	103.7	126.3	140.7
Q3	142.9	138.1	103.5	130.5	150.7
1987 Jan	140.4	140.1	100.2	124.6	131.4
Feb	140.8	140.3	100.4	138.4	138.0
March	141.0	139.8	100.8	126.9	130.2
Apr	141.0	137.2	102.8	131.4	138.6
May	140.9	135.7	103.8	123.9	144.3
June	141.6	135.7	104.4	123.5	139.1
July	141.7	137.5	103.1	131.3	147.6
Aug	143.6	138.5	103.6	126.4	154.9
Sept	143.6	138.4	103.7	133.9	149.6
% Change Latest 3 months on - previous 3 months	+ 1	+ 1½	-	+ 3½	+ 7
- same 3 months one year ago	+ 6½	+ 6	-	+ 6½	+ 8½

e Export unit value index as a percentage of the import unit value index.

VALUE AND VOLUME OF EXPORTS AND IMPORTS EXCLUDING THE MORE ERRATIC ITEMS[f]

Table 5

(Balance of Payments basis)

seasonally adjusted

	Value £ million fob		Volume Index 1980 = 100	
	Exports	Imports	Exports	Imports
1985	73819	76749	123.1	133.7
1986	67459	77657	126.0	142.5
1986 Q3	16367	19561	126.5	147.7
Q4	17759	21146	133.0	153.8
1987 Q1	18125	19833	132.9	141.8
Q2	17961	20681	129.4	149.0
Q3	18922	22496	134.5	161.1
1987 Jan	5765	6489	128.3	140.8
Feb	6449	6884	141.2	147.4
March	5910	6461	129.3	137.2
Apr	6144	6753	135.0	146.3
May	5899	7139	127.0	153.3
June	5918	6790	126.2	147.3
July	6224	7330	133.8	156.7
Aug	6192	7791	132.0	166.1
Sept	6506	7375	137.9	160.6
% Change Latest 3 month on - previous 3 months	+ 5½	+ 9	+ 4	+ 8
- same 3 months one year ago	+16	+15	+ 6½	+ 9

f These are defined as ships, North Sea installations, aircraft, precious stones, and silver.

Table 6

TRADE IN OIL[g]
(Balance of Payments basis)

seasonally adjusted

	Balance of Trade in oil	Exports of Oil					Imports of Oil				
		Total	Crude Oil [SITC (REV 2) 333.0]			Rest of Division 33	Total	Crude Oil [SITC (REV 2) 333.0]			Rest of Division 33
	£ million fob	£ million fob	£ million fob	million tonnes	Avg value per tonne £ fob	£ million fob	£ million fob	£ million fob	million tonnes	Avg value per tonne £ fob	£ million fob
1985	+ 8104	16134	13006	79.6	163.4	3128	8029	4234	26.9	157.6	3796
1986	+ 4056	8221	6294	82.1	76.7	1927	4165	2324	32.6	71.2	1841
1986 Q3	+ 621	1529	1120	19.7	57.0	408	908	435	8.7	50.1	473
Q4	+ 785	1886	1533	21.6	71.0	353	1101	617	9.6	64.5	484
1987 Q1	+ 1164	2225	1824	21.9	83.4	401	1061	624	7.9	79.3	437
Q2	+ 1033	2076	1658	19.8	83.6	417	1042	658	8.3	79.3	384
Q3	+ 942	2081	1648	18.7	88.0	432	1138	641	7.5	85.2	497
1987 Jan	+ 383	731	600	7.4	81.2	131	348	209	2.8	75.2	139
Feb	+ 328	752	600	7.1	84.3	151	424	241	3.0	81.3	183
Mar	+ 454	743	624	7.4	84.6	119	289	173	2.1	81.7	116
Apr	+ 423	832	679	8.0	84.9	153	409	269	3.4	79.2	139
May	+ 365	629	516	6.4	81.3	113	264	127	1.6	77.5	137
June	+ 245	615	464	5.5	84.5	151	370	261	3.3	80.2	108
July	+ 284	660	496	5.8	85.1	163	375	217	2.7	82.1	158
Aug	+ 374	761	625	6.9	91.2	136	387	234	2.8	82.9	153
Sept	+ 284	660	526	6.0	87.1	133	376	190	2.1	92.5	186
% Change Latest 3 months on											
- previous 3 months		-	- ½	- 5½	+ 5	+ 3½	+ 9	- 2½	- 9½	+ 7½	+ 29
- same 3 months one year ago		+ 36	+ 47	- 4½	+ 54	+ 6	+ 25	- 47	- 13	+ 70	+ 5½

[g] Trade in petroleum and petroleum products. These figures differ from those published by the Department of Energy which are on a time of shipment basis (see paragraph 8 of the standard notes).

TRADE IN GOODS OTHER THAN OIL
(Balance of Payments basis)

	Total: Value, £ million, fob (seasonally adjusted)			Total: Unit value index 1980 = 100 (not seasonally adjusted)			Total: Volume index 1980 = 100 (seasonally adjusted)		Excluding Erratics[f]: Value, £ million fob (seasonally adjusted)		Excluding Erratics[f]: Volume index 1980 = 100 (seasonally adjusted)	
	Balance of non oil trade	Exports	Imports	Exports	Imports	Terms of Trade[e]	Exports	Imports	Exports	Imports	Exports	Imports
1985	- 10282	61977	72259	141.8	141.8	100.0	110.6	133.0	57685	68719	114.9	142.8
1986	- 12519	64621	77141	145.1	141.5	102.6	115.2	140.5	59238	73491	117.7	150.9
1986 Q3	- 3512	16024	19536	145.3	140.3	103.5	114.7	143.7	14839	18653	118.5	154.4
Q4	- 3510	17454	20964	148.1	146.3	101.3	123.1	149.4	15873	20045	125.3	161.4
1987 Q1	- 2300	17411	19711	149.7	148.0	101.1	121.8	139.7	15899	18772	124.4	150.4
Q2	- 3395	17305	20700	150.3	143.5	104.7	119.5	149.0	15885	19639	122.4	159.6
Q3	- 4035	18220	22255	151.6	145.4	104.3	125.5	159.2	16841	21358	129.6	172.3
1987 Jan	- 900	5504	6404	149.5	148.4	100.7	115.4	137.1	5034	6141	118.7	148.7
Feb	- 529	6221	6750	149.5	148.0	101.0	131.6	142.7	5697	6460	134.2	154.3
Mar	- 870	5686	6557	150.1	147.6	101.7	118.5	139.1	5168	6172	120.5	148.3
Apr	- 949	5778	6727	150.0	144.7	103.7	120.5	144.3	5312	6344	123.6	153.8
May	- 1461	5743	7204	150.2	143.0	105.0	118.5	156.0	5270	6875	121.6	167.9
June	- 985	5784	6769	150.6	142.7	105.6	119.3	146.5	5303	6420	122.1	156.9
July	- 1194	6117	7311	150.5	144.8	103.9	126.9	155.9	5564	6954	129.3	167.5
Aug	- 1903	5783	7686	151.8	145.7	104.2	119.3	163.9	5430	7404	125.1	178.0
Sept	- 939	6320	7259	152.6	145.8	104.7	130.2	157.8	5846	7000	134.4	171.5
% Change Latest 3 months on												
- previous 3 months		+ 5½	+ 7½	+ 1	+ 1½	- ½	+ 5	+ 7	+ 6	+ 8½	+ 6	+ 8
- same 3 months one year ago		+14	+14	+ 4½	+ 3½	+ ½	+ 9½	+11	+13	+14	+ 9½	+12

[f] These are defined as ships, North Sea installations, aircraft, precious stones, and silver.

[e] Export unit value index as a percentage of the import unit value index.

EXPORTS BY COMMODITY
(Overseas Trade Statistics basis)

Table 8

£ million, fob, seasonally adjusted

	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Manufactures excluding erratics[h]: Total	Semi-manufactures excluding precious stones & silver (PS): Total	Chemicals	Other	Finished manufactures excluding ships, North Sea installations and aircraft (SNA): Total	Passenger Motor Cars	Other Consumer	Intermediate	Capita
SITC (REV 2)	0-9	0+1	2+4	3	5-8	5-8 less SNAPS	5+6 less PS	5	6 less PS	7+8 less SNA	j	j	j	j
1985	78392	4971	2128	16795	52506	48473	18458	9412	9046	30015	1343	5257	13475	9940
1986	73009	5478	2046	8683	54595	49697	18758	9692	9066	30939	1362	5712	13682	10183
1986 Q3	17632	1394	542	1614	13582	12506	4800	2470	2330	7706	362	1470	3407	2467
Q4	19347	1571	561	1970	14570	13139	4924	2539	2386	8215	361	1534	3579	2740
1987 Q1	19637	1372	624	2309	14642	13287	4880	2507	2374	8407	459	1660	3542	2745
Q2	19316	1347	543	2158	14614	13260	4880	2498	2381	8380	488	1653	3517	2722
Q3	20431	1456	543	2177	15640	14277	5377	2757	2620	8900	533	1835	3613	2918
1987 July	6785	500	170	697	5212	4667	1747	867	879	2920	192	602	1183	943
Aug	6598	464	195	787	4942	4599	1772	921	852	2826	159	555	1175	937
Sept	7048	492	178	693	5485	5011	1858	969	889	3153	183	679	1254	1038
Percentage change Q3/Q2	+ 6	+ 8	-	+ 1	+ 7	+ 7½	+ 10	+ 10	+ 10	+ 6	+ 9	+ 11	+ 2½	+ 7

h These are defined as ships, North Sea installations (together comprising SITC (REV 2) 793), aircraft (792) preciou stones (667), and silver (681.1).

j Based on the United Nations Broad Economic Categories end-use classification.

EXPORTS BY COMMODITY: VOLUME INDICES
(Overseas Trade Statistics basis)

Table 9

INDICES 1980 = 100, seasonally adjusted

	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Manufactures excluding erratics[h]: Total	Semi-manufactures excluding precious stones & silver (PS): Total	Chemicals	Other	Finished manufactures excluding ships, North Sea installations and aircraft (SNA): Total	Passenger Motor Cars	Other Consumer	Intermediate	Capital
SITC (REV 2)	0-9	0+1	2+4	3	5-8	5-8 less SNAPS	5+6 less PS	5	6 less PS	7+8 less SNA	j	j	j	j
Weights	1000	69	31	136	735	658	252	112	141	406	18	71	170	147
1985	119.3	119.2	106.1	171.7	110.8	115.7	118.9	133.3	107.5	113.6	99.4	111.6	121.2	107.6
1986	123.6	129.6	117.1	175.5	114.0	116.9	121.9	139.4	108.1	113.8	93.2	117.5	120.4	106.9
1986 Q3	124.4	134	126	174	113	118	125	143	111	113	97	122	120	102
Q4	130.5	146	129	179	120	123	127	146	112	120	91	123	126	115
1987 Q1	130.2	129	145	183	119	122	126	143	112	120	114	133	120	114
Q2	125.7	124	120	171	118	121	125	140	113	118	120	133	118	112
Q3	132.2	133	124	164	126	130	136	153	123	126	127	144	122	123
1987 July	132.2	135	114	162	127	129	134	146	125	126	141	144	120	120
Aug	128.5	129	136	172	119	125	134	154	119	120	112	128	119	118
Sept	135.9	136	123	158	132	136	140	161	124	134	129	159	127	131
Percentage change Q3/Q2	+ 5	+ 7	+ 3½	- 4	+ 6½	+ 7½	+ 9	+ 9½	+ 8	+ 7	+ 6	+ 8	+ 3½	+ 10

h These are defined as ships, North Sea installations (together comprising SITC (REV 2) 793), aircraft (792) precious stones (667), and silver (681.1).

j Based on the United Nations Broad Economic Categories end-use classification.

EXPORTS BY COMMODITY: UNIT VALUE INDICES
(Overseas Trade Statistics basis)

INDICES 1980 = 100 not seasonally adjusted

	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Manufactures excluding erratics[h]: Total	Semi-manufactures excluding precious stones & silver(PS): Total	Semi-manufactures: Chemicals	Semi-manufactures: Other	Finished manufactures excluding ships, North Sea installations and aircraft (SNA): Total	Finished: Passenger Motor Cars	Finished: Other Consumer	Finished: Intermediate	Finished: Capital
SITC (REV 2)	0-9	0+1	2+4	3	5-8	5-8 less SNAPS	5+6 less PS	5	6 less PS	7+8 less SNA	j	j	j	j
Weights	1000	69	31	136	735	658	252	112	141	406	18	71	170	147
1985	143.4	134	140	155	143	142	135	139	132	147	162	147	150	141
1986	136.5	140	123	81	147	148	138	141	135	154	182	157	157	146
1986 Q3	134.2	140	120	62	148	148	137	140	135	155	186	156	159	146
Q4	138.0	142	121	72	151	150	139	141	138	157	198	161	160	148
1987 Q1	140.5	141	122	82	152	153	141	144	139	160	201	164	163	150
Q2	141.0	140	123	81	153	154	141	145	137	162	204	163	168	150
Q3	142.8	141	125	86	155	155	143	146	140	163	210	166	167	151
1987 July	141.5	140	125	83	153	154	141	145	139	162	206	164	167	150
Aug	143.4	140	125	89	155	156	143	146	140	163	210	167	168	151
Sept	143.4	141	124	84	156	157	144	148	141	164	214	168	168	152
Percentage change Q3/Q2	+ 1	+ ½	+ 1½	+ 5½	+ 1	+ 1	+ 1½	+ ½	+ 2	+ ½	+ 3	+ 2	- ½	+ 1

h These are defined as ships, North Sea installations (together comprising SITC (REV 2) 793), aircraft (792) precious stones (667), and silver (681.1).

j Based on the United Nations Broad Economic Categories end-use classification.

EXPORTS BY AREA
(Overseas Trade Statistics basis)

£ million, fob, seasonally adjusted

	Total K	Developed Countries: Total	Developed: European Community	Developed: Rest of W Europe	Developed: North America Total	Developed: North America USA	Developed: Other	Developing Countries: Total	Developing: Oil exporting countries	Developing: Other	Centrally planned economies
1985	78392	62787	38226	7438	13332	11519	3791	13876	5952	7924	1587
1986	73009	57709	35004	6963	12128	10380	3614	13139	5495	7644	1721
1986 Q3	17632	13944	8498	1709	2829	2432	909	3215	1317	1897	368
Q4	19347	15474	9545	1799	3225	2717	905	3254	1238	2016	470
1987 Q1	19637	15715	9330	1747	3676	3153	962	3401	1313	2088	437
Q2	19316	15515	9789	1903	2886	2407	937	3445	1306	2139	337
Q3	20431	16404	10093	1965	3264	2768	1083	3580	1346	2233	415
1987 July	6785	5398	3223	607	1203	1026	366	1201	416	785	124
Aug	6598	5354	3321	655	1036	857	343	1218	494	724	150
Sept	7048	5652	3548	703	1025	885	375	1160	436	724	142
Percentage change Q3/Q2	+ 6	+ 5½	+ 3	+ 3½	+ 13	+ 15	+ 16	+ 4	+ 3	+ 4½	+ 23

K See paragraph 6 of Notes to Editors.

IMPORTS BY COMMODITY
(Overseas Trade Statistics basis)

Table 12

£ million cif seasonally adjusted

	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Manufactures excluding erratics[h]: Total	Semi-manufactures excluding precious stones & silver(PS): Total	Semi-manufactures excluding precious stones & silver(PS): Chemicals	Semi-manufactures excluding precious stones & silver(PS): Other	Finished manufactures excluding ships, North Sea installations and aircraft (SNA): Total	Finished manufactures (SNA): Passenger Motor Cars	Finished manufactures (SNA): Other Consumer	Finished manufactures (SNA): Intermediate	Finished manufactures (SNA): Capital
SITC (REV 2)	0-9	0+1	2+4	3	5-8	5-8 less SNAPS	5+6 less PS	5	6 less PS	7+8 less SNA	j	j	j	j
1985	85027	9337	5388	10664	58312	54934	19611	6901	12710	35322	4165	8884	11623	10649
1986	86066	10067	4988	6294	62833	59472	20713	7346	13367	38759	4809	10177	12706	11067
1986 Q3	21836	2564	1190	1502	16041	15199	5207	1831	3376	9992	1279	2653	3268	2792
Q4	23269	2632	1376	1541	17146	16303	5472	1922	3549	10832	1279	2838	3597	3118
1987 Q1	21819	2473	1386	1468	16148	15248	5377	1943	3434	9871	1054	2576	3289	2952
Q2	22819	2450	1411	1465	17176	16183	5686	2024	3662	10497	1196	2785	3549	2967
Q3	25009	2586	1423	1649	18598	17777	6100	2159	3941	11678	1447	2999	3925	3308
1987 July	8127	855	453	546	6058	5772	1934	687	1247	3838	468	959	1307	1104
Aug	8783	860	488	551	6483	6208	2144	778	1366	4065	569	1040	1364	1092
Sept	8098	870	483	551	6057	5797	2022	694	1328	3775	410	999	1254	1112
Percentage change Q3/Q2	+ 9½	+ 5½	+ 1	+ 13	+ 8½	+ 10	+ 7½	+ 6½	+ 7½	+ 11	+ 21	+ 7½	+ 11	+ 11

h These are defined as ships, North Sea installations (together comprising SITC (REV 2) 793), aircraft (792) precious stones (667), and silver (681.1).

j Based on the United Nations Broad Economic Categories end-use classification.

IMPORTS BY COMMODITY: VOLUME INDICES
(Overseas Trade Statistics basis)

Table 13

INDICES 1980 = 100 seasonally adjusted

	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Manufactures excluding erratics[h]: Total	Semi-manufactures excluding precious stones & silver(PS): Total	Semi-manufactures excluding precious stones & silver(PS): Chemicals	Semi-manufactures excluding precious stones & silver(PS): Other	Finished manufactures excluding ships, North Sea installations and aircraft (SNA): Total	Finished manufactures (SNA): Passenger Motor Cars	Finished manufactures (SNA): Other Consumer	Finished manufactures (SNA): Intermediate	Finished manufactures (SNA): Capital
SITC (REV 2)	0-9	0+1	2+4	3	5-8	5-8 less SNAPS	5+6 less PS	5	6 less PS	7+8 less SNA	j	j	j	j
Weights	1000	124	81	138	626	543	217	63	154	326	42	94	96	94
1985	124.6	114.4	102.2	86.2	140.7	154.4	143.9	176.1	130.6	161.4	127.9	139.5	172.8	187.1
1986	132.8	123.5	108.7	93.4	148.2	163.0	152.0	188.0	137.2	170.4	131.6	158.3	187.0	183.1
1986 Q3	138.1	126	106	112	153	168	155	191	140	176	142	165	193	185
Q4	142.4	125	119	106	158	174	157	192	142	186	133	170	205	205
1987 Q1	130.9	120	122	91	146	161	152	191	136	166	103	156	185	187
Q2	137.8	120	122	90	158	173	163	205	146	179	121	172	203	192
Q3	151.7	126	121	104	171	190	174	217	157	200	147	184	224	215
1987 July	146.4	124	116	103	166	184	166	208	148	196	143	179	222	214
Aug	159.7	127	120	104	177	198	184	235	163	206	172	189	232	212
Sept	149.0	128	127	107	169	188	173	206	159	198	125	185	217	219
Percentage change Q3/Q2	+10	+ 5½	- 1	+16	+ 8½	+10	+ 7	+ 5½	+ 7½	+12	+21	+ 7½	+10	+12

h These are defined as ships, North Sea installations (together comprising SITC (REV 2) 793), aircraft (792) precious stones (667), and silver (681.1).

j Based on the United Nations Broad Economic Categories end-use classification.

IMPORTS BY COMMODITY: UNIT VALUE INDICES
(Overseas Trade Statistics basis)

INDICES 1980 = 100 not seasonally adjusted

	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Manufactures excluding erratics[h]								
							Semi-manufactures excluding precious stones & silver(PS)			Finished manufactures excluding ships, North Sea installations and aircraft (SNA)				
						Total	Total	Chemicals	Other	Total	Passenger Motor Cars	Other Consumer	Intermediate	Capital
SITC (REV 2)	0-9	0+1	2+4	3	5-8	5-8 less SNAPS	5+6 less PS	5	6 less PS	7+8 less SNA	j	j	j	j
Weights	1000	124	81	138	626	543	217	63	154	326	42	94	96	94
1985	143.1	137	130	172	141	141	133	139	130	146	152	147	155	134
1986	132.5	136	113	97	143	144	133	141	130	152	170	148	158	141
1986 Q3	129.1	136	111	78	142	144	132	139	130	152	168	147	159	141
Q4	135.1	139	115	84	149	150	137	145	133	159	178	155	167	147
1987 Q1	137.9	138	117	94	151	152	138	147	135	162	189	155	167	151
Q2	134.8	136	117	93	147	149	137	145	133	157	183	149	164	148
Q3	136.0	135	117	95	148	150	139	149	134	158	184	152	163	147
1987 July	135.2	136	117	94	147	149	138	146	134	157	183	150	163	146
Aug	136.5	135	118	96	149	150	138	149	134	158	185	152	164	147
Sept	136.1	135	117	95	149	150	139	151	135	158	183	153	162	147
Percentage change Q3/Q2	+ 1	- ½	+ ½	+ 2	+ 1	+ ½	+ 1½	+ 2½	+ 1	+ ½	+ ½	+ 2½	- 1	- ½

h These are defined as ships, North Sea installations (together comprising SITC (REV 2) 793), aircraft (792) precious stones (667), and silver (681.1).

j Based on the United Nations Broad Economic Categories end-use classification.

IMPORTS BY AREA

Table 15

(Overseas Trade Statistics basis)

£ million cif seasonally adjusted

	Total K	Developed Countries						Developing Countries			Centrally planned economies
		Total	European Community	Rest of W Europe	North America Total	USA	Other	Total	Oil exporting countries	Other	
1985	85027	71665	41474	12102	11709	9926	6379	11327	2815	8512	1893
1986	86066	73285	44506	11864	10054	8468	6861	10514	1877	8637	1856
1986 Q3	21836	18569	11426	2896	2512	2138	1735	2670	408	2262	456
Q4	23269	19705	11950	3151	2771	2331	1833	2928	511	2418	511
1987 Q1	21819	18625	11411	3060	2435	2025	1720	2540	462	2078	482
Q2	22819	19602	12100	3202	2616	2223	1684	2683	432	2251	497
Q3	25009	21152	12980	3367	2873	2446	1932	3200	466	2734	562
1987 July	8127	6944	4250	1107	946	791	641	906	139	767	181
Aug	8783	7463	4562	1274	973	832	655	1216	125	1091	184
Sept	8098	6744	4168	987	954	824	636	1078	202	876	197
Percentage change Q3/Q2	+ 9½	+ 8	+ 7½	+ 5	+ 10	+ 10	+ 15	+ 19	+ 8	+ 21	+ 13

K See paragraph 6 Notes to Editors.

COMMODITY ANALYSIS OF VISIBLE TRADE
(Balance of Payments basis)

£ million, seasonally adjustec

SITC (R2)	Food Beverages and Tobacco 0 + 1			Basic Materials 2 + 4			Fuels 3		
	Exports fob	Imports fob	Visible Balance	Exports fob	Imports fob	Visible Balance	Exports fob	Imports fob	Visible Balance
1985	4932	8522	- 3591	2144	4795	- 2651	16795	10233	+ 6562
1986	5439	9230	- 3792	2058	4416	- 2359	8683	5994	+ 2690
1985 Q4	1194	2083	- 889	504	1070	- 566	3862	2237	+ 1625
1986 Q1	1219	2247	- 1027	504	1092	- 588	3177	1641	+ 1536
Q2	1271	2213	- 942	445	1076	- 631	1922	1426	+ 496
Q3	1383	2356	- 973	545	1025	- 480	1614	1393	+ 221
Q4	1565	2415	- 849	564	1223	- 659	1970	1533	+ 438
1987 Q1	1354	2285	- 931	629	1232	- 603	2308	1413	+ 895
Q2	1344	2269	- 925	553	1175	- 622	2146	1414	+ 733
Q3	1446	2374	- 928	547	1266	- 720	2178	1567	+ 611

SITC (R2)	Semi-Manufactures 5 + 6			Finished Manufactures 7 + 8			Total Manufactures 5 - 8		
	Exports fob	Imports fob	Visible Balance	Exports fob	Imports fob	Visible Balance	Exports fob	Imports fob	Visible Balance
1985	20051	19949	+ 102	32221	35324	- 3103	52271	55273	- 3002
1986	20946	21524	- 578	33540	38453	- 4913	54486	59977	- 5491
1985 Q4	4952	4900	+ 53	8096	8645	- 549	13048	13545	- 497
1986 Q1	4851	5294	- 443	7925	8751	- 825	12777	14045	- 1269
Q2	5221	5179	+ 42	8395	9092	- 697	13615	14271	- 656
Q3	5290	5339	- 49	8230	9922	- 1692	13520	15261	- 1741
Q4	5585	5712	- 127	8990	10688	- 1698	14575	16400	- 1826
1987 Q1	5474	5652	- 178	9190	9748	- 558	14664	15400	- 736
Q2	5520	5836	- 316	9166	10711	- 1544	14686	16547	- 1860
Q3	5781	6222	- 441	9739	11534	- 1794	15520	17755	- 2235

Monthly data at this level of detail are published in the Monthly Review of External Trade Statistics.

KH/3519p/2

Cathy?

NP

DEPARTMENT OF HEALTH AND SOCIAL SECURITY
Alexander Fleming House, Elephant & Castle, London SE1 6BY
Telephone 01-407 5522

From the Parliamentary Under Secretary of State for Health

The Rt Hon Nigel Lawson MP

22 OCT 87

Dear Nigel

START ON SITE FOR LEICESTER ROYAL INFIRMARY PHASE 4B 26/10/87

As you may know this development gets under way on 26 October. The contract for phase 4B, costing in excess of £15m, has been awarded to Henry Boot (Northern) Ltd of Chesterfield and will be a major extension to the Leicester Royal Infirmary. Building work is scheduled to be completed within 3 years.

The two-winged eight storey development will provide 360 general acute beds, 96 beds for the elderly, 9 special investigation beds, a new X-ray and pharmacy department, additional out-patient clinics, a medical illustration department, new mortuary and other supporting departments.

Phase 4B will provide not only invaluable services for the people, of all ages, in Leicestershire but will also provide essential medical teaching facilities.

We are building the Health Service not just for today but for the next century. So the Government attaches the highest priority to improving and modernising health buildings on which about £1 billion will be spent in the current year. Throughout England over 480 schemes each costing over £1 million with a total value of over £3 billion are at various stages of planning, design and construction.

Yours ever

Edwina

EDWINA CURRIE

FROM: PAUL DAVIS

DATE: 22 October 1987

MS RYDING

cc: Chief Secretary
Economic Secretary
Financial Secretary
Sir P Middleton
Sir G Littler
Sir T Burns
Mr Cassell
Mr Sedgwick
Mr Peretz
Mr Bottrill
Mr Kelly
Miss O'Mara
Mr R I G Allen
Mr Barrell
Mr Owen
Mr Norgrove - No 10

SEPTEMBER TRADE FIGURES

I attach a revised version of the press briefing for IDT incorporating the Chancellor's suggestions.

PAUL DAVIS
EA2

SECRET AND PERSONAL
UNTIL 11.30 am FRIDAY 23 OCTOBER
THEN UNCLASSIFIED

DRAFT BRIEFING FOR IDT

Positive

1. Export volumes (excluding oil and erratics) in three months to September 9½ per cent higher than a year earlier.

2. Manufacturing industry performing well. Volume of manufacturing exports (excluding erratics) 11 per cent higher in third quarter than a year ago. Output up 6 per cent comparing three months to August with a year earlier.

3. CBI Survey for September shows export order books still above normal.

Defensive

1. September figures freakishly good. We never draw conclusions from one month's figures, but clear that August figures erratically bad. Not surprising there has been significant improvement.

2. Current account deficit in 1987Q3 largest ever recorded: Recent figures volatile - third quarter includes erratically high August deficit. Deficit in first three quarters of 1987 only £¾ billion - very small as share of GDP (¼ per cent), much smaller than imbalances in other major countries and smaller than might have been expected given Budget forecast of deficit of £2½ billion for 1987 as a whole.

3. Current deficit widening. Current deficit of £796 million for year so far lower than £1870 million deficit in second half of 1986. Out-turn so far this year still better than expected at Budget time.

4. FSBR forecast of £2½ billion current account deficit in 1987 too optimistic: Out-turn so far this year slightly better than expected.

5. Trend in imports strongly upwards. Recent figures very erratic, but inevitable that there should be some rise in imports as the economy expands. Imports of semi manufactures, capital and intermediate goods reflect rising output and investment, as expected.

6. Imports rising faster than exports [In third quarter on a year earlier, import volumes (excluding oil and erratics) up 12 per cent, compared with 9½ per cent rise for exports. On previous quarter import volumes up 8 per cent while exports up 6 per cent.] Not surprising given that UK economy is growing faster than all other major economies. As growth overseas picks up, UK exports should benefit.

7. Exports no longer growing. In third quarter export volumes (excluding oil and erratics) 9½ per cent higher than same period a year ago. Volume of manufactures exports 11 per cent up over same period to highest level ever recorded.

8. Rise in current account deficit confirms economy overheating? No. Current account deficit on its own does not imply overheating. Rather reflects underperformance of rest of world economy.

9. 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.] Always expected imports to rise as economy grows strongly. Industrialists report capacity utilisation relatively little changed over past year. CBI in latest quarterly survey states "there is no evidence of widespread bottlenecks due to fixed capacity over the next twelve months".

10. Fall in exchange rate needed - sterling's recent strength threatens competitiveness: Not at all. Period of stability in exchange rate now desirable - sentiment endorsed by CBI.

11. Invisibles projections for July and August and September imply fall from 1987Q2 surplus. (Q3 out-turn to be published in December.) Projections based on latest but incomplete information. Surplus of £2187 million in 1987Q2 reflected substantial improvement but too soon to say whether it reflects rise in strong underlying invisibles balance. UK invisibles surplus in 1986 largest in world.

12. Official statistics understate strength of UK current account performance. [Phillips & Drew article 'Lies, Damn Lies and Invisible Statistics' published 8 October 1987, alleged current account may

actually be in surplus in 1987 so far and in previous years due to underrecording of invisible exports following ending of exchange controls.] True that growth in securitised market makes apportioning of portfolio earnings more difficult. Balance of payments balancing item rose to £11.7 billion in 1986 reflecting either unrecorded net current account credits or net capital inflows. Would not be surprising if some errors in current account.

1. PS/CST to see
2 Pse return to me

CR 26/10

SECRET

CHIEF SECRETARY

FROM: T R H LUCE
DATE: 22 OCTOBER 1987

cc Chancellor
Paymaster General
Sir P Middleton
PEX
Mr Scholar
Mr Binns

Sec X: The worse uncertainty profile of relations (I trust) for your (1) & wishful thinking that paragraph

1987 SURVEY; AUTUMN STATEMENT PREPARATIONS: RUNNING COSTS AND MANPOWER

1. Running cost figures are published in the PEWP but none are separately identified in the aggregate or departmental expenditure figures given with the Autumn Statement. You will however need to give Cabinet a report on the running costs outcome. This note provides background to the running costs paragraphs in the draft Cabinet paper Mr Turnbull is submitting today.

2. Annexed is a description of the main running costs results we can expect, provided settlements are reached at the levels assumed in the cases still outstanding. A good deal may turn on the position reached by Tuesday of next week. If, for example, no agreement is reached with MOD before Cabinet, you want to choose a presentation which implies that if the MOD settlement is higher than our offer the Cabinet's goal for running costs will not be achieved.

3. Subject to the present uncertainties, the main result is that:-

- between 1987-88 and 1988-89, planned running cost provision will rise by 6.2% (1.7% in real terms assuming a revised GDP deflator increase of 4½%). This is within thc rise for the planning total. The objective of not allowing the running cost share of public expenditure to rise is achieved for the 1988-89 plan.

SECRET

4. We expect Winter Supplementaries to increase 1987-88 running cost provision by £100m. If this higher base were taken, the running cost growth in 1988-89 would become 5.4% in cash (0.9% in real terms). I do not recommend giving this lower figure to Cabinet because:-

i. we cannot be absolutely sure that all the extra provision will be decided in time for Winter Supplementaries (and hence for reflection in the PEWP);

ii. the "margin of comfort" over the revised higher GDP deflator assumption would appear smaller;

iii. we would hope for smaller in-year increases in 1988-89 (or none), but expect the underlying rate of real growth in running costs to continue in future years at 1½%-2%. Artificially depressing the 1988-89 growth might create the impression in next year's Survey that we were on a rising growth trend.

5. For the later years, the policy of tying firm settlements to acceptable management plans has made a reasonable start though its real test will come in future Surveys.

6. On manpower, the position for April 1988 is that Cm 56 gave a target of 590,400, which was quickly overtaken by the 594,600 total given in the 1987 Estimates (reflecting Social Security and Employment increases). We remain on track for that higher figure. Manpower targets are not being set after 1988. The later year running cost settlements imply Civil Service numbers at 590,000 but this is subject to change in future Surveys.

7. I attach a short draft running cost speaking note for Cabinet.

8. We will submit further and final briefing on Tuesday; and will provide a considered and critical assessment of the running costs outcome (and procedures) in a Survey post-mortem.

T R H LUCE

ENC

ANNEX

1987 SURVEY: RUNNING COSTS: SUMMARY OF OUTCOME

1. Running Cost settlements have now been reached or can be predicted with the large majority of departments. This note summarises the outcome. We will update the results as there are further significant developments and in any event by next Tuesday.

2. The aggregate figures (with annual percentage changes in cash) are:-

£m

	1988-89	1989-90	1990-91
Baseline	13315 (2.1%)	13683 (2.8%)	14026 (2.5%)
Forecast outcome	13855 (6.2%)	14081 (1.6%)	14469 (2.8%)

1X

Initial Objectives

3. In July Cabinet agreed that you should:-

i. aim to constrain running costs to roughly their present share in the public spending total (just under 10%). This implied real growth of about 1% a year on the basis of the published planning totals as they then were, but gave scope for slightly higher growth if the totals were increased (as they have been);

ii. seek reduction of the 1988-89 bids (then £761m, but since increased by late bids to about £800m) by "at least half". This was a negotiating stance, which we did not expect to achieve in full;

iii. for the later years, require departments to produce management plans committing them to annual efficiency gains of at least 1½ per cent before agreeing proper provision for the later years; and hold over to the next Survey final settlements where satisfactory plans are not available.

4. There were three objectives underlying your proposals to Cabinet:-

i. to combine realistic running cost provision with renewed pressure on departmental efficiency;

ii. to create a framework for the medium-term planning of running cost expenditure to replace manpower targets which had been set for three years' ahead;

iii. to minimise the risk of future in-year bids by including tight but realistic provision for future Civil Service pay increases at levels of departments' own choice.

Outcome for 1988-89

5. The latest figures are:-

		£m
a.	1987-88 Baseline	13041
b.	Expected Winter Supplementaries	100*
c.	1987-88 Revised Provision	13141
d.	1988-89 Survey Baseline	13315
e.	Bids	800
f.	Additional Provision expected	540
g.	1988-89 expected Settlement Total	13855

*This assumes that Winter Supplementaries will be agreed for Inland Revenue (£31m), PSA (£9m) and MOD (£60m).

6. The additions agreed to the 1988-89 baseline are equal to two-thirds of the total bids. The cash increase between 1987-88 and 1988-89 is £814m (6.24%) before - and £714m (5.43%) after - account is taken of likely Winter Supplementaries.

7. In real terms, assuming a revised GDP deflator of 4½% for 1988-89, the growth in spending will be 1.7% (on the 1987-88 baseline) or 0.9% on the revised provision. This is within the real growth (2.0%) now expected for the planning total in 1988-89. The 1.7% running cost growth would have exceeded planning growth had not the shortfall on 1987-88 planning total increased the latter.

8. In cash terms, the growth of running costs for 1988-89 is close to the growth underlying the 1987-88 figures in Cm 56 where, although a cash growth of 4½% was declared, the growth would have been 6% without the contractorisation of MOD dockyards. (The expected increases through Winter Supplementaries will bring the declared growth in 1987-88 to 5¼% and the underlying growth to 6¾%)

9. Within the total increase of £814m now planned, it is possible to identify very roughly £70m for extra Civil Service manpower, £43m or more higher rents and £27m for extra maintenance (making an addition of over £70m for property costs). The remainder is mainly for price changes, including pay realism.

10. The appendix shows the increase by over 1987-88, by department. The largest cash increases, in percentage terms, tend to be in the smaller departments. They are less easily able to absorb special pressures (pay increases for specialists, accommodation increases, volume additions, etc). Of the large departments, Customs and Revenue both have i~~o~~ncreases above

10%; but Social Security (4.6%), the Employment Group (3.4%) and (we hope) Defence (5.2%) are relatively low even though, with the tax departments, their cash increases take the lion's ahre of the bids conceded.

11. We determined at the beginning of this Survey to allow departments to make their own assumptions about 1988 pay settlements and their costs; and that we would not "talk them down" as had been done in past Surveys. The large majority of the assumptions declared are in the 5%-6% range, though a few are lower. They were not "talked down", though some departments may claim that we indirectly undermined the adequacy of their pay provision by attacking their other bids. On the whole, however, we took a firm line with bids for the knock-on costs of 1987 pay settlements. There is still some marginal uncertainty about the 1988-89 cost of this year's pay negotiations. There is likely to be some argument with departments that find themselves in difficulty during the year, but we can fairly say that they should have ~~computerised~~ anticipated these costs.

12. Some departments may argue that the revised GDP deflator increase of 4½% invalidates their running cost settlements. We should be able to argue that the average increase of more than 6% over 1987-88 plans gives satisfactory cover. There may, however, be difficulty with DHSS, where the increase is barely above the new GDP deflator assumption; and with the Employment Group whose increase is below it.

Outcome for Later Years

13. 22 of the 48 departments in the Survey produced 3-year management plans. For 10 in all we expect these plans to lead to agreed 3-year settlements implying an average later year real growth for these departments of about 1% a year. Of the remaining departments, 19 have provisional settlements at

baseline, 15 at baseline with some addition to reflect 1988 - 89 increases, and 4 at the 1988-89 level adjussted for GDP inflation. Details are given in the appendix.

Other Points

14. Exemption from Gross Control You have agreed exemption for the Companies Registration Office. You will soon be advised to agree exemption for the Land Registry. If you so decide, the total of exempt bodies will be four, representing £160m gross expenditure.

15. Dropping Functions and Privatisation Mr Fowler is planning to privatise the PER. Little evidence has otherwise emerged that departments generally are thinking radically about privatising functions or dropping those of low priority, though some may claim that savings from reduced functions and altered priorities were already offset against their bids.

APPENDIX

RUNNING COSTS FORWARD YEARS: PERCENT CHANGE BY DEPARTMENT.

	1987-88 BASELINE	88-89 % CASH CHANGE	89-90 % CASH CHANGE	90-91 % CASH CHANGE	3 YEAR MANAGMENT PLAN SETTLEMENT	COMMENTS
MOD *	5111.668	5.16	0.40	2.50	NO	
ODA *	40.208	6.30	-2.79	1.20	YES	
FCO *	396.783	0.72	3.02	2.19	YES	
MAFF	214.755	9.30	3.50	2.99	NO	INCREASED ACCOMMEDATION CHARGES. INFORMATION TECHNOLOGY MAINTENANCE CHARGES.
IBAP	12.910	17.23	-0.73	6.49	YES	ADDITIONAL STAFF
DTI *	275.964	8.40	3.22	3.57	NO	
ENERGY	26.351	7.23	24.81	1.77	YES	ACCOMMEDATION MOVE (£6½m). BALANCE FOR TEMPARY INCREASE IN STAFF FOR ELECTRICITY PRIVATISATION
D.Emp.Gp	924.159	3.42	0.79	0.94	NO	
DTp	255.719	6.85	4.70	4.15	YES	
DOE	149.665	3.24	0.32	2.84	NO	
HO	771.103	5.14	2.38	2.30	NO	
LCD	188.733	11.38	6.27	5.02	YES	EXTRA PROVISION FOR ACCOMMEDATION. ADDITIONAL STAFF FOR NEW COURTROOMS (NOT IN MANPOWER COUNT).
DES	58.300	12.57	2.45	2.54	NO	AVERAGE MANYEAR INCREASE OF 9.4% ON 87-88. EXTRA ACCOMMEDATION + RUNNING COSTS OF NEW NATIONAL CURRICULUM WORKING GROUPS. Yrs 2+3 G)
OAL *	1.268	19.47	2.44	2.51	NO	
DHSS (SS)	1628.148	4.57	0.72	2.79	NO	
DHSS (H) *	72.665	4.13	2.61	2.43	NO	
SCOTTISH OFF.	170.970	13.44	-1.25	3.12	NO	ADDITIONAL MANPOWER SCOTTISH PRISONS ("FRESH START")
SCA	18.918	21.51	-8.60	2.49	NO	INCREASED WORKLOAD ADDITIONAL MANPOWER
SRO	2.165	9.69	-4.84	2.47	NO	
GRO	3.929	22.57	6.31	37.26	NO	ADDITIONAL MANPOWER PARTICUARY IN YEAR 3 (1991 CENSUS)
DRS	11.365	13.56	-4.60	2.54	NO	OVERTIME TO ALIMINATE BACKLOG.
WELSH OFF	37.681	7.44	-1.30	2.50	NO	
NI CIVIL SERV *	475.562	7.03	-0.39	2.49	NO	
COI	20.164	2.74	3.49	2.99	NO	
C+E *	407.367	14.00	5.44	5.28	YES	
RFS	3.484	34.12	-2.33	2.03	NO	EXTRA PROVISION FOR ACCOMMEDATION.
GAD	2.021	14.52	7.77	4.76	NO	REALISTIC PROVISION FOR STAFF.
IR *	977.736	10.10	3.50	3.00	NO	
DNS	156.177	2.84	2.49	2.50	NO	
NILO	1.196	9.9	-3.59	2.30	NO	ACCOMEDATION CHARGES.
HMT *	65.561	5.00	4.18	4.05	YES	
MPO *	29.697	3.91	2.26	2.47	NO	
CAB OFF *	18.316	7.87	6.33	1.20	NO	
C.C *	6.079	11.10	-4.29	2.50	NO	
LR *	100.097	16.71	5.06	4.90	YES	ADDITIONAL MANPOWER (LIKELY TO BE EXEMPTED FROM RUNNING COSTS BY 1.4.88).
OS	52.299	6.63	-2.27	2.50	NO	
PGO *	14.151	6.88	6.02	5.29	YES	ADDITIONAL MANPOWER IN YEAR 3.
PCO *	1.158	3.45	1.66	2.54	NO	
PRO *	11.006	5.11	0.08	2.49	NO	
OFT *	9.065	7.33	-10.84	2.50	NO	
OFGAS *	1.250	43.20	2.79	2.50	NO	YEAR 1 START UP COSTS.
OFTEL *	3.723	25.89	-19.84	2.50	NO	ACCOMMEDATION EXPENDITURE
PSA *	123.587	11.30	-2.73	3.14	NO	
OPCS *	34.360	8.09	7.88	29.73	NO	ADDITIONAL MANPOWER, PARTICUARY IN YEAR 3. (1991 CENSUS)
CR OFF *	16.892	9.66	1.06	2.49	NO	
NI CT SERV *	10.715	8.94	-5.08	2.50	NO	
CPS *	103.209	9.89	4.53	2.49	NO	
SFO *	1.500	218.66	-32.84	-14.54	NO	LARGE ACCOMMEDATION EXPENDITUR FOR YEAR 1.
T. SOL *	10.935	22.49	-15.08	2.34	NO	REALISTIC PROVISION FOR YEAR ONE.

* FORCAST OUT COME AT 22ND OCTOBER 1987.

RUNNING COSTS SPEAKING NOTE

1. As my paper records, the settlements I have reached for running costs in 1988-89 imply an increase over this year's provision of about 6%. We are at present on track for the April 1988 Civil Service manpower total of 594,000.

2. For the later years, I have reached firm settlements with 10 departments, based on management plans committing them to the 1½% a year efficiency gain target we agreed in July. Over 20 departments prepared such plans. I am grateful to colleagues for so co-operative a response to a requirement agreed at a relatively late stage in the Survey, and understand the timescale difficulties of some of the larger and more complex departments. I hope that the policy of agreeing firm later year provision, based on suitable management plans, will be fully achieved in the next Survey.

12/2

Papers PS

FROM: MS F HOUSTON

DATE: 23 October 1987

AB 26/10

1. ~~MS BOYS~~

2. CHANCELLOR

cc Mr Anson
Miss Peirson
Mr Call
Mr Tyrie

PRESCRIPTION CHARGES

Following a suggestion that doctors should issue different coloured forms to prevent the fraudulent claiming of free prescriptions, you expressed an interest in seeing DHSS' estimate of the extent of losses and on what it was based. I am sorry that work on PES had delayed my reply to your query.

2. DHSS estimate that the rate of incorrect claims is running at 1.0 per cent of exemption claims. At today's prescription charge (£2.40 per item) this represents a loss of £6-7 million a year, around 5% of total prescription charge income. A small part of this sum, about £20,000, is recovered. This estimate is based on a random sample drawn at 1 in 750 for those claiming exemption on age grounds and at 1 in 250 for others, producing an overall sample of about 21,000 forms. The forms are sent to Family Practitioner Committees to check on eligibility for exemption. About 90% of the sample are resolved before the report on the exercise is submitted.

3. Under the existing arrangements, patients declare their exemption status on the prescription form. DHSS have in the past considered the possibility of reducing fraud by asking either doctors or pharmacists to check this declaration. Both professions are reluctant and would require payment for the extra task . If doctors checked only those claiming exemptions, some 175 million forms would require verification and any fee would need to be less than 3.5p per check if the cost of checking were not to exceed the current estimate of fraud losses. In addition doctors have maintained that inquiring about eligibility for social benefits would interfere with the doctor/patient relationship.

Frances Houston

MS F HOUSTON

292/10

Alex.

What does he mean → a loss of 5%

is not v serious ?

psl/40A CONFIDENTIAL

pvp

FROM: A C S ALLAN
DATE: 23 October 1987

MR R I G ALLEN

cc PS/Chief Secretary
Mr F E R Butler
Mr Turnbull

PES/AUTUMN STATEMENT

The Chancellor was grateful for your minute of 23 October. He was content with the line you proposed, subject to the following points:

(i) on Star Chamber, he thought your points should be made only if pressed; and he thought the first point should be shortened to read "it was, as usual, a tough survey.";

(ii) on timing of Public Expenditure Cabinet, he feels we must stonewall today - and on Monday too, preferably;

(iii) on timing of Autumn Statement, he would delete the part of your line which says that "it is operationally very difficult for the whole AS shooting match to be put together immediately after a 2/3 hour Cabinet" and rest on the simple point that last year was exceptional.

ACSA

A C S ALLAN

744/68

FROM: R I G ALLEN
DATE: 23 OCTOBER 1987

CHANCELLOR

cc Chief Secretary
Mr F E R Butler
Mr Turnbull

Ch
OK?
AA

Thanks
OK as [illegible]

PES/AUTUMN STATEMENT

We ought to agree a line to take with the press in handling three (related) kinds of question which are likely to crop up over the next few days:

(i) Star Chamber/outcome of the Survey;

(ii) Timing of the Public Expenditure Cabinet;

(iii) Timing of the Autumn Statement.

On (i), the Lord President's Office has suggested to the Chief Secretary's Office that an agreed line should be promulgated around Press Offices in all spending departments. On (ii) and (iii), we should encourage departments to refer questions to us in the first instance (with No.10 hopefully taking a similar line).

2. Bernard Ingham (No.10) told me that the line he intends to take this afternoon with the Sunday Lobby is:

- The Survey has now been virtually completed, but there are a few issues which need to be resolved.

- We are on course for a November Autumn Statement.

- But discussion of the Survey is not yet on the Cabinet agenda.

3. Star Chamber. There are reports in today's press (eg James Naughtie in the Guardian) that the Survey has now been

completed: the outcome being a reasonable deal both for spending departments and for Treasury. Andrew Turnbull and I think there is little to be gained from trying to deny that virtually all issues are now resolved without recourse to Star Chamber, and indeed some credit to be gained by acknowledging it. If ~~asked~~ only, we should say:

- It was, as usual, a ~~tuf~~ tough ~~a hard fought~~ Survey~~: there were the usual tough negotiations~~.

- In the event, no need for Star Chamber: though there are still some issues to be settled, these are not expected to require the Chamber.

- Await further details.

4. Timing of Public Expenditure Cabinet. Bernard Ingham is expecting to be pressed hard by the Sunday Lobby on this. He should be able to hold the line at para 2 above for the time being, but the 29 October date is likely to get into the public domain early next week. I do not think this would be a great disaster. What is clearly important is that nothing is revealed about substance - deals with individual departments, figures, etc. But on timing I would not be inclined to stonewall too strenuously.

5. Timing of Autumn Statement. If the 29 October date should get out, we shall inevitably be asked whether the AS will be published on the same day, as last year. I would be strongly inclined to steer the press away from this view by pointing out ~~that it is operationally very difficult for the whole AS shooting match to be put together immediately after a 2/3 hour Cabinet. And we can point out~~ that last year was exceptional, given that Parliament was about to be adjourned for prorogation.

6. Do you and the Chief Secretary agree to the above?

RA

R I G ALLEN

must stonewall to-day — & on timing too, preferably.

pso.jt/Sargent/6.25.10

CONFIDENTIAL UNDER PART V OF THE 1987 BANKING ACT

From: S D H SARGENT

Date: 25 October 1988

MRS LOMAX

cc PPS
PS/Economic Secretary
Mr Scholar
Miss Noble

BCCI

Sir Peter Middleton spoke to the Deputy Governor this morning. He said that he assumed that the Bank was keeping a close watch on the BCCI situation. The Deputy Governor confirmed that this was the case. He said that the Bank had imposed conditions on their business here to ensure that there was no loss of assets from the UK nor any inflow of unnecessary deposits. They were keeping in touch with the Luxembourg authorities. They understood that BCCI were not under any liquidity pressure at present. Sir Peter Middleton remarked that the drugs issue could blow up at any time. The Deputy Governor said that DTI had asked the Bank to investigate an account started by some former BCCI members. The Bank had had to tell DTI that they did not possess the powers to do this.

S D H SARGENT
Private Secretary

CONFIDENTIAL UNDER PART V OF THE 1987 BANKING ACT [redacted]

FROM: MRS R LOMAX
DATE: 19 OCTOBER 1988

NOTE FOR THE RECORD

cc: Principal Private Secretary
PS/Economic Secretary
Sir P Middleton
Mr Scholar
Miss Noble o/r

BCCI

I had a further word with Mrs Strachan last evening, about the auditors, and about the general progress of the Customs investigation.

<u>The auditors</u>

2. Customs' solicitors have now had a chance to study Price Waterhouse's letter, and they have concluded that the auditors may have a problem in respect of their worldwide auditing activities, though they seem to be in the clear in respect of their UK role. The problem is that the Tampa-based company seems to have been responsible for money laundering some £30 million; if in fact Price Waterhouse audited the accounts (and this is not clear), it would be odd for them not to have noticed anything. So Customs cannot rule out the possibility that Price Waterhouse have laid themselves open to prosecution by the US authorities .

3. The next stage will be a letter from Mrs Strachan, inviting Price Waterhouse to come in for a meeting. She will keep us in touch with further developments.

The general investigation

4. Mrs Strachan has confirmed that Customs investigators would speak to the Bank Supervisors before taking any action against BCCI in the UK. (This is not in prospect at the moment.) It seems fairly clear that the US authorities will be prosecuting BCCI as a Group.

Other matters

5. I have passed the above information to Roger Barnes. He has confirmed that Mr Callaghan was acting for BCCI, in some consultancy capacity, during the recent Berlin meetings. The Supervisors do not think there is a longer term relationship between Mr Callaghan and BCCI. Signing up distinguished people in this way is, apparently, very much BCCI's style.

RL

RACHEL LOMAX

CONFIDENTIAL UNDER PART V OF THE 1987 BANKING ACT

Pmp

FROM: MRS R LOMAX
DATE: 18 OCTOBER 1988

SIR P MIDDLETON

cc: Principal Private Secretary

BCCI

Following our conversation this morning, I have spoken again to Valerie Strachan and explained why BCCI is a supervisory worry, and why it is desirable to forewarn the banking supervisors of any action that might add to these worries. She said she would talk again to Customs investigators, to find out the exact state of play, and come back to me. We agreed that it might then be sensible for us to have a meeting, possibly with you: I also suggested that any subsequent contact with the Bank could, if Customs preferred, be at Permanent Secretary/Deputy Governor level. They will understandably be extremely anxious not to do anything to tip off BCCI.

2. In the meantime, I think it would be premature to drop any hints to the Bank, at any level.

RL

RACHEL LOMAX

CONFIDENTIAL UNDER PART V OF THE 1987 BANKING ACT

FROM: MRS R LOMAX
DATE: 17 OCTOBER 1988

NOTE FOR THE RECORD

cc: Principal Private Secretary
PS/Economic Secretary
Sir P Middleton
Mr Scholar
Miss Noble o/r
Mr Kroll

BCCI

John Beverley rang on Friday evening to report the outcome of a stocktaking meeting that afternoon with BCCI and its auditors, Price Waterhouse.

2. BCCI have not had a good week: they are suffering financially, and other banks are showing an increasing reluctance to deal with them. The supervisors are monitoring the position closely.

3. A disturbing situation is also developing with the auditors, who have had legal advice to the effect that they may be open to charges of facilitating drug trafficking, under the Drug Trafficking Offences Act. This also gives rise to concerns about their position under their professional indemnity insurance. They are wondering whether it would be helpful (and permissible) to discuss their position with Customs & Excise.

4. The Bank, like the Luxembourg authorities who have also been informed, have told them to consider their legal position carefully. Privately, of course, the supervisors are worried at any prospect that Price Waterhouse might feel obliged to resign: that would be "an enormously serious step" for BCCI at this stage. John Beverley therefore wondered if I had any inkling of how

Customs might react, and specifically whether they would regard an approach from Price Waterhouse as somehow improper.

5. I therefore rang Valerie Strachan at Customs and explained the background. She said that she could not advise on the substance of Price Waterhouse's legal problem, but doubted whether their position was such that it would be materially affected by a delay of a few days. She would take further advice as soon as possible, but, at first blush, thought it might be sensible for Price Waterhouse to talk to Customs solicitors. I commented that the legal position was what it was, but it would be extremely helpful to have some early warning if it looked as if there was likely to be substance in Price Waterhouse's concerns.

6. I retailed these exchanges to John Beverley, and promised to report further on Monday.

RL.

RACHEL LOMAX

pso.jt/Sargent/2.17.10

CONFIDENTIAL UNDER PART V OF THE 1987 BANKING ACT

From: S D H SARGENT

Date: 17 October 1988

MRS LOMAX

cc PPS
PS/Economic Secretary
Mr Scholar
Miss Noble
Mr Kroll

BANK OF CREDIT AND COMMERCE INTERNATIONAL (BCCI)

Sir Peter Middleton has seen your minute to the Principal Private Secretary of 13 October. He does not like the look of this at all. He has asked whether, if the Bank is likely to have to assume some kind of responsibility for sorting this out, we should not let them know formally that we assume they have this in hand.

S D H SARGENT
Private Secretary

CONFIDENTIAL UNDER PART V OF THE 1987 BANKING ACT

CX office

NK's comments

FROM: MRS R LOMAX
DATE: 17 OCTOBER 1988

NOTE FOR THE RECORD

cc: PPS
PS/Economic Secretary
Sir P Middleton
Mr Scholar
Miss Noble
Mr Kroll

(see also PEM comments also) NM @ below

BCCI

Valerie Strachan (Customs) rang this morning to follow up our conversation of Friday evening about the auditors (see my minute of earlier today). Roger Barnes (Bank) also gave me a further run down on current supervisory action..

The Auditors

2. Mrs Strachan confirmed that the Customs investigators are not interested in the auditors at this stage. As for the auditors' legal position, that would inevitably depend on the facts of the case. However, if the auditors had been operating within the standard guidelines, they should have nothing to worry about. Specifically, if their concern about the Drugs Trafficking Act arose from Section 24(ii) (which refers to persons "indirectly facilitating" drug trafficking) their anxieties were almost certainly misplaced. On the other hand, if the auditors had inspected particular accounts covering wrongdoing, or if they had suspected that something was amiss, and had failed to take action, they could be in difficulty.

3. She saw no particular reason for the auditors to speak to Customs, and noted that it would not be possible to give them any cast iron assurances, or indeed go much beyond the general advice recorded above. However, if the auditors would be reassured by hearing this general advice directly from Customs, there was no objection to their seeking an interview.

4. I passed this message on to John Beverley at the Bank. He had been in touch with Price Waterhouse, following our conversation on Friday evening and had told them that the Bank felt their particular concerns about the drafting of the Drug Trafficking Act were almost certainly misplaced, but that it would not seek to dissuade them from approaching Customs, if they felt they needed further advice. However, he suggested that they took a little time to set down their particular concerns on paper.

5. The upshot is that Price Waterhouse will be writing to Customs shortly.

Supervisory Action

6. Roger Barnes reports that the Bank have suggested to the Luxembourg authorities that they should call and chair a meeting of the College of Supervisors to explore the facts about BCCI's current liquidity. This would also involve supervisors from Abu Dhabi, where the Group's central treasury is situated, and Price Waterhouse, the auditors. The Bank will not take decisions about ring fencing the UK assets until this meeting takes place.

7. BCCI's UK balance sheet, in sterling and foreign currency, amounts to some £1.7 billion, of which roughly half consists of assets booked in the UK, and the rest represents liquidity of various sorts, mostly claims on Abu Dhabi. The UK operation, which consists of some 19 or 20 branches, is a substantial net deposit gatherer for the rest of the Group. Most of the deposits come from the Muslim community here and elsewhere in the world; reliance on wholesale funding is relatively limited. In present circumstances, this may provide something of a breathing space, since the deposit base is probably rather stickier than it might be if the Group were heavily dependent on inter-bank money. On the other hand, the potential call on the Deposit Protection Fund, in respect of sterling deposits (if it came to that) would make "a very nasty dent" on the Fund. For the time being, however, the supervisors see no immediate problem, and do not feel impelled to

ring fence the UK operation before there has been full information sharing with other key supervisors.

8. Finally, the Economic Secretary asked whether the supervisory arrangements for this bank were unusual: the answer is yes, very. Indeed, as far as the Bank are aware, it is the only Group for ~~whom~~ which there is an international college of supervisors: the reason is that the bank itself is very much <u>sui generis</u>.

RL.

RACHEL LOMAX

AA

I do not understand Tony's comment (Star + Island). When [illegible] the Bank assumed responsibility for supervising BCCI [illegible] on the whole [illegible] did they not? There cannot be any systemic threat. (Or is laundering drug money an offence under the Banking Act?)

3

fim.md/rl/pps13.10

CONFIDENTIAL UNDER PART V OF THE 1987 BANKING ACT

PR. Are Rest not Ld Callaghan's letter from Sparkes? (on behalf Parlia)

FROM: MRS R LOMAX
DATE: 13 OCTOBER 1988

PRINCIPAL PRIVATE SECRETARY

cc: PS/Economic Secretary
Sir P Middleton o/r
Mr Scholar
Miss Noble o/r
Mr Kroll

BANK OF CREDIT AND COMMERCE INTERNATIONAL (BCCI)

In the light of Wednesday's press coverage, I spoke to John Beverley about BCCI, and specifically about present arrangements for supervising this far-flung Group.

2. As far as the drug charges go, the Bank know very little more than is in the papers. They have been in touch with the London branch, who vigorously deny all allegations, and claim they have been set up. The due processes of the law will now have to take their course; in the meantime, press interest is considerable, and this is bound to be a source of some concern to the supervisors - the more so since BCCI is already a bank with something of a reputation.

3. The difficult issue, picked up by the Times (see attached article) is where responsibility rests for supervising this Group, and who will have to pick up the pieces if something goes badly wrong. Judging by odd remarks dropped by Brian Quinn over the past year, the Times is not entirely wide of the mark - though the Bank has not attempted to shuffle off its responsibilities to quite the extent implied by the Times.

4. The situation is as follows. The Luxembourg holding company has two subsidiaries, one incorporated in Luxembourg, the other in the Cayman Islands. The London operation, which is a very significant part of the Group's activities, is a branch of the Luxembourg subsidiary. There are branches in a further 70 countries. The Luxembourg authorities have for some time been attempting to exercise consolidated supervision over the Group but their resources are inadequate. As a result of discussions with

the Bank it was decided to set up a college of supervisors consisting of Spain and Switzerland as well as the UK and Luxembourg. This held its first meeting last June in Luxembourg. A further meeting is planned for later this year also in Luxembourg. Thereafter chairmanship of the college will pass to the UK - and the membership may also come under review since other supervisors (eg the Cayman Islands, Hong Kong and the Gulf States) also feel themselves to be heavily involved.

5. That is by way of background. The reality is that the arrangements for supervising this Group are not very satisfactory, and nor is the structure of the Group itself: indeed, as the supervisors admit, they would do their best to prevent such a Group coming into existence nowadays. But BCCI has been going since the early 70s, and it is always much more difficult to mount a case against an existing institution than to reshape a new operation. Be that as it may, the Luxembourg authorities are not in a position to assume lender of last resort responsibility for this Group, and no one else will be rushing forward. If things go really wrong, the Bank may find it extremely difficult in practice to avoid assuming some kind of responsibility for sorting out a mess. However, the supervisors are reluctant to acknowledge this and are vigorously rubbishing press speculation on these lines.

6. It goes without saying that the supervisors are monitoring the situation very closely indeed.

RL

RACHEL LOMAX

chex.ul/aa/1/25

SECRET AND PERSONAL

pp

FROM: A C S ALLAN
DATE: 25 OCTOBER 1988

SIR P MIDDLETON

BILATERAL WITH THE CHANCELLOR: THURSDAY, 20 OCTOBER

This is to record the main points raised at your bilateral last week.

Autumn Statement Timetable

2. The Chancellor said the two options for the timing of the Autumn Statement were Cabinet and the Oral Statement on 1 November; or Cabinet and the Oral Statement on 10 November. Having both on 1 November would be preferable, but the timing would be very tight. He had agreed with Mr Parkinson that there should be a meeting of Star Chamber on Monday, at which the Chief Secretary would simply report on progress without giving numbers.

J M B

3. You noted that this had been settled satisfactorily. The Chancellor agreed and said he hoped an announcement could be made immediately.

Independent Bank of England

4. The Chancellor said he was grateful for your paper, which he would read over the weekend. He noted you had set a high hurdle in your cover note in saying we needed to be sure that it would produce a better inflation outcome.

September Exports

5. You and the Chancellor discuss the fiasco on this. You agreed that the DTI press notice should include a form of words on the lines that adjustments had been made by the statisticians in order to deal with the effects of the postal strike, but as a result, exports might have been overstated by £200 million - or whatever number was agreed.

Intelligence Expenditure

6. The Chancellor said he thought there was little point in the Chief Secretary holding a meeting with the Foreign Secretary, the Home Secretary and the Defence Secretary, since it was clear there was little prospect of movement on any side. The options were probably either for the Chief Secretary to hold the meeting, but for him to give way there; or to accept that there was an impasse and ask the Prime Minister to arbitrate - and it was not difficult to surmise which side she would favour. You said you thought there was no sense in wasting a lot of time on this. The important thing was to get into a position where we could exercise more effective control in the future. You were inclined to recommend that the Chief Secretary should minute the Prime Minister conceding the bids and putting down some markers about the timetable for the future. The Chancellor agreed.

Security Services Bill

7. The Chancellor said he was happy to minute to Prime Minister of the lines you recommended, but he thought it could be counter-productive to single out examples such as rail warrants which the Prime Minister was likely to consider trivial. You agreed, and said you would commission a new draft.

BP/KIO

8. I have minuted out your and the Chancellor's conclusions on this separately.

BCCI

9. You said you were somewhat concerned that things could go wrong on BCCI and the Bank might get sucked in. The Chancellor said he thought there was some danger in putting these worries explicitly to the Bank; it might be better to say simply that there were considerable political implications and we trusted that they would keep us closely informed. You agreed.

Successor to Sir A Wilson

10. The Chancellor agreed with the recommendation in your minute.

IFS Seminar on Effect of Higher Rate Tax Cuts

11. The Chancellor said that Mrs Chaplin had been invited by the IFS to take part in this seminar some time ago. The Chancellor thought that it was reasonable to let her do this, since what she would be saying would be fully in line with Government policy; he would ask her not to take too high a profile. You said you thought this was perfectly acceptable.

Duties of Special Advisers

12. The Chancellor thought the most sensible allocation would be for Mrs Chaplin to handle general economic policy, including the presentation of policy, monetary policy and the exchange rate; for Mr Tyrie to concentrate on tax issues, though with Mrs Chaplin retaining a general oversight; and for Mr Call to keep public expenditure and privatisation. You agreed.

Performance Pay for Grades 2 and 3

13. The Chancellor noted that the Prime Minister was unhappy with the Treasury proposals. He had persuaded her to consider an option which left grade 2 as proposed and for grade 3 gave one increment instead of none, with the whole package constrained not to cost any more. He would ask Mr Kelly to work up a package on these lines. You agreed.

RPI and Community Charge

14. The Chancellor reported that the Prime Minister felt very strongly that the Community Charge should not be in the RPI since it was a direct tax. But she accepted that we could not run the risk of paying out £3 bn to redeem indexed gilts. She had originally wanted to exclude the Community Charge from the RPI, but run a separate, parallel index including the Community Charge, for use only with existing indexed gilts. The Chancellor had persuaded her that this was impracticable, but they had agreed that the line to be put to the RPIAC should be a neutral one between options (b) and (c).

15. You and the Chancellor also discussed the more general problem of the RPI. The Chancellor thought that it would in due course be sensible to consider how to move from what was increasingly a cost of living index to a proper consumer price index; you said you would consider how to take this forward.

Ministerial Security

16. You said that you and Mr Battishill would want to come and discuss this with the Chancellor shortly.

SECRET AND PERSONAL

Treasury Solicitors Department

17. You reported that Michael Saunders, currently the Legal Secretary to the Attorney General, was likely to be appointed as the Customs' Solicitor. The Attorney General was thinking of trying to get Miss Wheldon as Mr Saunders' replacement, but you had said this would not be acceptable to the Treasury, since Miss Wheldon was needed on her present duties. The Chancellor agreed.

NEDC

18. The Chancellor noted that he would need to take this up with the Prime Minister shortly. If an approach needed to be made to Mr Hammond to sound him out to see if he would be willing to serve on NEDC, then it might be best if the Chancellor himself did this.

IPCS

19. You noted that there were increasing problems over reaching agreement with the IPCS; Mr Kelly would be putting up a submission and it might be necessary to hold a meeting.

ACSA

A C S ALLAN

CONFIDENTIAL

FROM: J P MCINTYRE
DATE: 26 OCTOBER 1987

CHIEF SECRETARY

cc Chancellor
Sir P Middleton
Mr F E R Butler
Mr Anson
Mr Scholar
Miss Peirson
Mr Turnbull
Mr Gieve
Mr Gibson
Mr Cropper
Mr Tyrie
Mr Call

SOCIAL SECURITY: UPRATINGS STATEMENT

We received late on Friday the attached draft statement to be made tomorrow by Mr Moore. Although it is broadly satisfactory, we have some comments you may wish to consider; these are marked up on the draft.

2. The draft is perhaps notable for what it does not say. It does not specifically refer to the cuts in income support of 50p for single people and £1 for couples below the rates in the 1985 White Paper (revalued). This, we understand from DHSS officials, is because Mr Moore wants to avoid, if he can, criticism based on precise figures.

3. However, although the ROSSI index upto September 1987 will not have been published, it is not too difficult for the Opposition to work out roughly what has happened. (See, for example, this morning's Independent which reports Mr Cooke as alleging cuts of upto £1; copy attached).

4. Moreover, paragraph 8 of the draft statement, as currently drafted, admits that there is a real terms cut in income support when the effect of domestic rates compensation is excluded.

5. You may want to accept Mr Moore's judgement on the omission of 50p/£1, though it will be hard for him to deny the numbers if

challenged. But you might want to question the reference in paragraph 8 to rates.

6. The other omission from the draft is the decision to increase voluntary unemployment deductions. When Mr Scott wrote to Mr Wakeham on 7 October about forthcoming social security announcements he said that this decision (which requires amendment to regulations rather than new legislation) would be announced in the uprating statement. We understand from DHSS that they now intend to announce this on 2 November, during 2nd Reading of the Bill. Mr Moore wants to avoid too much bad news in one go. We assume you would not want to press him on this point.

7. We think the draft is generally satisfactory as it stands, but there are a number of points you may want to consider putting to Mr Moore. In particular:-

(a) Para 5 lays too much emphasis on the new income-related benefit rates bring proposals and subject to consultation with Local Authorities.

(b) Para 8 places too much stress on the structural impact of the reforms and does not take enough credit for transitional cash protection given to income support claimants.

8. I understand you are concerned about the Social Fund arithmetic (para 11). We have been through this and are sure it is consistent with agreed PES provision of £120 million for 1988-89. We can take you through this if that would be helpful.

9. I attach a draft letter. As the statement is tomorrow, you will of course have to write as soon as possible today if you want to alter it.

J P MCINTYRE

JW0433t/3 CONFIDENTIAL

UPRATING STATEMENT: DRAFT 5

1. With permission, Mr Speaker, I wish to make a statement about the next uprating of social security benefits and the introduction of a reformed system of income-related benefits. This will take place for most benefits in the week beginning 11 April 1988, the first full week in the tax year, and the same provisions will apply in both Great Britain and Northern Ireland.

2. The Retail Price Index published on 9 October, showed an increase in prices over the twelve months to September 1987 of 4.2 per cent. Retirement pension will accordingly rise from £63.25 a week for a married couple to £65.90, and for a single person from £39.50 to £41.15. These increases of £2.65 and £1.65 a week respectively mean that the cash amount of basic retirement pension has increased by almost £35 a week for a couple since this Government came to office. This is an increase of X per cent in real terms. The increase will add some £780 million to the social security budget next year. It must be seen in the context of significant improvements in pensioners' total incomes; Today state pension provision represents on average only about half of pensioners' net incomes - and those net incomes these have risen by 18 per cent in real terms since 1979. The uprating increases will ensure that the value of this provision is maintained. They are fully in line with our pledges to pensioners and recipients of other linked long-term benefits.

3. I have decided to uprate all contributory benefits, benefits for the disabled, war pensions and similar benefits by 4.2 per cent also. The details of what this will mean for individual benefits are set out in a full schedule of rates which, as previously, is now available in the Vote Office and will be printed in the Official Report. Public service pensions will likewise increase by 4.2 per cent, as will statutory sick pay and statutory maternity pay paid by employers. Because of the payment arrangements for SSP and SMP, the changes will take effect from the start of the tax year.

4. In April 1988 we shall be introducing our new system of income-related benefits. Supplementary benefit will be replaced by the simpler income support; housing benefit by a reshaped system aligned with income support; and family income supplement by the new family credit which will provide help to more than twice as many low-paid working families. This new, more coherent and better targetted structure will direct help more clearly where it is most needed and will foster incentives to work.

5. I shall shortly be laying before the House regulations for the new benefits. Since these are new schemes the regulations will include the relevant rates. I shall also be laying revised regulations on claims and payments which will provide common basic provisions between benefits. SUBSTITUTE REVISED VERSION [Earlier this month I consulted the local authority associations as I am required to do under the Social Security Act 1986, on the proposed rates for housing benefit. Because of the close alignment of the benefit rates for all 3 income related benefits, final decisions cannot be reached until I have considered their responses. Nevertheless, for the convenience of the House, I have included in the schedule of rates available in the

Vote Office the proposed housing benefit rates as issued for consultation, together with the rates for income support and family credit which would be consistent with those proposals. The schedule also covers our proposals for board and lodging limits for the coming year.

6. The income support rates proposed are £33.40 for single people aged 25 and over and £51.45 for couples. These would also apply as the applicable amounts for housing benefit purposes and as the threshold in family credit. The family premium would be £6.15, the premium for a single pensioner £10.65, and for couples £16.25.

7. The personal allowances include the average amounts which we expect householders who are income support claimants will have to pay next April as their minimum contribution to domestic rates. These amounts are £1.30 for couples, lone parents and single claimants aged 25 and over, and £1.00 for other single claimants over 18.

8. Compared with the illustrative figures published at the time Parliament approved the reformed benefit schemes, the premium payments would be some 6 1/2 to 7 per cent higher - essentially the movement in the relevant price index. The personal allowances,
X leaving aside the element for domestic rates, would be some 4 1/2 to 5 per cent higher; including that element they would be 7% to 9% higher. So, overall income support claimants would be receiving higher real levels of benefit than under the previous figures. The number of gainers from the structural reform would rise

by a million - from 2.2 to 3.2 million - and the number of losers would fall slightly - from 3.8 to 3.7 million, and as promised we shall be spending £200 million next year to ensure that no-one on income support loses in cash terms. When this is taken into account, there will be over 5 million gainers, 2¼ million whose position will be unchanged, and fewer than 1 million losers.

X

9. We are proposing to introduce the capital limits, and the family credit and rate rebate tapers, at the same level as those illustrated in the Technical Annex. Under the new scheme, housing benefit claimants at all income levels will be fully reimbursed for any increases in their rent. In view of this, I now propose that the rent taper should be 65 per cent on net income - equivalent to 42 per cent on the present system of gross income for someone paying standard rate tax and national insurance.

10. For the convenience of the House I am today publishing tables which show the likely distributional effects of the new schemes. Copies will be placed in the Library and the Vote Office. I am particularly pleased to note that the figures show for sick and disabled people getting the disability premium an increase under the new scheme of [nearly £5] over £6 a week in disposable income. This is in addition to substantial increases in [planned] expenditure on the disability benefits themselves.

X X

11. Complementing the new structure of income related benefits, the social fund will be fully introduced next April. Its gross budget for community care grants and budgetting and crisis loans for the first year will be just over £200 million, of which some 70 per cent will be in the form of loans recoverable over a period. A separate annnouncement will be made concerning Social Fund provisions in Northern Ireland.

Families with children

12. I turn now to child benefit which currently costs over £4 billion, nearly 10 per cent of the whole social security budget. Every 10p increase has a net additional cost of over £40 million. Yet higher child benefit would be of greatest help to those who are already relatively well-off and whose living standards are already rising. By contrast, it would give no extra help to over 3 million children in families on benefit, including low income working families: they gain the same from the uprating whatever is done to child benefit. Against this background, [and the particular need to target help on those who most need it and to control the overall growth in social security expenditure,] I have concluded that an increase in child benefit would not be the best use of resources at present. I therefore do not propose to increase the rate next April. One parent benefit will however increase to £4.90, and the maternity payment from the social fund will be increased to £85. delete

13. Let me emphasise to the House that even with no change in the rate of child benefit, we will be <u>increasing</u>, not reducing, the overall level of resources devoted to families with children. We will be spending £220m extra on the new family credit and £100m extra on families in income support. By contrast a full uprating of
? child benefit would have cost £120m. Moreover family credit will go
140 directly to help low income working families with children and will reach twice as many people as the present family income supplement. Thus <u>more</u> will be spent on families overall, but the greatest emphasis will be on those with the greatest needs.

14. Mr Speaker, overall the uprating increases will add some £1.3 billion to a social security budget which already stands at over £44 billion this year. This is a substantial increase to spending on a programme which is already the biggest in Government. We believe that our proposals strike a fair balance between protecting the interests of the poorest and of those, such as pensioners, who have substantial reliance on state benefits; and protecting the interests of those whose taxes and contributions pay for benefits.

INDEPENDENT
26/10

ing on Thursday so that executive members can attend the meeting with Mr Ridley.

The backbench rejection of the compromise will come as a blow to the Cabinet's hopes of settling the unrest within the Tory Party over the issue.

He strongly supports the intro-

charge, ... does put a greater burden upon the poor, relative to the rich, and this must be a serious challenge to Conservatives, who on the whole have a strong basis of support throughout the country from all classes of society," Mr Biffen said in part of the interview.

portive industrial ... agreed to today's talks.

The local agreements will enable the introduction of the Fresh Start agreement, under which overtime is exchanged for guaranteed pay levels, at Wormwood Scrubs and Pentonville prisons in London and Camp Hill prison on the Isle of Wight within the November deadline set by the Home Office.

It will also relieve some of the strain on police stations in London which have been forced to cope with the extra prisoners.

Warnings from Peter Imbert, the Commisioner of the Metropolitan Police, that the effective policing of the capital could no longer be guaranteed, the overcrowded cells and the entrenched position of some association branches led to last week's hard line by the Government which appeared to force a climbown by the prison officers. Ministers are determined to force the association to deal with its militant members and allow the national introduction of Fresh Start early next year.

The Fresh Start package was drawn up following the dispute which led to the rioting in prisons last spring.

"We are anxious to crack this nut for good. The matter has just dragged on for too long and the association must sort itself out," a senior Home Office source said.

The association maintains the Government has reneged on an agreement to recruit an extra 950 officers nationally for Fresh Start and will only take on an extra 750.

Benefit switch to hit four million people

FOUR MILLION benefit claimants will lose out in a switch from supplementary benefit to income support to be announced tomorrow by John Moore, the Secretary of State for Social Services, **Colin Brown writes.**

Robin Cook, the Labour spokesman, yesterday accused the Government of cheating some of the poorest in society out of benefit increases of up to £1 a week.

Tory MPs also fear that the Government will not increase the value of child benefit in line with inflation, but will offer compensation through the new family credit, which is means tested.

They believe this would exacerbate the "Why work?" syndrome, and widen the poverty trap.

The annual uprating of all the main state benefits will be presented by Mr Moore tomorrow to show a wide range of increases. But figures presented to local authorities show that they conceal substantial losses in real terms for millions of claimants.

The figures are expected to be inflated because, for the first time, those on supplementary benefit will be expected to pay 20 per cent of their rates and the Government is committed to compensating the claimants for this amount. The increases will include £1.30 to cover this charge. "It's the most blatant case of cheating," Mr Cook said.

However, four million claimants, including the unemployed, will lose out, according to Labour's figures, because their benefit will be pegged until overtaken by the income supplement.

Mr Cook said he would be briefing the Labour backbenchers' social security committee before the statement to ensure a co-ordinated attack.

Mr Cook last night also urged the Government to improve the cold weather allowances, which had to be hurriedly revamped during this year's harsh winter.

Less than a ...

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AN UNCOM... laration in f... Britain's indep... terrent is the... policy paper ... lished today b... who support I... mer SDP le... merger with ... **Brown writes**

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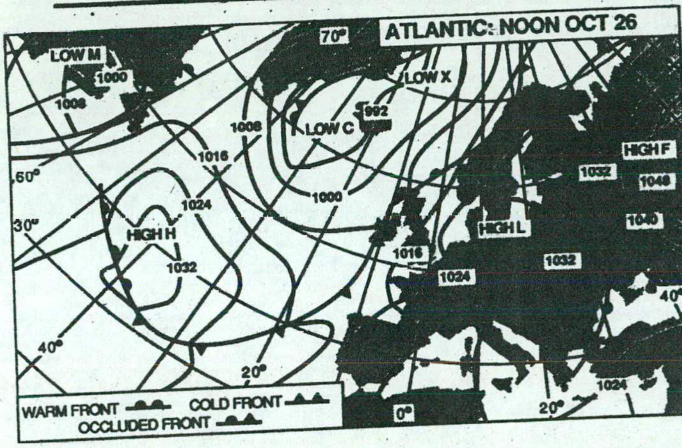
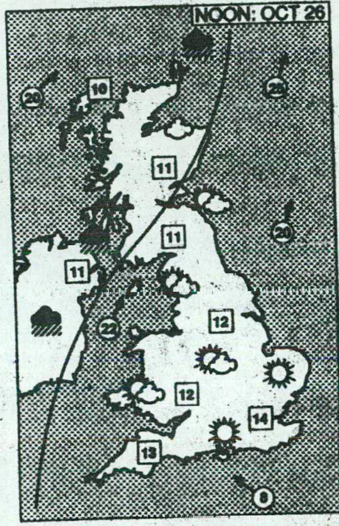
WEATHER FORECAST



High L will drift east merging with High F. Lows C and X are slow moving and filling. High H will drift east as Low M runs north.



TODAY'S FORECAST:
Scotland and Northern Ireland will have a cloudy day with rain at times some of which will be heavy but it will become mainly dry in eastern Scotland and the Borders in the afternoon. North-west England will have patchy cloud but also some sunshine. North-east, central and southern England and Wales will start the day cold, frosty and in parts foggy, but any fog will lift and clear in the morning and then there will be plenty of sunshine. Temperatures will be about average and winds will be moderate to fresh.

OUTLOOK: ...

WORLD WEATHER

YESTERDAY, MIDDAY: c, cloud; f, fair; fg, fog; r, rain; sn, snow; s, sunny

		C	F			C	F			C	F			C	F
Aberdeen	c	9	48	Carlisle	f	12	54	Kingston *	s	33	91	Peking	f	14	57
Aberdovey	s	11	52	Casablanca	c	20	68	Kuala Lumpur	r	32	90	Perth	s	21	70
Accra	f	31	88	Chicago	c	7	45	Las Palmas	f	21	70	Plymouth	s	14	57
Algiers	c	33	91	Christchurch *	c	18	64	Lerwick	c	10	50	Port-au-Prince*	f	32	90
Amsterdam	f	15	92	Cologne	s	11	52	Lima *	f	21	71	Port Stanley *	c	6	43
Ajaccio	s	24	75	Copenhagen	f	10	50	Lisbon	c	18	64	Prague	r	8	46
Akrotiri	f	25	77	Corfu	s	24	75	Liverpool	f	11	52	Reykjavik	r	4	39
Alexandria	c	25	77	Dakar	f	29	84	Lizard	c	12	54	Rhodes	s	24	75
Anchorage *	r	9	48	Darwin	s	33	91	Locarno	c	16	61	Rio de Janeiro	c	27	81
Anglesey	c	11	52	Denpasar	s	31	88	London	f	13	55	Riyadh	s	34	93
Athens	f	25	77	Dover	f	12	54	Los Angeles	s	24	76	Rome	c	26	79
Ayr	c	11	52	Dublin	f	11	52	Luxemburg	s	7	45	Ronaldsway	f	12	54
Bahrain	s	35	95	Dubrovnik	s	22	72	Madrid	c	16	61	Salzburg	c	12	54
Bangkok	s	32	90	Edinburgh	f	11	52	Majorca	s	29	84	San Francisco	s	25	77
Barbados	c	30	87	Faro	f	20	68	Malaga	c	21	70	Santiago	c	20	68
Barcelona	f	22	72	Florence	s	21	70	Malta	f	25	77	Sao Paulo	c	25	77
		24	75	Frankfurt	f	11	52	Manchester	s	10	50	Seoul	s	17	63

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The ... MSC, to ... Commiss... training.

Norma... State fo... new serv...

DRAFT

The Rt Hon John Moore PC MP
Secretary of State for Social Services
Alexander Fleming House
Elephant and Castle
LONDON SE1

UPRATING STATEMENT

Thank you for sending me a copy of the latest draft of your statement to be made tomorrow. I have a number of comments.

2. First, I am concerned about the drafting of paragraph 5. I appreciate that, under the Social Security Act 1986, you are required to consult the Local Authorities on the new housing benefit arrangements. For this reason, you are not able to announce the new housing benefit rates tomorrow as finally decided. However, I think there is a risk in the way the existing draft highlights this consultation process. It may encourage our opponents to believe that your proposals are less than firm and to campaign more strongly for a change of mind.

3. The other point which concerns me about this draft paragraph is the way in which consultation about housing benefit is linked to the two other income-related benefits. I do of course understand the importance of the alignment of all three benefits under the reforms. But the consultation requirement applies only to housing benefit, and I believe we

should avoid giving any impression that it extends to the two other income-related benefits.

4. For these reasons, I would like to propose a rather shorter draft paragraph 5. After the first three sentences of your draft, the text would read:

> "The regulations will be laid before the House early next month when my consultations with the Local Authorities on the housing benefit changes are completed. Because of the close alignment of the benefit rates for all three income-related benefits, the regulations covering income support and family credit will be laid at the same time as those for housing benefit."

5. You will still wish to refer to the figures for income-related benefits being available in the Vote Office. I suggest that this would be most conveniently handled by transferring the second sentence of paragraph 3 to the beginning of paragraph 10, so that it can be taken to refer to all benefits, not only the contributory benefits. The reference to board and lodging limits can be taken there also.

6. In paragraph 2 of the draft, I fear that the first half of the 6th sentence may be interpreted as an admission that state pension provision should have increased by more while we have been in office. My preference would be to delete

this but to retain the important point in the second half of the sentence namely that pensioners' total incomes have risen by 18 per cent in real terms since 1979.

On reflection, omit: real increase very small.

7. Earlier in the same paragraph, you might consider pointing out that the basic pension has risen in real terms as well as cash since 1979.

8. In paragraph 8, my preference would be to omit from the second sentence the reference to compensation for domestic rates. You will already have made clear in paragraph 7 that compensation has been included in the new benefit rates. I think it would be preferable in paragraph 8 to avoid emphasising again the separate nature of the rates compensation and instead to focus attention on the overall increase in income-related benefits compared with the Technical Annex.

9. Also in paragraph 8 I do wonder whether you should refer only to the gainers and losers profile on a structural basis, even though this is improved compared with the Technical Annex. I feel sure that an important point to be got across in our presentation of these decisions is the one in the final sentence, namely that we will be spending £200 million next year in transitional protection to ensure that there are no cash losers on income support. This is something we must take full credit for. I hope therefore you will also include in your statement the gainers and losers profile in cash terms, which shows over 5 million gainers, 2¼ million no change, and fewer than 1

million losers. In the same spirit, the improvement for the sick and disabled (para 10) could be given in cash terms at over £6 a week. (Also in para 10, I would prefer "planned" to be omitted from the last sentence, as it may be taken to imply policy decisions rather than estimating increases.)

10. In paragraph 12, the reference in the 5th sentence to targetting would be better omitted, if our further discussions on child benefit are not to be unduly circumscribed. As my officials have already told yours, I think it is important that we look at options other than means testing.

11. I am sending a copy of this letter to the Prime Minister.

JOHN MAJOR

NO

DEPARTMENT OF HEALTH AND SOCIAL SECURITY
Alexander Fleming House, Elephant & Castle, London SE1 6BY
Telephone 01-407 5522
From the Secretary of State for Social Services

David Norgrove Esq
Private Secretary
10 Downing Street
LONDON
SW1A 2AA

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

26 October 1987

Dear David

As requested at last week's Cabinet, I attach briefing on positive points in the social security uprating for the use of Cabinet members.

I am copying this to the private secretaries of Cabinet Ministers.

Yours ever
Bruce

Bruce Calderwood
Private Secretary

SOCIAL SECURITY BENEFIT UPRATING 1988: SUMMARY BRIEFING

Main points

- pensions and other contributory benefits to increase by 4.2 per cent in line with prices. This means an increase of £2.65 for a pensioner couple and £1.65 for a single pensioner - more than the two previous upratings put together.
- child benefit to stay unchanged at £7.25 per child. But one-parent benefit goes up from £4.70 to £4.90 and **total** resources devoted to families with children will increase by much more than a child benefit uprating would have cost. This is because extra money is going into the new family credit, which will reach twice as many low-paid working families as the present family income supplement (FIS).
- supplementary benefit will be replaced by the simpler income support. FIS by family credit and housing benefit will be restructured to align with the conditions for income support. The new benefits will be **simple, target help more effectively** and will **foster work incentives** by reducing the poverty and unemployment traps.
- changes will take effect mainly from 11 April 1988, the first full week in the tax year.

Lines to take

Pensions

We are pledged to maintain the value of the basic pension and we have done so throughout the life of the Government. But the case for increases higher than prices has to be looked at in the context of increases in pensioners' incomes as a whole. Because pensioners' incomes from sources other than pensions have been growing strongly in recent years, pensioners' total net incomes have in fact risen **faster** than the incomes of people in work over recent years. They have increased by 18 per cent in real terms between 1979 and 1985, compared with only 3 per cent between 1974 and 1979.

Child benefit

Child benefit is a worthwhile contribution to the costs of raising children. But increases in child benefit do not help those who are worst off. The extra money we are putting into family credit - about £220 million - and into help for families on income support - about £100 million - will go directly to assist those in greatest need. Child benefit is an expensive benefit and every 10p increase costs £40 million net. In the circumstances we did not feel we could justify using the available resources for a general uprating, which would have cost £120 million.

Other points: - one parent benefit increases from £4.70 to £4.90

- child dependency additions for people on long-term benefits increase from £8.05 to £8.40

- the maternity payment from the Social Fund will increase to £85, ahead of inflation.

Income Support

Level of new benefit rates

The new rates of housing benefit are subject to consultation with the local authority associations, and the rates of all 3 benefit rates are closely aligned. However, overall they are higher in real terms than the illustrative rates published in 1985 at the time the social security reforms were discussed by Parliament. This is because they include compensation of £1.30 for couples, lone parents and single claimants aged 25 and over, and £1.00 for younger single claimants, in respect of the 20 per cent contribution to domestic rates which all will now be expected to pay. However they are slightly lower than might have been expected simply from the uprating of the previous illustrative figures plus the compensation element. This decision was taken in the light of public expenditure priorities and the overall level of benefit available. They mean that as compared with the 1985 figures the number of **gainers** rises from 2.2 to 3.2 million whilst the number of **losers** drops slightly from S.8 to S.7 million. No one will lose in cash terms because there will be transitional protection, costing some £200 million next year.

A9/14

SECRET

FROM: J G COLMAN
DATE: 26 October 1987

CHANCELLOR

cc Financial Secretary
Sir P Middleton
Mr Monck
Mr D J L Moore

BSC AND BS

Specific briefing on BS is below (Mr Colman's minutes of 23/10 + 26/10) 26/10

This submission provides further briefing for tomorrow's meeting under the Prime Minister's chairmanship. Mr Clarke's minute of 22 October to the Prime Minister takes matters a bit further forward although most of the ground it covers will be familiar to you.

2. Taking his points in turn:

(i) agreed

(ii) agreed subject (of course) to the normal detailed appraisal of BSC's proposals;

(iii) these are strong arguments for an early announcement but the timing of the various announcements is a difficult issue which I discuss in more detail below;

(iv) DTI regard it as helpful that BSC are not formally ruling out Scotland at this stage as the location for the plate mill. That is helpful only in the sense that to rule it out publicly would make the package even less attractive in Scotland. But BSC are very clear that Scotland is not the place for the plate mill, so the contribution of BSC's formal position on this to the presentation of the package is prettry marginal. It carries the risk that under pressure we will be forced to admit that the plate mill is not realistically going to be built in Scotland;

COLMAN TO CH 26.10.87

(v) the BSC idea of putting (HMG's) money into seamless tubes has been buried - for the moment. The final sentence of this sub-paragraph gives Mr Rifkind the opportunity to resurrect it.

(vi) it seems to have been accepted at the Prime Minister's meetings on 8 and 24 July (when total early closure of Ravenscraig appeared to be possible) that a package of measures including an Enterprise Company would need to be put in hand. But the scale of job losses in Scotland now proposed will not be large in the short-term (400 in the hot strip will, 1800 at Govan) which will make it hard to explain any particularly open-handed approach to a jobs package for the Glasgow area.

Timing of announcements

3. This is very tricky, with a number of pieces to be fitted in the jigsaw, as follows:

a. tactical advantage in Brussels of announcing closure of hot strip mill (HSM) before 6 December;

b. wish **both** to avoid associating announcement of BSC privatisation with closure of HSM **and** to announce privatisation soon (to enable preparations to be carried on openly);

c. the wish if possible to avoid the BSC closures (which are in a sense "good" news - or at any rate not as bad as some had feared) being tainted as wholly bad by association with the BS announcement;

d. DTI Ministers' idea of announcing British Shipbuilders' (BS) closure **after** the "re-launching" of DTI planned for late January;

e. advantage of being seen to treat BS on all fours with Harland and Wolff;

f. our wish to avoid being forced to have **two** jobs packages: one to sweeten each of the two announcements of bad news (BS and BSC).

4. A further complication is the uncertainty about what the actual decision on shipbuilding will be. If, as we recommend, you are successful in securing agreement to immediate closure of both BS and Harlands, there is a lot to be said for an early combined announcement of that, of the HSM closure, and of whatever employment package may be agreed. But if the shipbuilding decision is for gradual closure as current work is completed, it may be argued that the announcement of that decision should be delayed as long as possible. In the case of BS, however, an announcement is needed for legal reasons (because legislation will be required), and in that event it is hard to see what is gained in presentational terms by delaying it, as Lord Young is said to wish, merely until February 1987.

5. We conclude that you should argue for an early combined announcement of all the bad news (BS, HSM, and Harlands). The presentational benefit of making the BSC news seem better by distancing it from the BS news seem to be very slight, given that everyone expects the Scots to take the BSC news very ill anyway.

J.G.C.

J G COLMAN

pup

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

27 October 1987

Dear Alex

PUBLIC EXPENDITURE

Your letter of 26 October to David Norgrove refers. The Prime Minister is content with the draft paper.

Yours ever

Andy

P A BEARPARK

A. C. S. Allan, Esq.
H.M. Treasury

153/007

CONFIDENTIAL

FROM: MISS M O'MARA

DATE: 27 OCTOBER 1987

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Paymaster General
Mr Anson
Economic Secretary
Sir G Littler
Mr Cassell
Mr Monck
Mr A J C Edwards
Mrs Lomax
Mr Peretz
Mr Turnbull
Mr R I G Allen
Mrs M Brown
Mr Mortimer
Mr Potter
Mr Watts
Mr Dyer
Ms Goodman
Mr Cropper
Mr Page - B/E

Ch/ Content with timing and draft? (see x)

OK - but small change.
2. The Bank press notice will need explaining notes to Editors. I would be grateful if the IDT could give them.

MDW 27/11

FOREIGN CURRENCY BORROWING: OFFICIAL EXCHANGE COVER SCHEME

You have agreed (Miss Wallace's minute of 26 November) with the Economic Secretary's recommendation that we should maintain the official exchange cover scheme but that in future potential borrowers should be offered no interest rate inducement to undertake foreign currency borrowing. We now need to make this decision public.

2. The Economic Secretary originally suggested we might announce withdrawal of the interest rate subsidy from 1 December (Mr Barnes' minute of 25 November). However, there is a possibility that this could give a misleading signal about the size of the reserves change in November to be published the following day. We therefore propose the change should be announced by means of an arranged PQ on 2 December. I attach a draft. We shall, of course, ensure that IDT are fully briefed on the link between the two announcements. If you agree, I should be grateful if Mr Dyer would ensure the question appears the Order Paper for 2 December.

There is no link

O'MARA TO CX 27 NOV

X 3. As in the past, we think it sensible to issue the arranged PQ as a Treasury Press Notice but would aim to do so in a low key way. If you are content, we will provide IDT with a text next week.

4. President Bröder mentioned at his meeting with you yesterday that whatever decisions you reached on future borrowing from the EIB, he hoped you would be able to agree transitional arrangements for six loans totalling around £75 million which had already reached an advanced stage. We suspect the EIB believe you intend to abolish the exchange cover scheme entirely. Your decision simply to withdraw the interest rate subsidy will make loans under the scheme less attractive to potential borrowers (and, as you know, we are not planning to impose the $25 million floor on individual loans until 1 February) but we shall discuss the possibility of transitional problems with the EIB when we inform them of the changes to the scheme next week.

MOM

MISS M O'MARA

153/005

DRAFT QUESTION

To ask the Chancellor of the Exchequer whether he will review the arrangements for providing exchange risk cover for official borrowing in foreign currency; and if he will make a statement.

ECONOMIC SECRETARY: The terms of the exchange cover scheme for official foreign currency borrowing have been reviewed in the light of this year's substantial increase in the UK's foreign currency reserves. My Rt hon Friend has ~~It has been~~ decided that exchange cover should only continue to be provided for official foreign currency loans of $25 million equivalent or above and that the interest rate benefit of ½ per cent currently available to those who borrow under the scheme should now be withdrawn. The $25 million limit will not apply to loans associated with grants from the European Community. Certain other minor changes have also been made in the scheme. Nationalised industries, local authorities and others are being informed of the details.

54:1

SECRET

FROM: MISS M O'MARA

DATE: 28 OCTOBER 1987

CHANCELLOR OF THE EXCHEQUER

cc
Chief Secretary
Sir Peter Middleton
Sir T Burns
Mr F E R Butler
Mr Scholar
Mr Sedgwick
Mr Turnbull
Mr J Hibberd
Mr S Matthews
B/002

CABINET: THURSDAY 29 OCTOBER

When I sent you briefing on the economic background for tomorrow's Cabinet with my minute of 27 October, I promised that we would let you have a revised version of any of the material, as necessary, in the course of today.

2. Following the changes to the forecast (on which you have a separate submission this evening), I attach revised briefs by EB and IF. I have deliberately given this minute a more restricted circulation.

DONE 28/10 TL

MOM

MISS M O'MARA

ECONOMIC BACKGROUND

59/1

SECRET

FROM: **MISS M O'MARA**
DATE: 27 October 1987

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir T Burns
Mr F E R Butler
Sir G Littler
Mr Anson
Mr Cassell
Mr HP Evans
Mr Odling-Smee
Miss Peirson
Mr Scholar
Mr Sedgwick
Mr Turnbull
Mr R I G Allen
Mr J Hibberd
Mr S Matthews
Mr McIntyre
Mr Mowl
Mr Riley
Miss Simpson
Mr Cropper
Mr Tyrie
Mr Call
B/002

CABINET : THURSDAY 29 OCTOBER

I attach briefing on the economic background (from EA, IF and EB), on the PSBR (from PSF), a short brief on NICs (from ST) and the key elements from the tax ready reckoner and figures for the movement in the tax burden (from ETS).

2. GEP are providing separate briefing on public expenditure and your speaking note. Your office will commission a separate note on latest developments in the market if necessary.

3. If any of the briefing requires updating, we will let you have a revised version in the course of tomorrow.

See note on previous page.
New pages substituted

MOM

MISS M O'MARA

FORECAST

CABINET BRIEF: ECONOMIC PROSPECTS

Factual

i. For main points of Autumn Statement forecast, see table 1 at Annex. For comparison of recent official forecasts, see table 2.

ii. Forecast assumes

- Sterling remains close to its present level.
- North Sea oil prices average around $18 per barrel until end of 1988.

iii. **Activity**

	percentage changes on year earlier		
	1986	**1987**	**1988**
GDP (average measure)	3	4	2½
GDP(A) excluding oil	3	4½	3

iv. **RPI inflation**

	percentage changes on year earlier		
	Outturn 1986Q4	**Forecast 1987Q4**	**Forecast 1988Q4**
RPI	3½	4	4½

v. **Comparison with outside forecasts**

	Autumn Statement		**Average independent forecast (October)**	
	1987	**1988**	**1987**	**1988**
GDP growth (per cent)	4	2½	3.2	2.4
RPI inflation (Q4; per cent)	4	4½	4.0	4.6
Current account (£ billion)	- 2½	- 3½	- 1.1	- 2.3
PSBR (£ billion; financial years)	1	not app	3.4	3.9*
Consumers' expenditure (% change)	5	4	3.8	3.5
Fixed investment (% change)	5½	4½	3.6	5.0
Exports (goods & services; % change)	5½	2	4.8	2.3
Imports (goods & services; % change)	6½	5	5.1	5.0

*Independent PSBR forecasts for 1988-89 based on diverse assumptions about prospects for tax changes in 1988 Budget.

vi. World economy: See separate briefing.

vii. PSBR: See separate briefing.

Positive

i. 1988 expected to show healthy growth with low inflation for sixth successive year. Longest period of steady growth at annual rate of around 3 per cent since War. Annual growth in 1970s only 2 per cent.

ii. Non-oil economy forecast to grow by 3 per cent in 1988, with 3½ per cent rise in manufacturing output following 5 per cent growth in manufacturing in 1987.

iii. Further substantial fall in unemployment likely in 1988 reflecting buoyant prospects for UK economy. Main danger to progress in reducing unemployment is too high a level of pay settlements.

iv. Unit labour costs in UK manufacturing sector set to grow more slowly than average of other major industrial countries during both 1987 and 1988.

v. Rise in manufacturing investment in 1987 likely to exceed 4 per cent shown by June DTI Investment Intentions Survey and likely to further accelerate in 1988. Whole economy fixed investment forecast to rise 4½ per cent in 1988 following 5½ per cent increase in 1987.

vi. CBI Q4 survey of manufacturers (published Tuesday 27 October) reports business confidence still high - prospects for growth remain good. Shows, in particular, largest positive response on employment prospects for over 10 years. But still few signs of overheating: price increases remains modest; rise in investment intentions shown earlier this year maintained in Q4 results.

Defensive

i. Economy overheating? Evidence as a whole suggests not. Forecast for 1988 is for continuing healthy growth at low inflation. Foundations for continued supply response strengthened by rising fixed investment (up 4½ per cent for whole economy in 1988 following 5½ per cent increase in 1987).

Current balance proving constraint to growth? Larger current balance deficit in 1988 reflects falling oil trade surplus together with conjunction of above trend growth in UK and below-par performance in rest of world. But no constraint on growth. Deficit small in comparison with both total UK holdings of overseas assets and UK GDP (less than 1 per cent)

iii. Growth based on consumption boom? No. Growth broadly based. Forecast for two years to 1988 shows 10 per cent total increase in fixed investment, 9 per cent increase in consumer spending and 7½ per cent increase in exports.

iv. Stock exchange fall? Underlying UK economic prospects remain sound.

v. Downturn in 1988? Forecast shows some decleration of growth in 1988 - not surprising following above trend growth this year. But growth still creditable: non-oil economy forecast to grow 3 per cent in 1988.

vi. External risks? External developments always uncertain. But despite stock exchange falls good prospects for steady growth in world trade and industrial countries' production during 1988. Inflationary pressures forecast to remain low.

vii. Inflation picking up in UK? Small rise in inflation forecast for 1988 reflects gradual feed through of this year's higher oil prices and conventional assumption of rise in specific duties in 1988 Budget following no change in 1987. But these factors temporary: remains Government's prime objective to keep inflation on underlying downward trend.

Contact point: P Allum (EA1) 270 5388.

Table 1 Economic prospects: summary

	Forecast 1986 to 1987	(before latest changes)	Forecast 1987 to 1988	Average errors from past forecasts[1]
	per cent changes			percentage points
Output and expenditure at constant 1980 prices				
Domestic demand	4	(4)	3½	1
of which:				
Consumers' expenditure	5	(4½)	4	1¼
General government consumption	½	(1)	½	1
Fixed investment	5½	—	4½	2¼
Change in stockbuilding (as per cent of level of GDP)	0	(½)	0	½
Exports of goods and services	5½	(2¼)	2	2½
Imports of goods and services	6½	(5½)	5	2¾
Gross domestic product: total	4	(3)	2½	¾
manufacturing	5	(4)	3½	2¼
Inflation				
Retail prices index	per cent changes			
1986 Q4 to 1987 Q4			4	¼
1987 Q4 to 1988 Q4		(4¾)	4½	2
Deflator for GDP at market prices	per cent changes on a year earlier			
Financial year 1987–88			4¼	1
Financial year 1988–89			4½	2
Money GDP at market prices	£ billion[2]			
Financial year 1987–88		(419 (8¾))	418 (8½)	1
Financial year 1988–89		(452 (7¾))	449 (7¼)	1½
Balance of payments on current account				
1987			−2½	1½
1988			−3½	3

[1] *The errors relate to the average differences (on either side of the central figure) between forecast and outturn; the errors given for constant price output and expenditure are relevant to the forecast for next calendar or financial year. The method of calculating these errors has been explained in earlier publications and Government forecasts (see Economic Progress Report June 1981). The calculations of average errors are based on forecasts made between 1975 and 1985.*

[2] *Per cent change on previous financial year in brackets; average error shown relates to the forecast of the percentage change.*

Table 2

Comparison of official forecasts

A Output

GDP (per cent change on year earlier)	1986	1987	1988
- 1986 Autumn Statement IAF	2½	3	not app
- 1987 Budget IAF	2½	3	2½†
- 1987 Autumn Statement IAF	3	4	2½

Manufacturing output (per cent change on year earlier)	1986	1987	1988
- 1986 Autumn Statement IAF	2½	2½	not app
- 1987 Budget IAF	½	4	3†
- 1987 Autumn Statement IAF	1	5	3½

B Inflation

RPI (per cent change on year earlier)	1987Q4	1988Q2	1988Q4
- 1986 Autumn Statement IAF	3¾	not app	not app
- 1987 Budget IAF	4	4	not app
- 1987 Autumn Statement IAF	4	not app	4½

GDP deflator (per cent change on year earlier)	1986-87	1987-88	1988-89	1989-90	1990-91
- 1986 Autumn Statement IAF	3	3¾	3½*	3*	not app
- 1987 Budget IAF	3	4½	4*	3½*	3*
- 1987 Autumn Statement IAF	3	4¼	4½	3½*	3*

* assumption

† 1988H1 on 1987H1

WORLD ECONOMY AND INTERNATIONAL COMPARISONS

Factual

(i) Growth slowed somewhat in 1987 in US and Europe, particularly Germany and France. But has strengthened in UK.

(ii) Inflation abnormally low in 1986, following fall in oil and other commodity prices. Risen a little this year as effects of fall in oil prices dropped out.

(iii) Unemployment fallen in major countries overall, chiefly reflects falls in North America and UK. Little change in rest of Europe.

(iv) German trade surplus seems to have levelled out and Japanese surplus seems to be declining. But not yet certain that US trade deficit has peaked.

(v) Interest rates risen in US since start of 1987, but fallen slightly in Japan. Fell in Germany from 4½ per cent at start of 1987 to 3.7 per cent in June, but then rose, reaching 5.1 per cent on 19 October before falling back a little. Among major countries, nominal short-term rates are highest in Italy and UK.

(vi) Autumn Statement forecast shows continued moderate growth of world output and trade:

	Per cent change on year earlier		
	1986	1987	1988
Major 7 economies			
Real GNP	2¾	2½	2
Real domestic demand	3¾	2¾	2
Industrial production	1	3	3¼
Consumer prices	2	2¾	2¾
World trade at constant prices			
Total	4¾	3½	3½
Manufactures	2	3¾	4

Source: Autumn Statement Table 1.1

WORLD ECONOMY

(vii) IMF forecasts for major 7 economies

Per cent change on year earlier

	Real GNP		**Inflation**	
	1987	1988	1987	1988
US	2.4	2.7	3.7	4.1
Japan	3.2	3.4	0.3	1.6
Germany	1.5	2.1	0.6	2.4
France	1.4	1.8	3.3	3.0
UK	3.4	2.3	4.2	4.5
Italy	2.5	2.3	4.5	4.9
Canada	3.5	3.2	4.4	3.9
Major 7	2.5	2.7	2.9	3.4

Source: IMF, "World Economic Outlook", October 1987.

Positive

(i) UK now into seventh consecutive year of steady growth. Expected to continue in 1988.

(ii) UK in 1987 fastest growing of major industrialised countries.

(iii) Of major countries, UK has experienced largest drop in unemployment rate over past year.

Defensive

(i) Slowdown in world growth. Temporary retardation last winter, especially in other European countries, but expansion now resumed. Fall in share prices points to some slowdown but recession not in prospect.

(ii) Inflation risen. Only to be expected once effect of 1986 oil price fall had worked through. Little sign of any underlying acceleration.

(iii) Autumn Statement forecast too optimistic. No. Takes account of recent falls in share prices.

(iv) Payments imbalances remain large. Acknowledge as major risk to sustained growth. Co-operation between major countries remains essential and countries must respect Louvre commitments. Action by US still needed to cut its budget deficit.

(v) Fall in share prices foreshadows recession. Share prices liable to sharp fluctation. Recent falls follow considerable rises on most world stock markets over many years. World economy remains fundamentally strong.

UK ECONOMY : RECENT DEVELOPMENTS

(i) Retail price inflation

- Annual increase fell to 2.4 per cent in mid-1986 (3.4 per cent for 1986 as whole). Rose to 4.4 per cent mid-1987; 4.2 per cent in September 1987.

- Excluding mortgage interest payments, running around 3½ per cent in year to 1987Q3.

(ii) GDP and components (1980 prices)

percentage changes from previous period

	1981H1 to 1987H1 average annual rate	1987Q2 on 1987Q1	1987Q2 on 1986Q2
Consumers' expenditure	3¼	1¾	4¼
General government consumption	¾	¾	¼
Fixed investment	4¼	1¼	6¼
Exports of goods and services	4¼	-1½	4¼
Imports of goods and services	6¼	4¾	7¾
GDP(A)	3	½	3¾
GDP(A) excluding oil	2¾	¾	4¼
Contribution of North Sea oil to GDP growth	¼	-¼	-½

(iii) Industrial production : in 3 months to August, nearly 1 per cent higher than previous 3 months, and over 3 per cent up on year earlier.

(iv) Manufacturing output: in 3 months to August, nearly 2 per cent higher than previous 3 months and nearly 6 per cent higher than year earlier. Productivity up nearly 7 per cent in year ending 3 months to August.

(v) Fixed investment :

- Total investment in 1987Q2 up over 6 per cent on year earlier.
- Manufacturing investment rose 6½ per cent between 1987Q1 and Q2.

(vi) Construction output : Down 3½ per cent between 1987Q1 and Q2, but in 1987H1, 7½ per cent higher than year earlier.
Construction orders (excluding Channel Tunnel) in 3 months to August up 18 per cent on year earlier; with Channel Tunnel, up 44 per cent.

UK DEVELOPMENTS

(vii) Current account

- Deficit of £1 billion in 1986. In first three quarters 1987 deficit of £¾ billion - less than ¼ per cent of GDP.

- Export volumes of goods and services up 4¼ per cent in year to 1987Q2. Non-oil export volumes of goods (excluding erratics) in 1987Q3 up 9½ per cent on year earlier.

- Import volumes of goods and services up 7¾ per cent in year to 1987Q2. Non-oil import volumes of goods (excluding erratics) in 1987Q3 up 12 per cent on year earlier.

(viii) Company sector

- Industrial and commercial company (ICC) profits (excluding oil) up over 20 per cent between 1985 and 1986; in 1987H1, 13 per cent higher than year earlier. Increased more than 1½ times since 1980 and up 50 per cent in real terms.

- For non-North Sea ICCs, profitability 9 per cent in 1986. Manufacturing profitability 7¼ per cent in 1986.

(ix) Employment up by over 1¼ million since March 1983. Risen for seventeen successive quarters; rate of increase strengthened in each of last five quarters.

(x) Unemployment level: 2,775,000 (10.0 per cent of working population) in September 1987. Seasonally adjusted total fell 54,000 in September; over last 12 months fallen by 408,000. Fallen for fifteen months in succession since June 1986. Fallen in all regions over past year.

(xi) Underlying rate of increase in average earnings rose slightly from 7½ per cent in first 3 months of 1987 to 7¾ per cent subsequently and in year to August. This rise more than accounted for by higher overtime hours, which were partially offset by effect of lower settlements.

P Patterson
EB Division (Ext 5207)
27 October 1987

3694/12

SECRET

PUBLIC EXPENDITURE CABINET BRIEFING

PSBR

(i) **Changes to PSBR forecast for 1987-88 since Budget**

		£ billion
General government expenditure		- 0.6
of which:	Planning Total	- 1.0
	Debt Interest	- 0.1
	Other Adjustments (incl PCMOB adjustment)	+ 0.5
General government receipts		+ 2.4
of which:	Non-North Sea receipts	+ 1.8
	North Sea revenues	+ 0.6
PCMOB		+ 0.1
PSBR		- 2.9

Lower GGE due to lower planning total - mainly reflecting higher capital receipts by local authorities and new towns.

Higher receipts partly due to higher oil price than assumed at Budget time. But to large extent, tax revenues higher because economy performing better than expected at Budget time.

PSBR

(ii) Public Sector Borrowing - Historical Statistics

	PSBR			PSBR excluding privatisation proceeds	
	Cash (£bn)	Real Terms (£bn, 86-87 prices)	Ratio to GDP (per cent)	Cash (£bn)	Ratio to GDP (per cent)
Av 1954-63 (Cal Yrs)	0.6	4.8	2¼	0.6	2¼
Av 1963-68 (Fin Yrs)	1.2	8.1	3¼	1.2	3¼
Av 1968-72 (Fin Yrs)	0.4	1.9	¾	0.4	¾
1968-69	0.4	2.2	¾	0.4	¾
1969-70	-0.6	-3.4	-1¼	-0.6	-1¼
1970-71	0.8	4.1	1½	0.8	1½
1971-72	1.0	4.7	1¾	1.0	1¾
Av 1972-81 (Fin Yrs)	7.9	18.9	6	8.0	6
1975-76 (peak)	10.3	28.5	9¼	10.3	9¼
1978-79	9.2	18.0	5¼	9.2	5¼
1980-81	12.7	17.8	5¼	13.1	5½
Av 1981-87 (Fin Yrs)	7.8	8.8	2½	9.7	3
1981-82	8.6	11.0	3¼	9.1	3½
1982-83	8.8	10.5	3	9.3	3¼
1983-84	9.7	11.1	3¼	10.9	3½
1984-85	10.2	11.1	3	12.3	3¾
1985-86	5.8	5.9	1½	8.5	2¼
1986-87	3.4	3.4	1	7.9	2
1987-88 Forecast	1.0	0.9	¼	6.0	1½

(iii) PSBR in 1985-86 and 1986-87

PSBR reduced to 1½ per cent of GDP in 1985-86, and to 1 per cent of GDP in 1986-87. Lowest levels of public sector borrowing since end of 1960s. Lower than at any time in 1950s as well.

(iv) PSBR excluding privatisation proceeds, 1985-86 and 1986-87

Excluding privatisation proceeds, PSBR in 1985-86 and 1986-87 around 2 to 2¼ per cent of GDP. Lowest levels since 1971-72. Similar to levels of public sector borrowing in 1950s and early 1960s.

(v) Forecasts for 1987-88

Now expect PSBR in 1987-88 to be around £1 billion, or ¼ per cent of GDP. Would be lowest level of public sector borrowing at any time since beginning of 1950s, with single exception of 1969-70.

PSBR excluding privatisation proceeds in 1987-88 expected to be around £6 billion, or 1½ per cent of GDP. Would be lowest level since 1970-71 - and lower than at any time since beginning of 1950s, except for three years from 1968-69 to 1970-71.

(vi) **1987-88 Outturn to date**

PSBR for six months April to September £1½ billion lower - excluding privatisation proceeds - than for same period a year earlier.

(vii) **International Comparisons**

General government financial deficits as percentage of GDP/GNP

	1974	**1976**	**1979**	**1985**	**1986**
US*	0.2	2.1	-0.6	3.3	3.5
Japan	-0.4	3.7	4.8	0.8	0.6
West Germany	1.4	3.4	2.6	1.1	1.2
France	-0.6	0.5	0.7	2.9	2.9
Italy	8.1	9.0	9.5	12.2	11.2
Canada	-1.9	1.7	1.8	7.0	5.5
UK	3.8	4.9	3.5	2.6	2.8
Total G7	0.8	2.9	1.7	3.3	3.3
EC	2.1	3.9	3.6	5.1	4.9

UK has improved relative position since 1979 - other countries budget deficits have tended to rise, but not UK's. For 1987, UK general government deficit likely to be around 2 per cent of GDP. Below G7 average, well below EC average - but still above Japan and West Germany.

[* NB general government ratio for US lower than often quoted Federal deficit, because of state government surpluses.]

PUBLIC EXPENDITURE CABINET: NATIONAL INSURANCE CONTRIBUTIONS

Factual

(i) Class 1 rates for employers and employees to remain unchanged, including reduced rates.

(ii) Lower Earnings Limit (LEL) to rise from £39 to £41 in line with state pension and Upper Earnings Limit (UEL) from £295 to £305. Relationship between LEL, UEL and basic pension set by statute.

(iii) Treasury supplement cut from 7 per cent to 5 per cent.

(iv) Limits for reduced rate bands uprated to give following structure of national insurance contributions:

Weekly earnings	Percentage NIC rate on <u>all</u> earnings	
	Employees	Employers
Below £41	(No NICs payable)	
£41 to £69.99	5	5
£70 to £104.99	7	7
£105 to £154.99	9	9
£155 to £305	9	10.45
Above £305	9 on £305	10.45

(v) Contracted-out rebate cut from 2.15 per cent to 2 per cent for employees and from 4.1 per cent to 3.8 per cent for employers (as announced by Mr Fowler in March 1987).

Positive

(i) No increase in Class 1 rates for fifth year in succession.

(ii) Value of reduced rate bands maintained by uprating earnings limits by £5.

(iii) Most employers and employees pay little or no more as result of changes. The maximum weekly loss resulting from the UEL increase is only £0.90 per week (for those contracted in). Many low-paid employees and their employers pay significantly less because of band upratings (up to £2.10 per week).

Defensive

(i) <u>Rates should have been cut to create jobs;</u> Benefit expenditure still rising rapidly (about £1 billion has been added to projected expenditure in 1988-89 since the PEWP).

(ii) <u>Why is Treasury supplement being cut?</u> Reflects healthy state of Fund. Expenditure on non-contributory benefits rising; this is paid out of taxes. Right therefore that taxpayer's contribution to NI benefits should be reduced.

(iii) <u>Why is contracted-out rebate being cut?</u> Rebate reflects cost to pension schemes of providing guaranteed minimum pension. Cost is decreasing with lower average age of scheme members. Maximum loss to employee is only 40 pence per week.

NIC's

TAX READY RECKONER

1. **Revenue effect of tax selected changes to finance expenditure:**

	£ million 1988-89	1989-90
Raise basic rate by 1p	1250	1600
Cut personal allowances and higher rate thresholds by 10 percent	2250	3075
Raise CT rate by 1 percent	360	560
Raise VAT by 1 percent	940	1310

2. **To finance £1 billion extra expenditure in 1988-89 would have to:**

Increase basic rate of income tax by 0.8p

or reduce personal allowances and higher rate thresholds by 4½ percent

or raise CT rate by nearly 3 percent

or raise VAT from 15 percent to 16 percent

or put 4p on a pint of beer
and 20p on a bottle of wine
and 40p on a bottle of spirits
and 20p on a packet off cigarettes

or raise all excise duties by 7 percent.

3. Indexation of income tax allowances and thresholds and inheritance tax thresholds will cost £965 million with 4 percent indexation.

4. With indexation and NIC bands announced in Autumn Statement, tax burden as a percentage of earnings will be higher than 1978-79 for

(i) single people earning less than about 70 percent male average earnings;

(ii) one earner married couples without children earning less than 95 percent male average earnings;

(iii) one earner married couples with two children earnings less than 120 percent male average earnings.

5. Overall tax burden

Forecast implies small rise in non-oil tax burden from 1986-87 to 1987-88.

	1986-87 outturn	1987-88 forecast
Non-North Sea taxes & NICs as per cent of non-North Sea GDP	37.5	37.8
Total taxes and NICs as per cent of total GDP	38.0	38.0

SECRET

FROM: A C S ALLAN

DATE: 28 October 1987

PS/CHIEF SECRETARY

cc Sir P Middleton
Sir T Burns
Mr F E R Butler
Mr Anson
Mr Monck
Mr Scholar
Mr Turnbull
Mr Luce
Miss O'Mara
Mrs R Butler
Mr R I G Allen
Miss Walker

PUBLIC EXPENDITURE BRIEF FOR 29 OCTOBER CABINET

The Chancellor has seen Mr Gieve's minute to the Chief Secretary of 27 October.

2. On the speaking note for the Chief Secretary, the Chancellor feels that Cabinet should be told of the sensitive points in the settlements - including something on student grants.

3. On Brief 3, the Chancellor feels that the first answer is not very suitable for the Prime Minister. For her, he suggests that the line should be:

> "It is firm control of public expenditure that has produced successful economy and rising prosperity. Essential we stick to it. As it is, we have substantial increases in planning totals, faster real growth in public expenditure in survey period, and only the most gradual decline in GDP ratios after 1988-89."

4. To the extent that a longer line would be helpful to the Chief Secretary, the Chancellor feels that the existing text should be amended as follows:

ACSA to PS/CST 28/10

(i) The third sentence should end "... fallen below the 1978-79 figures, largely thanks to the UK's strong growth performance". The fourth sentence should then be deleted.

(ii) The fifth sentence should end "... reining back the public sector - decline in ratios in future is slow."

5. The Chancellor feels that (b) of the second answer should be amended to read "Our objective is to allow the private sector to expand, not to suck more resources into public sector".

ACSA

A C S ALLAN

NET PAYMENTS TO COMMUNITY INSTITUTIONS

36/1

CONFIDENTIAL

FROM: J E MORTIMER

DATE: 28 OCTOBER 1987

CHIEF SECRETARY

cc: Chancellor
Paymaster General
Mr Edwards
Mr Gieve
Mr Addison

PUBLIC EXPENDITURE CABINET: NET PAYMENTS TO COMMUNITY INSTITUTIONS

I understand that you would like a short brief on this subject.

2. The relevant figures are:

Net payments to Community institutions **£m**

	1987-88	**1988-89**	**1989-90**	**1990-91**
PEWP projection and PES baseline	870	440	1060	(1087)
Survey changes	+530	+360	+410	+233
Autumn Statement projection	1400	800	1470	1320

3. The projection is, as ever, uncertain. The reasons for the worsening of the figures are:

(i) a sharp fall in our assumed share of agricultural receipts (costing us some £300 to £400 million a year before abatement between 1988 and 1990);

(ii) an upward revision in the forecast of our share of VAT payments, mainly because of the continued buoyancy of UK VAT receipts (from which, for EEC purposes, our VAT base is calculated). The revision costs us around £180 million before abatement in 1990;

(iii) an upward revision in our forecast of payments of agricultural levies and customs duties, reflecting the buoyancy of traditional own resources in 1987.

4. The uneven profile of the projection arises mainly because of fluctuations in the size of our abatement (which is always paid a year in arrears), corrections to our abatement and the effect of exchange rate changes on our VAT payments.

5. If, because of the failure to agree a 1988 budget within the 1.4 per cent VAT ceiling, the Community went onto provisional twelfths at the beginning of next year, our net payments in 1987-88 would increase by around £240 million, with a corresponding saving in 1988/89.

6. If the Community agreed an increase in the own resources ceiling, the projection would be worse. With a 1.6 per cent VAT ceiling, for example, the extra expenditure might be as follows:

£m

	1987-88	1988-89	1989-90	1990-91
Extra expenditure if VAT ceiling increased to 1.6%	+80	+280	+160	+140

J E MORTIMER

PUBLIC EXPENDITURE BRIEF

4403/17

SECRET

Ch
See also para 7 of Brief 3.
AA

FROM: JOHN GIEVE

DATE: 27 OCTOBER 1987

CHIEF SECRETARY

cc Chancellor
Sir P Middleton
Sir T Burns
Mr F E R Butler
Mr Anson
Mr Monck
Mr Scholar
Mr Turnbull
Mr Luce
Miss O'Mara
Mrs R Butler

Mr R I G Allen
Miss Walker

Ch
No need to go through this, but any points on CST's speaking note should be fed in tomorrow (looks OK to me)
AA

One or 2 comments

PUBLIC EXPENDITURE BRIEF FOR 29 OCTOBER CABINET

I attach briefing for Cabinet on Thursday. This includes defensive briefing on general issues a fact sheet, and short notes on each of the main departmental programmes and on local authority relevant and capital spending, nationalised industries, science and technology, public sector capital and the 1987-88 outturn. An index is attached.

Speaking note

2. I include also a draft speaking note for you to use in introducing your paper. We envisage that you will do this before the Chancellor speaks on the totals and the economic prospects.

3. The speaking note is brief and does not generally draw attention to politically sensitive aspects of the settlements. I attach also a draft passage on these which could be inserted should you wish or feel it necessary to do so.

4. Our advice however is not to include the passage if you can avoid it. Your main aim is to secure Cabinet ratification for the deals and you will not wish to encourage extended discussion of the politically sensitive implications. Your paper is designed to mention most of these points so that they receive explicit endorsement but it should not be necessary to draw attention to them at the meeting except in

the case of regional policy where we must ensure that Lord Young spells out what he has in mind.

Other issues

5. Divisions have drawn attention to two subjects in particular which were not major issues in the bilaterals but which are very sensitive and may be mentioned at Cabinet; student awards and prescription charges.

a. The settlement on education included a small addition for this part of the programme but it was not based on any agreement on increases in student awards. You have written to Mr Baker this week to say that you understand he intends to maintain the real value of the award by altering the parental contributions (as he did last year).

b. On prescription charges, no change in policy was made in this Survey but an increase next Spring of 20p to £2.60 was assumed in the baselines and is still implicit in the plans.

6. These points are not specifically mentioned in your paper and we do not think you should raise them in Cabinet. Mr Baker and Mr Moore should field questions on these issues in the first instance.

7. The Chancellor has asked to see the line we propose for the PM's briefing on 'spending up' to the White Paper ratios. This is set out at the first point in the defensive briefing (brief 3).

8. We would be grateful for any comments you or the Chancellor may have on this material so that we can supplement it or amend it tomorrow. We will prepare a revised factsheet if necessary in the light of the current review of the forecast.

JSG. Gieve

JOHN GIEVE

0/022

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1. CST'S SPEAKING NOTE

O/018

SPEAKING NOTE FOR CHIEF SECRETARY - CABINET 29 OCTOBER

In July Cabinet asked me to conduct bilateral discussions with colleagues and my memorandum sets out the results. I am pleased to report that I have now reached agreement with all colleagues. I would like to thank them for the very helpful and constructive approach they adopted in our discussions and also the thank the Lord President for his invaluable advice and assistance. Although it was not necessary. In the event to call on the help of the Lord President's Group to recommend settlements on any programmes, I had a helpful discussion with them and am grateful to them for reserving time to help if necessary.

In July we agreed to increase provision for local authority relevant current expenditure in 1988-89 by £1 billion and we have subsequently agreed larger increases for the two later years. In addition, total bids on other programmes amounted to nearly £7 billion in 1988-89, £9½ billion in 1989-90, and £12½ billion in 1990-91. The settlements I have reached have reduced these figures by about half.

That still produces a very large increase in programmes. To a great extent this is a reflection of a large and irresistible estimating increases and the consequences of policy decisions taken before the Survey got underway. In addition to the increases for local authority current spending, these include:

Social Security estimating increases rising from £600m in the first year to over £3 billion in 1990-91

The cost of raising benefits to protect claimants against the **20% rates contribution** which approaches £400m a year,

On health the knock-on effect of this year's review body awards (£400m a year including territories), increased costs of AIDS (£60m a year) and increased estimated for the Family Practitioner Services (£65m in 1988-89 rising to over £300m),

On prisons we committed ourselves to an acceleration and expansion of the prisons building programme; this has added £60m in 1988-89 and £90m in each of the later years, Launch aid for **AIRBUS** will cost us over £100m a year in the first two years,

An increased estimate of our **EC Contributions** - up £350m in 1988-89 and £420m in 1989-90,

Financing the **Academic Pay Award** on the lines agreed in last year's Survey adds £60-70m a year,

additions for housing, education and inner city programmes needed to finance the initiatives we have set in hand.

In 1988-89 these items account for well over £3 billion of the total increase in programmes of £4.6 billion which I am recommending. In the face of these unavoidable increases and the pressure on other programmes, holding the overall increases to the levels indicated has involved some very difficult policy decisions. Every department will face a number of painful measures and the annex to my paper mentions the most important of these. [I think these are generally self explanatory and I do not wish to go over them again now. The one exception is regional policy on which the Secretary of State will wish to explain a little later which he has in mind.]*

Within my bilateral discussions I have sought to reach agreements on **running costs** as well as overall expenditure. As my paper records, I have reached settlements covering all major departments. The provision for Trade and Industry will be reviewed in the light of the Secretary of State's examination of his department's priorities. In July, Cabinet, set the objective of constraining running costs to their present share in the planning total. The increases recommended almost achieve this objective while including increases for more realistic market rents and for the now urgent need to tackle the backlog of maintenance in the Government estate.

For the later years, I have reached firm settlements with 10 departments, based on management plans committing them to the efficiency gain target of at least 1½% a year that we agreed in July. Over 20 departments prepared such plans. I am grateful to colleagues for their co-operative response to a requirement agreed at a relatively late stage in the Survey, and understand the timescale difficulties of some of the larger and more complex departments. I hope that the policy of agreeing firm later year provision, based on suitable management plans, will be fully achieved in the next Survey.

* Replace with insert attached if you decide to use it.

Did you discuss this point with CST?

Yes: I believe Cst: Blind to lots of nasties (inc student grants)

AA

In the light of these comments and the other information in the memorandum I invite colleagues to endorse my proposals.

2.
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SPEAKING NOTE: OPTIONAL INSERT

Partially to offset these inavoidable increases, colleagues have agreed to a number of difficult measures which will need careful presentation. Every department faces some painful measures but the most important are summarised in the annex to the memorandum. I would draw attention in particular to the following.

Social Security. The Secretary of State has already announced the introduction of the new income related benefits at a lower real level than was foreshadowed in the 1985 White Paper, no uprating for child benefit in April, and a toughening of the Housing Benefit tapers. He has agreed a further change on the housing benefit for next year.

Nationalised Industries. The agreements I have reached provide for a substantially higher level of investment particularly in the electricity and water industries. To help to pay for this the electricity industries in particular must become more profitable and that will mean substantial increases in prices in the coming year.

Employment measures. The Secretary of State is restructuring his programme to absorb the cost of the January employment measures and the expansion of the Youth Training Scheme following the withdrawal of income support for school leavers. This will involve the closure of two schemes and substantial savings elsewhere.

Industrial and Regional Assistance. Although there is additional provision - most of it for AIRBUS and estimating changes - the Secretary of State has agreed in consultation with the Secretaries of State for Scotland and Wales a major shift in regional assistance which will have an initial cost but should subsequently produce substantial savings. The Secretary of State will wish to explain what he has in mind a little later.

Re main points

All ratio too long for PM!

— much too long

3.

— decline in ratios in future is slow!

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SECRET

(x) largely thanks to the UK's strong growth performance

3. DEFENSIVE BRIEF ON GENERAL POINTS

DEFENSIVE BRIEFING ON GENERAL EXPENDITURE ISSUES

Given growth in GDP, shouldn't we be spending a bit more so that public services (eg health) and pensioners share in rising prosperity? Would still be consistent with falling share of GDP. It is firm control of PX that has produced successful economy and rising prosperity. Essential to stick to it. As the [illegible], substantial increases in planning totals, faster real growth in PX in this Survey period and only the most gradual decline in GDP ratios after 1986.

Cabinet remit was to keep as close as possible to existing planning totals as well as to stay within the White Paper ratios. It is the increases in the planning totals which the market will concentrate on. Moreover must remember that it is only this year the ratio has fallen below the 1978-79 figures. (x) ~~Exceptional growth this year gives opportunity to take a large step down in ratio while still meeting priority needs.~~ If we are to build on that growth in future we need to continue progress in reining back the public sector. Economically quite wrong to respond to above trend growth by further expanding public spending. Need to reassure the markets that the Government is steadfast in its prudent and successful policies.

Doesn't ratio approach accommodate inflation and fuel cyclical boom?

It does neither. a) If inflation is higher than projected, there is no presumption that programmes (with exception of those statutorily indexed) will be revised. Indeed is helpful to economic policy that higher inflation creates its own squeeze.

(b) ~~If real growth is higher again no presumption~~ at all ~~that plans should be adjusted pro rata. Are planning over a three year horizon. Must not presume that faster growth now can be extrapolated. Better to take a cautious view.~~ Our objective is to allow the private sector to expand, not to sink more resources into public sector.

Have we not relaxed restraint? Once again increased receipts and charging in the nationalised industries and NHS is being used to conceal strong underlying growth.

I think departmental Ministers will agree that the settlements have been tough and not just on charges; difficult reductions in spending are being made in social security, employment, and elsewhere. But there is indeed a strong tide pushing us towards higher expenditure. In particular, social security and local authority current spending have risen substantially again this year. We will have to continue to resist this pressure and that will involve both more hard decisions in future Surveys and other reforms eg on financing local government.

Increase in inflation forecast will put programmes under pressure and we may need to come back for extra in-year.

The increase in the GDP deflator from 4% in 1988-89 (the economic assumption underlying the Survey negotiations) to 4½% is largely offset by a reduction in this year's GDP deflator by ¼% (from 4½% to 4¼%). The whole point of cash planning is that there should not be automatic compensation for changes in inflation. Departments must manage their budget so as to be able to cope with minor variations of this sort. The Treasury has not sought to clawback cash provision in the past when its inflation projections have proved too high eg 1986-87.

Why such large Reserves if we are undershooting this year? Would it not be conducive to better management if more was allocated to programmes now?

No increase in Reserve for year 1 (ie it stays at £3.5 billion). However, experience in two successive Surveys in which we have had to increase the planning totals as a result of higher local authority and social security expenditure has shown the need for larger Reserves in years 2 and 3. In logic a ratio of 1:2:3 seems sensible. Looking at programmes, the greatest pressures on these Reserves are likely to come not from controlled programmes but from estimating and other irresistible increases. For example, following the generous RSG settlement we agreed in July, strong likelihood that local authorities will overspend massively again next year. We may also face continuing increases in social security and we need to provide for uncertainties, eg on our contribution to European Community, as well genuine contingencies.

Once again the bulk of the increases is for current expenditure; shouldn't we be increasing capital faster?

We estimate that the settlement will add around £1 billion a year to provision for public sector capital spending. However we should not assume capital is good and current bad. We need to appraise each investment proposal rigorously and only support those that are justified.

The projected tailing off of science and technology spending in the later years is worrying. (Annual rate of growth falls nearly to zero in 1990-91) May need to agree further increases in the context of the next Annual Review by E(ST).

The profile of the S&T figures in my memorandum is largely a reflection of the profile of launch aid payments for AIRBUS. Will certainly need to look at position in E(ST) but its first task must be to review priorities so that existing resources can be better directed.

Room for more spending in the current year?

No. The underspending of the planning total reflects higher estimates of receipts by local authorities and New Towns rather than underspending. There is no economic reason for increasing gross expenditure to reflect, for example, the refinancing of local authority mortgages or creative accounting devices like sale and leaseback (which account for £250m of this year's extra receipts). With the economy generally growing strongly and uncertainty in the markets, a series of in-year increases would give the wrong signals.

0/024

SECRET AND PERSONAL

SCORECARD
No 2 of 14 Copies

FROM: JOHN GIEVE
DATE: 28 October 1987

CHIEF SECRETARY

cc Chancellor
Mr F E R Butler
Mr Anson
Mr Monck
Mr Scholar
Mr Turnbull
Miss O'Mara
Mrs R Butler
Mr R I G Allen
Miss Walker

4.
FACT-SHEET

BRIEFING FOR CABINET

I attach a revised factsheet. The only changes are to the ratios to GDP and the RPI figure for 1988 which have been altered to reflect the revisions being proposed by the forecasters (see Mr Turnbull's minute of today). We have not altered the expenditure figures themselves. The only relevant change in economic assumption proposed by the forecasters is to reduce the increase in the RPI to September 1988 from 4¾% to 4½% (bringing it into line with the GDP deflator for 1988-89). We have agreed with DHSS not to alter the social security figures from those put to Cabinet but, in effect, to reallocate part of the increase from changes due to economic assumptions to estimating changes.

2. You will be receiving separately from Mr Mortimer a brief on EC Contributions and from Mr Burr a further note on student support and a revised version of the education brief.

3. Divisions have checked with departments that Ministers will not question the figures in the Cabinet paper. The only potential complaint that we have identified would be from Mr Walker. This is not about the figures in the Cabinet paper but about the figures for local authorities expenditure to be published in the Autumn Statement. He

has noticed that the Scots will be showing a larger proportionate increase over White Paper provision in 1988-89 than the Welsh. As you know this reflects the agreement in July that 1988-89 provision for local authority relevant expenditure should be based on 1987-88 budgets and the fact that the Scottish local authorities are overspending more in the current year than the Welsh and English. If Mr Walker makes this complaint you can point out that (a) these figures were decided in July, (b) the 1988-89 provision for Welsh authorities shows a larger percentage increase over 1987-88 budgets (5.1%) than either Scotland (4.8%) or England (3.8%), and (c) that Mr Rifkind has had to fund the £71m 'excess' increase in l.a. relevant provision from his formula consequentials on other programmes (leaving less for health etc) and that effect is shown very clearly in the annex to your Cabinet paper.

J.R. Gieve

JOHN GIEVE

FACT SHEET

	1987-88	1988-89	1989-90	£billion 1990-91
Expenditure totals				
White Paper Planning Totals	148.6	154.2	161.5	-
Proposed increases	-1.0	2.6	5.6	-
New Planning Totals	147.6	156.8	167.1	176.1
(increase in programmes)	-	(4.6)	(6.1)	(7.7)
New Reserves (White Paper Reserves)	-(3.5)	3.5(5.5)	7(7.5)	10.5
Privatisation Proceeds (unchanged since White Paper)	5	5	5	5

Average Real terms increases	GGE excluding privatisation proceeds
1968-69 to 1978-79	3%
1978-79 to 1982-83	2¼%
1982-83 to 1986-87	1¾%
1986-87 to 1990-91	1¼%

	1987-88	1988-89	1989-90	1990-91	Average 1986-87 to 1990-91
Planning Total real terms increase	1.5	1.7	2.9	2.3	2.1

Ratios of GGE (excluding privatisation) to GDP

	1986-87	1987-88	1988-89	1989-90	1990-91
New Plans	44	42½	42	41¾	41¼
White Paper	44½	44	42¾	42¼	-

Economic Assumptions

GDP deflator	- new	4.25	4.5	3.5	3
% increase	- FSBR	4.5	4	3.5	3
	- PEWP	3.75	3.5	3	-
Unemployment	- new	2.7	2.6	2.6	2.6
(GB narrow) million (unpublished)	- FSBR	2.8	2.8	2.8	2.8
	- PEWP	3.05	3.05	3.05	3.05
Interest rates	- new	10	10	9	9
(20 year gilts) %	- FSBR	9	9	9	9
RPI to Sept Q	- new	4.2	4.5	3.25	
	- FSBR	4.25	3.75	3.25	

<u>Ready Reckoner</u>	- 100,00 unemployment	£200 million
	1% RPI	£400m

5

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Current Year Outturn

(i) Figures still being finalised but published forecast likely to be for a planning total of £147.6 billion, compared to plans of £148.6 billion - an undershoot of £1 billion.

(ii) Underspend can be attributed to higher than forecast receipts of just over £1 billion, as follows:

	£ million
Local authority sale and leaseback deals	250
Other LA capital receipts	770
New Towns capital receipts	160

S. 1987-88

(iii) An underspend of £1 billion arising from excess receipts of £1 billion implies that other expenditure is running broadly to plan - ie without the benefit from the excess receipts, the Reserve would be fully spent. Main claims on Reserve are as follows:

	£ million
Central Govt	
Health Service pay	400
Social Security (inc Housing Benefit)	440
Net EC contributions	550
Teachers' pay slipped (from 1986-87)	120
Redundant Mineworkers Scheme	80
Airbus Launch Aid	60
Local authority current (exc HB)	1200
Local authority (gross)	450

NOT TO BE REVEALED

NB. This briefing supports the outturn figure of £147.6 billion which we are currently expecting to publish. The Treasury's central forecast outturn is a little lower than this, since the Reserve claims listed are expected to be offset in part by underspends elsewhere.

Defensive

Should increase spending to avoid undershoot. No. Undershoot entirely attributable to excess receipts, including £250 million for creative accounting by local authorities through sale and leaseback deals. No justification for extra spending. Underspend less than 1 per cent of total.

Increase Local Authority Capital Spending because of extra receipts. LA capital is already overspending in gross terms by £450 million, offset by £1 billion receipts, leading to a net underspend of £550 million. Extra receipts increase spending power in future years and thus reduce scope for future allocations, making it more difficult to match spending to need. No general case for adding more spending now. [But officials discussing distribution of a package of £75 million extra allocations.]

6

MINISTRY OF DEFENCE

	1988-89	1989-90	1990-91
			£m
Bids	+ 551	+ 815	+ 954
Outcome	+ 229	+ 493	+ 671

Main Changes

Increases relate to block budget and are not specific to individual projects <u>except</u> that they incorporate additions for Lynx helicopters agreed by Ministers earlier this year (£70 million in period).

Sensitive policy points

(i) Programme is broadly level in real terms from 1988-89 to 1990-91, but this is <u>not</u> agreed policy, only the present result of the figures as they now stand.

(ii) Increases are not so large as to give colour to Labour's Election claim that defence review, or substantial spending increases, unavoidable.

(iii) LTC 88 will generate two defence programmes, one constrained by this PESC settlement, the other a basis for MOD's bids for the 1988 Survey. <u>There is no need to mention this</u>. From the Treasury's point of view, this is a Survey settlement like any other.

(iv) Armed Forces pay - discussions will be resumed in the 1988 Survey, and LTC 88 conducted as if the Survey settlement was commensurately higher in 1989-90 and 1990-91. This should neutralise any difficulty Mr Younger might otherwise have with arrangements for health service pay. <u>Unless raised there is no need to mention it</u>.

Points for Cabinet discussion

None.

6. DEFENCE

FOREIGN AND COMMONWEALTH OFFICE: DIPLOMATIC WING

	£ million		
	1988-89	1989-90	1990-91
Bids	-2	5	6
Outcome	-8	-5	-4

Main Changes

a. Reductions in programme made possible largely by overseas price movements (-£13 million a year).

b. adjustments for BBC External Services include additions on current expenditure (4.0/6.5/9.5) to reflect higher costs. Capital expenditure reduced provisionally (-6.7/-8.7/-7.6) pending reappraisal.

c. Increases agreed (2.9/4.6/3.6) to meet about half the cost of refurbishment of Old Public Offices (FCO's HQ).

d. Outcome includes £2.7 million a year for GCHQ, over and above settlement with Foreign Secretary.

Sensitive Policy Points

Financing of BBC External Services may be sensitive. No need for Treasury to raise. Foreign Secretary may warn of possible outcry by BBC lobby.

Foreign Secretary may refer to his separate proposals to improve pay and conditions of Diplomatic Service staff, being considered, as agreed with him, on timescale going beyond this survey. PM is supportive in principle. We need to consider merits and cost implications. Affordability will be important factor.

Points for Cabinet Discussion

Just conceivable that Foreign Secretary might say the loss of his small bid aimed at USSR may weaken the follow up to PM's visit. Response: Costs are small enough (0.6/0.9/0.9) for him to find by rearranging priorities in his programme.

7. FCO DIPLO-MATIC

[redacted] (OVERSEAS DEVELOPMENT ADMINISTRATION)

	1988-89	1989-90	£ million 1990-91
Bids:	83	158	238
Outcome:	33	63	73

Main changes

Aid programme provision increases to £1,305 million, £1,375 million and £1,418 million. Annual increases enough for ODA to absorb all likely calls on the programme, including interest subsidy element of IMF Structural Adjustment Facility, World Bank General Capital Increase, Common Fund for Commodities, and ATP soft loans facility. If international agreement is reached on the Chancellor's debt initiative the costs will be provided additionally in the first instance via the Reserve. Aid administration increases will enable an improvement in the quality of aid programme management. Superannuation increases result from revised Treasury economic assumptions.

Sensitive policy points

On ATP, the Foreign Secretary has given notice he will return with a bid next year for increased resources to meet the cost of ATP in 1990-91 and beyond. You are aware of this but have made no commitment.

8

ODA

Points for Cabinet discussion

The Foreign Secretary may wish colleagues to note that the increases in the aid programme are not sufficient to halt the decline in UK aid as measured against the 0.7 per cent UN target: in 1986 the UK achieved 0.32 per cent, but on agreed plans will achieve only 0.28 per cent in 1990. In defence you could say that you consider increases to be fair: within strict spending limits set by Cabinet they allow three per cent real terms growth over the survey period on a programme which is not demand-led. UK not only country presently not making progress towards UN target, eg US, FRG.

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DEPARTMENT: IBAP (EXCLUDING TERRITORIALS)

	1988-89	1989-90	1990-91
Bids*	-131	-7	102
Outcome	-223	-208	-101

* Figures for bids are as at 2 September, and include bids for territorial departments.

<u>Main changes</u>

The fall in the total for IBAP and other CAP is due to:

(a) consequences of reduced cereals intervention in 1987 following the poor harvest;

(b) reforms in CAP milk and beef regimes agreed last December;

(c) further changes to regimes anticipated from introduction of budgetary stabilisers. Decreases partially offset by allowance for devaluations of the green pound over the Survey period.

<u>Sensitive policy points/Points for Cabinet discussion</u>

1. Savings on account of future CAP reform represent the minimum realistic objectives in the current negotiations. It by no means represents the limits of what we hope to achieve in the way of CAP reform, and MAFF should continue to press for more radical reform.

2. Allowance for 3 percent green pound devaluation is sensible but policy decisions on green pound still require Treasury approval.

3. [Mr MacGregor has claimed that half of the savings in the Survey are policy changes]. Policy savings are largely offset by allowance for 3 percent green pound devaluation. Moreover, the more substantial policy savings occur towards the end of the Survey period, whereas more certain savings arise from the estimated effect of the 1987 harvest, and cannot justify increases elsewhere.

9. AGRI-CULTURE

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DOMESTIC AGRICULTURE (EXCLUDING TERRITORIALS)

	1988-89	1989-90	1990-91
Bids*	40	67	66
Outcome	25	24	26

* Figures for bids are MAFF's original estimates plus their late bids, and include bids for territorial departments.

Main changes

The increase in spending on domestic agriculture is a result of:
(a) alternative land use measures announced in February (ALURE), particularly grants for farm woodlands and diversification.
(b) implementation of EC scheme on extensification (compensation to farmers to reduce production of surplus crops by 20%).
These increases are partly offset by savings on capital grants (mostly lower than expected take up) and a modest increase in industry funding on R & D in the later years.

Sensitive policy points/Points for Cabinet discussion

1. EST recently agreed to a scrutiny of agricultural R & D with a view to reducing government expenditure on near market R & D. Savings of £5 million in 1989-90 and £10 million in 1990-91 have been taken on account, but we should aim for further savings here.

2. Agriculture ministers have agreed to a review of capital grants. There is a strong case for further reductions, particularly where grants have led to increases in production.

3. ADAS charging policy to be reviewed in April. There is a strong case for increasing cost recovery targets (current level is 20%)

4. Total support for agriculture remains very high in relation to other industries. Our general objective internationally and domestically is to reduce overall levels of support. Should be no further increases on ALURE until further CAP savings are achieved.

DEPARTMENT: FORESTRY COMMISSION

	1988-89	1989-90	1990-91
Bid	7	11	11
Outcome	6	9	9

Main changes

The increases are mostly a consequence of increased planting of traditional forestry as part of the ALURE scheme.

Sensitive policy points/Points for Cabinet discussion

None for discussion in Cabinet.

DEPARTMENT OF TRADE AND INDUSTRY

	1988-89	1989-90	£ million 1990-91
Bids	291	351	290
Outcome	286	292	197

Main Changes

The agreement with Lord Young was on the basis of global totals within which he has flexibility to allocate to individual programmes in the light of his current review; no final allocation has yet been made. However, the greater part of the increase (about 60 per cent for the three years taken together) is accounted for by launch aid for Airbus (£116/142/84 million), the transfer of responsibility for inner cities from the Department of Employment and increases on regional assistance including a proposed new advisory services scheme. DTI running costs limits have not yet been settled, but it is agreed that any increase will be met from within the agreed addition.

Sensitive Policy Points

The agreement reflects proposals from DTI Ministers to abolish Regional Development Grants at the end of the current year and replace them with new (still to be finalised) advisory services scheme which would be subject to cash limits, and to manage Regional Selective Assistance within resource limits. The proposed changes in regional assistance have been discussed (and agreed) with the Scottish and Welsh Secretaries who will introduce comparable changes in their territories. However the proposals are known only to a very small group of Ministers and Lord Young has undertaken to raise this issue at the public expenditure Cabinet to secure the necessary wider policy approval from colleagues.

Points for Cabinet discussion

The only point likely to arise at Cabinet is the issue of RDG abolition/RSA cash limiting on which you should support the Secretary of State for Trade and Industry.

10.

DTI

2388/26

11.

ENERGY

DEPARTMENT OF ENERGY

	£m		
	1988-89	1989-90	1990-91
Bids*	50	54	19
Outcome	26	27	-11

* includes agreed bid for draughtproofing payments, subsequently transferred to DE.

Main changes

i) Additions for growth in safety-related work by AEA on decommissioning and nuclear waste management (+5/+11/+11).

ii) Changes in estimated payments under the Redundant Mineworkers Payments Scheme: additions in 1988-89 and 1989-90 (+11/+9) and a reduction in 1990-91 (-28).

iii) Additions for the costs of DEn's move to new HQ (+8/+7/+6).

iv) Addition in 1988-89 (+18) to reflect change in timing of payments to AEA, offset in AEA's External Financing Limit (EFL).

Possible Sensitive Policy Points (but no need to raise at Cabinet)

i) Extra resources for R&D programme: giving higher priority to research on nuclear decommissioning and radioactive waste management and disposal techniques. Within the revised provision, R&D into renewable energy sources will increase.

ii) More mineworkers' redundancies: the changes in RMPS provision reflect the number of miners finally qualifying for RMPS payments before the scheme closed to applicants on 31 March 1987. (Generous terms encouraged many miners to accept voluntary redundancy).

Points for Cabinet discussion

Transfer of funding of more nuclear safety research to the industry: HMT/DEn/DE/NII Working Group set up to explore urgently transfer of responsibility for commissioning research to NII; to be charged on to electricity boards. No savings likely before 1989-90, but could be up to £30 million a year.

Line to take: Hope Working Group can report soon, in time to take account of any savings identified in public expenditure White Paper.

003/71

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DEPARTMENT OF EMPLOYMENT

12. EMPLOY-MENT

[redacted]

	1988-89	1989-90	£m 1990-91
Bids	+207	+235	+233
Outcome	+42	-4	-59

Main changes

Additions:

- January package (New Job Training Scheme etc: 157/147/151)
- Youth Training Scheme (withdrawal of income support for 16-17s: 49/86/81)
- Jobclubs (7/9/9)

Reductions:

- Job Release Scheme (abolished: 42/70/79)
- Community Programme (£10 premium over benefit: 24/88/95)
- YTS (reduced grants: 27/48/84)
- old Job Training Scheme (slimmed: 12/30/47)
- new Job Training Scheme (slow take up: 76/10/0)
- other employment and training measures (18/33/39)

Sensitive policy points

- Community Programme: only £10 premium over benefit: sponsors and Parliament may cause row.
- Job Release Scheme and New Workers Scheme abolition: may be some fuss, but few have vested interest in maintenance.
- Skills Training Agency: announcement of review will need careful handling.

Probably no need for Mr Fowler to explain, though NB CP £10 premium not explicitly mentioned in Cabinet paper and contrast with "about £15" mentioned during Election.

Points for discussion (though no definite indication that Mr Fowler will raise)

- STA and inner cities: must be sensitive to real needs, but await outcome of review. Don't exaggerate number of Skillcentres really in inner cities, or value to locals.
- Flexibility to switch between programmes and into running costs: prepared to consider proposals during the year though running cost limits in particular can't be taken lightly. But no need to signal publicly the uncertainties (eg in AS press release).
- Problems and merger reports in press about Community Programme and new JTS: any difficulties not connected with Survey discussions. Prepared to consider any re-packaging proposals.

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13.

TRANS
-PORT

DEPARTMENT OF TRANSPORT

	1988-89	1989-90	£million 1990-91
Bids	143	163	144
Outcome	32	28	33

Main Changes

Increased central government provision for bridge repair and strengthening (13/15/25), current road maintenance (5/5/5), assistance to merchant shipping (6/8/8) and running costs (6.5/10/15). Decreased provision, on grounds of realism, for British Rail penion funds support (-5/-8/-10). Net provision for local authority capital decreased (0/-10/-14) but gross provision increased (30/10/3), because additional receipts.

Sensitive policy points

No policy changes were agreed in the Survey.

Points for Cabinet discussion

Mr Channon is not expected to raise any points on his programme.

2327/37

14

BRIEFING FOR 29 OCTOBER CABINET

DOE - HOUSING

			£m
	1988-89	1989-90	1990-91
Bids	+405	+511	+602
Outcome	- 31	-127	-169

Main Changes

(i) Local Authority (LA) net capital outcome differs greatly from original bids because DOE revised their forecast of receipts. Original bid 374/341/341. Outcome 18/-205/-342.

(ii) Gross Expenditure provision increase mainly as result of Survey in renovation of LA housing stock of 206/102/65 and in Estate Action provision 53/63/71.

(iii) Housing Corporation (HC) net provision increase of 39/84/134.

(iv) Housing Action Trusts to be set up (5/50/70 provision).

Sensitive Policy Points (no need to explain at Cabinet)

(i) Transfers to DHSS to cover additional housing benefit payments as a result of LA and private sector rent increases. Rent increases by LAs are sensitive.

(ii) Housing Action Trusts - will take over LA housing in designated areas.

(iii) Shift in Gross Expenditure from LA capital towards HC capital so that private finance involvement in provision of public housing can be expanded.

Points for Cabinet Discussion

No obvious points for departmental Ministers to raise.

14.
HOUSING

3400/13

15

BRIEF

DEPARTMENT OF THE ENVIRONMENT: OTHER ENVIRONMENTAL SERVICES, INCLUDING INNER CITIES

£m

	1988-89	1989-90	1990-91
Bids	195	193	189
Increases (Gross)	197*	180*	161*
Receipts and Savings	-327	-183	-159
Outcome (Net)	-130	-3	+2

* Includes £45m transfer from Urban Programme current to capital.

Main Changes

Additions for Urban Development Corporations	65/68/72
Transfer from Urban Programme Current to Capital	45/45/45
Additions for LA's Local Environmental Services - Capital	60/47/32
Additions for Countryside and Recreation (Development Commission, Nature Conservancy Council, Countryside Commission, Sports Council)	8/9/7
Additions for Heritage (Royal Parks)	4/4/2
Addition of £20 million in 1987-88 for National Heritage Memorial Fund in lieu of bids in all Survey years	

Sensitive Policy Points

Policy approval for mini-Urban Development Corporations (included in additions above) has still to be agreed between Mr Ridley and Chief Secretary.

Points for Cabinet Discussion

None

15. OTHER ENVIRONMENT

2521/4/26 16

CONFIDENTIAL

HOME OFFICE

	1988-89	1989-90	£ million 1990-91
Net bids	180.1	243.9	240.6
Outcome	82.6	115.0	105.1

Main changes

Prisons capital: (60, 92, 94) and agreement to 4,200 extra places by 1993.

Sensitive policy points (Background only: need not be raised in Cabinet).

(i) prisons deal expressed in terms of "places" not "new prisons" to give greater scope for more cost effective options (eg extending existing prisons) to be explored.

(ii) agreement to study scope for using spare capacity in Scottish prisons.

(iii) no use of private finance, but increased role in medium term for private sector experience in new Prison Building Board.

Points for Cabinet discussion (defensive)

Tape recording: agreement reached late in the round: Home Office officials recommending to Home Secretary, who is expected to accept.

Phasing in over 3 years a sensible compromise; takes account of affordability by CPS and LCD of a policy Home Office are most keen to see implemented.

16. HOME OFFICE

LORD CHANCELLOR'S DEPARTMENT

	1988-89	1989-90	£m 1990-91
Bids	45	65	127
Outcome	19	26	61

(Settled in correspondence, without need for bilateral).

Main changes

Running Costs (10/14/20): Considerably less than Lord Chancellor asked (14/23/35) but workloads of Crown Courts still rising by an average of more than 6 per cent and of County Courts by 3 per cent; moreover, agreed figure includes unavoidable increases in accommodation costs.

Court Building (15/7/2): Again much less than sought (20/22/26) but agreed settlement reflects no more than a moratorium while LCD carries out an internal review of its capital programme.

Payments on Account/10% High Court Deduction (19/34/40): Virtually inescapable given acceptance by the legal profession of prescribed rates for matrimonial work. But reflects only a phased approach to a permanent payments on account scheme and at a somewhat slower rate than Lord Chancellor envisaged in his initial bid (19/36/45).

[NOTE: The final outcome is considerably less than the agreed bids for additional expenditure because the LCD also increased their receipts from civil fees (£15m a year) and made some reduction in spending on legal aid (16/22/0)].

Sensitive policy points

None.

Points for Cabinet discussion

None.

17.
LD/CH
DEPT.

DEPARTMENT OF EDUCATION AND SCIENCE

			£m
	1988-89	1989-90	1990-91
Bids	567	688	783
Outcome	260	328	327

Main changes

Additions for **university** restructuring (60/60/60) and consequences of academic pay award (56/71/73); for **schools and colleges capital** (60/65/70); for **science** (39/55/45); and for implementation of Government's **education reforms** including 10/25/35 for national curriculum.

Sensitive policy points

Schools capital: survey of school buildings (to be published same day as Autumn Statement) identified £2 billion backlog of capital expenditure on schools by LEAs. Addition for LA capital will allow £230 million programme in 1988-89 of improvements to school buildings. Over 3 years will make a significant contribution towards tackling the backlog (of which only £630 million relates to statutory structural requirements).

Universities: £60 million a year mainly for a restructuring fund to facilitate substantial staff reductions in universities in order to improve their financial situation and academic balance.

Science: Mr Baker withdrew part of his bid as ABRC proposals for **strategic reshaping** of science base still under consideration in E(ST). Cannot give any commitment to meet them if they are raised again during the year. No addition agreed for **AIDS** in 1990-91 pending evaluation of the programme; but continuation would not have to be funded from within the science budget baseline.

National curriculum: new provision agreed will provide for testing and assessment, and moderation.

18.

EDUCAT-ION

Student support: TV News reports on 22 October said that maintenance awards would only rise 2.5 per cent in cash in 1988-89. Fact is no decisions yet taken. You wrote to Mr Baker on 26 October to confirm your understanding that agreed addition of 2.8/6.3/6.8 for student awards sufficient to enable him to maintain value of the maintenance award by adjusting parental contributions. This worked satisfactorily last year, when the scale for parental contributions was not fully indexed to the rise in average earnings.

Points for Cabinet discussion

We do not expect other points to be raised.

19

CONFIDENTIAL

OFFICE OF ARTS AND LIBRARIES

	1988-89	1989-90	£ million 1990-91
Bids	50	63	69
Outcome	36	46	53

__Main changes__

£27/31/34 million, including for incentive funding, reflecting agreement on a three year rolling programme which can only be re-opened in specific exceptional circumstances.

£8/15/19 million for the additional costs of the British Library St Pancras project.

__Sensitive policy points__

Agreement on three year rolling programme means that increases are larger than could have agreed to as part of a normal settlement.

Within total, Mr Luce will arrange programme according to clear priorities, with emphasis on incentive funding to mobilise private sector resources and to improve management and professionalism.

19.
ARTS
+
LIBRARIES

CONFIDENTIAL

20

DEPARTMENT: Health and Social Security (Health and Personal Social Services)

	1988-89	1989-90	1990-91 £m
Bids	1026	1576	2406
Outcome	710	790	1230

Main changes

1. + 479 in 1988-89 for Hospital and Community Health services. Mainly to meet consequential cost of 1987 Review Body pay award (275), future pay (80), and a further contribution towards high treatment costs of AIDS patients (50). Balance of 74 for service pressures and some service improvements at Secretary of State's discretion. In addition, health authorities will have available 150m pa from cost improvement programmes and additional income (estimated at 20/52/73) from a new programme of measures to generate more income from non-NHS use of assets (eg car parking).

2. +194 in 1988-89 for Family Practitioners Services to meet growth in demand, cost of 1987 DDRB award, and to develop and improve services. This sum is net of proceeds from sight test charges and higher dental charges agreed in Cabinet in September.

3. + 31 in 1988-89 to meet AIDS related pressures on Centrally Financed Services (eg health education).

4. + 6 in 1988-89 for Local Authority capital spending on Personal Social Services.

5. Larger additions in later years for same purposes (except for LA capital).

20.
HEALTH
+
PSS

Sensitive policy points

5. Cabinet has already approved sight test and dental charges - these should be announced by Mr Moore with White Paper on Primary Health Care, shortly after the Autumn Statement (19 November is likely date).

6. Figures also assume a rise of 20p in prescription charges (from £2.40 to £2.60 producing £10m) to be announced in February.

7. £50m of HCHS addition is earmarked for Review Body pay awards (ie for costs above deflator of 4.5%). £30m of it is similarly earmarked for non-Review Body pay awards. Half proceeds of cost improvement programmes in HCHS (70) are also to be made available for these pay awards. (No similar provision in FPS figures: FPS is non-cash limited and pay above deflator will have to be met from Reserve.)

Points for Cabinet discussion

8. Mr Moore may point out that real growth rate for HCHS programme is, at 1.8%/1.0%/0.9%, lower than in previous years. You can point to larger than ever cash increases (almost twice last year's increase), and to the fact that real growth in 1987-88 turned out to be much higher than originally intended (over 4.0%, compared with 2.2% planned), because of the high cost of the 1987 Review Body awards: this high growth in 1987-88 reduces the real growth in 1988-89.

21

21.
SOCIAL
SECURITY

DHSS: SOCIAL SECURITY

	1988-89	1989-90	1990-91
			£ million
Bids	1474	2032	3557
Outcome	984	1846	3090

MAIN CHANGES

Estimating and economic changes predominate.

Estimating changes are: 1013/1374/2438. Main reasons are given in Cabinet paper annex - More income support claimants; the reduction in unemployment being disproportionately among those with lower entitlement to benefit; and more spending on sickness and invalidity benefits.

Economic changes are: -422/189/597. Impact of lower unemployment assumption (2.6 million versus 3.05 million in last PEWP) is more than offset in Years 2 and 3 by higher RPI assumption (4.75 per cent in year to September 1988 versus 3.5 per cent in last PEWP).

Policy changes:

(i) Compensation for rates: 369/383/396
(ii) Income support rates: -156/-163/-168
(iii) Housing Benefit: sharper rent taper -46/-94/-97
(iv) Withdrawal of IS from 16-17s: -51/-88/-83
(v) Community Programme - Benefit Plus*: -11/-135/-135

Administration: 160/202/218

Housing Benefit Transfers from DOE Scots & Welsh 139/187/210

* Exact figures for further discussion with DHSS and DE but these figures agreed for Autumn Statement.

POINTS FOR CABINET DISCUSSION

Discussion likely to be influenced by reaction to Mr Moore's uprating statement.

Mr Ridley might complain about HB rent taper decision (he is considering whether to propose transfer of HB from DHSS to DOE).

Colleagues might also ask whether figures assume further measures on Child Benefit, beyond freeze in 1988-89, following press reports that it is to be means tested. Answer is that figures do not assume means testing or other reform of Child Benefit. And no decisions taken on precise size of upratings in Years 2 and 3; this is a matter for each Survey. (Mr Moore being briefed to say this.)

[**NOT FOR USE:** Mr Moore has in fact agreed to save £44 million in 1989-90 by uprating Child Benefit by less (roughly 10p) than inflation, and this is reflected in social security programme totals for Years 2 and 3. But this has not been announced. And precise size of upratings in Years 2 and 3 will be settled in each Survey eg further freeze in 1989-90 not precluded.]

SOCIAL SECURITY
INCOME
SUPPORT

CONFIDENTIAL

BF for Cabinet

FROM: J P MCINTYRE
DATE: 27 October 1987

Pride

CHIEF SECRETARY

cc Chancellor
Sir P Middleton
Mr F E R Butler
Mr Anson
Miss Peirson
Mr Turnbull
Mr Gieve
Mr Gibson
Mr Tyrie
Mr Call

CABINET ON 29 OCTOBER: SOCIAL SECURITY

You asked why DHSS should assume a higher number of income support claimants then they did in the last PEWP.

2. The last PEWP assumed 5.0 million income support claimants in 1988-89, rising to 5.075 million in 1989-90. DHSS are now assuming more than 300,000 additional claimants.

3. The reduction in the unemployment assumption from 3.05 million in the last PEWP to 2.6 million will of course have the effect of reducing the number of income support claimants, to the extent that the reduction is among people who have been claiming supplementary benefit and not relying on unemployment benefit only. But DHSS point out that the effect of tightening the contribution conditions for unemployment benefit is that a larger proportion of the unemployed will be relying on income support than hitherto.

4. There are several groups of claimants which DHSS expect to increase in number:

a. Pensioners (extra 200,000). One of the main factors in the increase is the more flexible capital rule which will apply under the reformed scheme, enabling more pensioners with savings to be entitled to income support.

b. Claimants on DE training schemes (extra 100,000). Some people on training schemes will be entitled to income support to top up their training allowance, though these people will not be in the count.

c. Sick and Disabled (extra 70,000).

d. Single Parents (extra 50,000).

5. These increases far outweigh the reduction in unemployed claimants.

6. DHSS also point out that average benefit expenditure per head for some groups is projected to rise, including pensioners, single parents, and the sick.

JPM

J P MCINTYRE

22.

SCOTLAND

SCOTTISH OFFICE

	1988-89	1989-90	1990-91
			£ million
Bids*	184	251	306
Outcome	78	160	210

*These do not include the Scottish proportion of Mr MacGregor's agriculture bids and therefore understate the extent to which the bids have been reduced. The actual Scottish agriculture bids agreed are as follows - 11, 16, 13.

Main changes

Main items industry additions of 24/13/6 and formula consequentials of 36/121/181. The former are on the basis of Mr Rifkind's agreement to introduce changes to regional assistance in Scotland similar to those proposed by Lord Young for England (see Dept. of Trade and Industry brief).

Sensitive policy points

LA relevant current. The formula consequentials in the first year are net of £71 million required to fund the increase for local authority relevant provision exceeding the formula consequential for the English increase. For the later years Mr Rifkind has been offered the formula consequences of English LA relevant which means a lower rate of growth. He has decided at this point to accept this and not to make a transfer from his other consequentials as he had to do in 1988-89. (See Local Authority Relevant Expenditure brief).

Points for Cabinet discussion

Mr Rifkind is unlikely to mention any particular points at Cabinet.

WELSH OFFICE

£ million

	1988-89	1989-90	1990-91
Bids*	120	137	240
Outcome	115	104	119

*These do not include the Welsh proportion of Mr MacGregor's agriculture bids and therefore understate the extent to which the bids have been reduced. The actual Welsh agriculture bids agreed are as follows - 1, 9, 7.

23.

WALES

Main changes

Main items industry additions of 58/41/34 and formula consequentials of 54/51/76. The former were on the basis of Mr Walker's agreement to introduce changes to regional assistance in Wales similar to those proposed by Lord Young for England (see Dept of Trade and Industry brief). The substantial increases here largely reflect the fact that had present regional policies continued substantial estimating increases would have been necessary in Wales.

Sensitive policy points

LA relevant. Mr Walker bid for an increase up to English growth levels. You wrote rejecting that and we have heard no further. There are no other sensitive points for Wales.

Points for Cabinet discussion

Welsh Office officials advise us that Mr Walker is unlikely to mention any particular points at Cabinet.

q.015 CONFIDENTIAL 24

NORTHERN IRELAND

	1988-89	1989-90	1990-91 (£m)
Bids*	102	138	184
Outcome	94	113	146

*These do not include the Northern Ireland proportion of the English agriculture bids and therefore understate the extent to which the bids have been reduced. The actual Northern Ireland agriculture bids agreed are as follows - 11, 8, 9.

Main Changes

Social Security Benefits	-6	-11	-28

These reflect changes to the ring-fenced social security programme following the recent revised economic assumptions.

LA Current	29	35	41

This is the NI consequential of the increases in LA current expenditure in GB.

Formula Consequentials	41	47	64

These reflect the consequentials of Survey agreements on comparable GB programmes.

Sensitive Policy Points

There are no sensitive policy points in Northern Ireland which Mr King is likely to raise at Cabinet.

Points for Cabinet Discussion

Mr King is unlikely to mention any particular points at Cabinet.

24
NORTHERN
IRELAND

CONFIDENTIAL

25

CHANCELLOR'S DEPARTMENTS

	1988-89	1989-90	£million 1990-91
Bids	193	275	340
Outcome	156	184	218

Main Changes

(i) Inland Revenue, 114/127/167 (of which 50/60/91 for Life assurance premium relief (LAPR) and mortgage relief at source (MIRAS)), and Customs and Excise, 32/51/68 account for virtually all of the additions (and over ¾ of the programme totals).

(ii) Transfers from PSA for maintenance, 7/10/10, offset by reductions in PSA provision and do not affect overall spending total.

(iii) Increases of 7/4/3 for RGPD to cover a revised estimate of the cost of payments in lieu of rates.

25. CH/EX's DEPTs.

(iv) Reductions, -1/-1/-25 for HM Treasury mainly in respect of savings in the grant-in-aid to NEDO. (Most of the £25 million saving in the last year is a technical adjustment, but even without this there are savings in that year.)

Sensitive policy points

Large increases for revenue departments:

Customs and Excise

- Further manpower needed to combat drug smuggling.

- Additional resources provide for maintaining and enhancing standards in VAT control (with a cost yield in excess of 8 to 1).

Inland Revenue

- Some additional IR staff of about 300 in each year to deal with increased workloads. Extra collection staff are expected to bring in £26 million in 1988-89 and £40 million in 1989-90 - a yield/cost ratio of 30 to 1.

- Increased expenditure on MIRAS/LAPR to deal with increase in the number of these payments going to those below tax threshold (since latter not taxpayers, their relief not classified as tax relief but public expenditure).

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LOCAL AUTHORITY RELEVANT EXPENDITURE

Public expenditure relevant for AEG (Great Britain)

	1988-89	1989-90	1990-91
England			
Survey changes	+819	+1,083	not app
New total	27,969	28,948	29,816
(of which relevant current	27,538)		
Scotland			
Survey changes	+168	+129	not app
New total	3,640	3,690	3,799
Wales			
Survey changes	+51	+63	not app
New total	1,642	1,696	1,747
(of which relevant current	1,640)		
Great Britain			
Survey changes	+1,038	+1,276	not app
New total	33,251	34,334	35,362

Main changes

Provision for 1988-89 an increase of 3.9 per cent on LAs' 1987-88 budgets. Relevant current expenditure provision announced 23 July.

26. L.A. RELEVANT

Provision for 1989-90 and 1990-91 uprate England's 1988-89 by forecast GDP deflator and add comparable sums to Cm56 plans for Scotland and Wales under territorial block budget rules. Mr Walker has yet to agree to this for Wales.

Sensitive policy points

No agreed policy changes of sensitivity.

Points for Cabinet discussion

If provision for 1989-90 and 1990-91 raised by Mr Walker (or Mr Rifkind):-

- line to take: provision proposed for the territories follows the block budget ground rules, consistently with Welsh and Scottish Office views and with agreement on 1988-89. If the Secretary of State wishes to increase LA provision by more, he can find this sum from his central government provision within the block.

CONFIDENTIAL

CAPITAL

£m

Provision (GB)	1988-89	1989-90	1990-91
Bids	774	709	726
Outcome	+ 11	-280	-443
of which - gross	+594	+295	+ 80
- receipts	-583	-575	-523

Allocations	Housing	Transport*	Education	PSS	Other	Total
1988-89	1290	629	372	71	261	2623
as % 1987-88	94%	107%	125%	116%	95%	102%

*excludes transfer from British Rail (1987-88 £55m, 1988-89 £5m).

Main Changes

(i) Education allocations up on 1987-88 level by 25 per cent (£75 million) to promote school improvements.

(ii) Shire counties likely to receive around 10 per cent more allocations than in 1987-88.

Sensitive Policy Points

(i) Fall in housing allocations. But housing authorities have access to spending power from receipts. New control system discussed at E(LF) on 27 October will better match resources to needs.

27.
L.A.
CAPITAL

Points for Cabinet Discussion

(i) 1987-88 underspend. Officials sorting out how extra £75 million allocations could be distributed (excluding storm costs). Difficult for Treasury to go beyond £75 million while storm costs remain uncertain.

(ii) End-year flexibility. Mr Ridley and you have written expressing different views as to whether the end-year flexibility rules give Ministers discretion in deciding whether to increase 1988-89 allocations because of the 1987-88 underspend. Officials are now getting legal advice to resolve this point. If Government does have discretion, it will need to take account of fact that forecast underspend partly reflects sale and leaseback receipts.

NATIONALISED INDUSTRIES

	1988-89	1989-90	external finance £m 1990-91
Bids	+938	+1222	+1238
Outcome	+345	+ 24	- 330

Main changes

(i) Largest increases for electricity (including Scotland) (304/182/-12) for initial expenditure programme of building new capacity in England and Wales. Smaller increases for Shipbuilders (25,36,35), British Rail in 1988-89 (50), and Post Office in 1990-91 (30). Useful saving from Steel and Coal helped contain these increases.

(ii) Allows for substantial additions to investment in all years - rising to around £6 billion in 1990-91 from present £4½ billion-on new capacity in electricity; improving standards in water; and quality of service in British Rail, London Regional Transport and Post Office.

Sensitive policy points

(i) Average electricity prices will increase by about 8½ per cent next April (referred to in Cabinet Paper, paragraph 26) - following real price reductions of 15% over last 4 years. Mr Parkinson will defend electricity price rises if raised in Cabinet. Key point is need to improve profits:

(a) to increase real rate of return (from current 2½ percent to around 3.6 in 1988-89) in line with longstanding NI policy.

(b) to finance investment programme in England and Wales (addition of £1.3 billion over the period).

These arguments can provide defence against any claims that industry is being fattened for privatisation.

28.
NAT.
INDS

(ii) Water charges likely to increase by average 6½ per cent to finance substantial investment increases necessary to comply with EC directives etc. Charges increase allows this spending (of over £1 billion a year) to be financed within existing baseline.

(iii) Average Nationalised Industry prices forecast to rise by 6¼ per cent to Q4 1988 compared with RPI forecast of 4¾. Follows real fall of 1¾ per cent in 1987.

Points for Cabinet discussion

None.

Public Sector Capital Spending

Aggregate Increases in Public Sector Capital Spending

(i) Aggregate public sector capital spending increasing by about £1 billion in 1988-89 and 1989-90 over previous plans.

(ii) Must wait for detailed figuring before final details are known, but likely that capital spending will show small decline in real terms over Survey period. But this takes no account of future additions from Reserve.

NB. Aggregate figures based on estimates of White Paper definition of public sector capital spending (measure of public sector contribution to creation of new assets). This excludes sales and purchase of land and existing buildings. Departmental figures for capital (shown below and used in departmental press notices) based on different defintions which include sales and purchases of existing buildings.

Departmental Increases in Capital Expenditure

	1988-89 (£ million)	1989-90 (£ million)
i. Housing (gross)	380	280
ii. DoE - Other Environmental Services (gross)*	190	170
iii. Education	70	90
iv. Prisons	60	90

* Includes capital spending by local authorities, Urban Development Corporations and New Towns.

Nationalised industries (These figures are provisional and still subject to agreement with relevant sponsor department Ministers.)

	1988-89	1989-90
Total	450	550
Of which:		
Electricity GB	180	270
LRT	100	100
British Rail	70	60
Water	60	50
Steel	40	80

29. PUBLIC SECTOR CAPITAL

30

CONFIDENTIAL

SCIENCE AND TECHNOLOGY

	£ million		
	1988-89	1989-90	1990-91
BASELINE	4970	4970	5000
CHANGES	**+230***	**+270***	**+200***
of which:			
Trade & Industry	116	142	84
Education & Science	91	115	98
Energy	15	2	1

* Figures in Cabinet paper. Detailed departmental breakdown still provisional in some cases. Will be published in PEWP. Numbers may also change marginally following results of DTI review of innovation policy.

Overall likely that spending on civil science and technology will grow by 7½/3½/½ per cent over three years.

Main increases

DTI: Launch Aid for Airbus (announced in May but counts as change since last White Paper).

DES: increases of 39/55/45 for science: mainly Research Councils, British Antarctic Survey and pilot programme of multi-disciplinary university research centres. Increases of 6/8/- for AIDS research (no addition in last year pending evaluation of programme). Conventional assumption that sciency and technology represents 40 per cent of university spending, also means 24/24/24 of university restructuring and 22/28/29 of academic pay allocated to science and technology.

30.
SCIENCE + TECH.

RUNNING COST SUPPLEMENTARIES

New Baseline

1. Existing baseline and new figures (with cash percentage increases) are:-

£m

	1988-89	1989-90	1990-91
Baseline	13216 (2.1%)	13574 (2.7%)	13914 (2.5%)
Forecast Outcome	13784 (6.5%)	13969 (1.3%)	14351 (2.7%)

Rate of Increase 1988-89 over 1987-88

2. Now likely to be 6.5% - ie 2% in real terms. Better to avoid mentioning it if you can, dealing with questions by

a. referring to increase being broadly in line with planning total increase, particularly if a run of forward years is taken (see 4 below)

or

b. giving cash increase figure of £843m 1988-89 plan over 1987-88 plan).

3. If pressed, can give the 6.5% figure, emphasising that it includes some allowance for a slight increase in Civil Service manpower (£70m - half a percentage point of the growth); a deliberate step increase in civil estate maintenance provision (£33m - another 0.3 percentage point); and some allowance towards reassessed market rents. (New guidance encouraging relocation to cheap

areas will help with property costs and labour costs in the medium and longer term - see 6 below; in short term some property cost increases inevitable). Can also mention that in-year supplementaries (mainly MOD) will lift the 1987-88 level and thus reduce the growth into 1988-89 to some 5.7% cash (1.2% real).

Consistency with Planning Total Growth

4. Real terms increase in running costs between 1987-88 and 1988-89 (plan over plan) is now about 2%. Planning total growth figure is 1.7%. Share of running costs in the planning total should rise by less than 0.1% (8.71% to 8.79%). In later years, where planning total growth is higher, share is likely to fall.

Later Years

5. Later years figures in aggregate artifically low even though 3-year settlements reached with 10 departments (FCO and ODA, Customs, Treasury, Energy, IBAP, Lord Chancellor's Department, Land Registry, Paymaster General's Office, Registrar of Friendly Societies).

Relocation

6. As agreed between your predecessor, Mr Clark (as an Employment Minister) and the Minister for the Civil Service, following a policy decision of EA, we are preparing guidance to departments for issue this autumn. Will be offering colleagues opportunity to comment soon.

What is implied for Civil Service pay?

7. Have not disturbed departments' own assumptions about possible levels of pay increase. Future Civil Service pay offers will be subject to collective discussion in the normal way at a suitable

time. [Departments' pay increase assumptions range around 5% but we would not want to give any figure in Cabinet.]

Any large settlements for individual departments?

8. As usual, the large manpower intensive departments take the lion's share of extra cash - Inland Revenue, Customs, Defence, Social Security and Employment. If asked about Revenue and Customs: Effects on revenue and PSBR mean extra resources give very good yield - up to 30 times cost.

Manpower

9 On target for April 1988 figure of 594,000 given in 1987 Estimates [increased from Cm56 figure of 590,000 by extra DHSS and Employment manpower agreed immediately after last Survey.]

Later year likely total of 590,000 above the Cm56 figure of 583,000 mainly because Social Security and Employment increases carried through, and relatively small additions in other departments.

ANNEX A

ANNEX A: RESULTS OF SURVEY

RESULTS OF THE SURVEY

	Changes from baselines £million		
	1988-89	1989-90	1990-91
Ministry of Defence	228.8	493.3	671.1
FCO - Diplomatic wing	-7.9	-5.3	-4.1
FCO - Overseas Development Administration	32.6	62.7	72.9
European Communities	346.2	396.0	219.3
IBAP	-223.4	-207.9	-101.0
Domestic Agriculture	24.6	23.7	25.8
Forestry Commission	6.0	9.0	9.0
Department of Trade and Industry	286.0	291.8	196.7
Export Credits Guarantee Department	22.8	92.5	73.0
Department of Energy	26.2	27.0	-10.8
Department of Employment	41.5	-3.5	-58.7
Department of Transport	31.9	27.6	33.4
DOE - Housing	-31.0	-127.0	-169.0
DOE - other environmental services	-130.1	-3.2	1.7
DOE - Property Services Agency	-22.1	-58.7	-56.1
Home Office	82.6	115.0	105.1
Lord Chancellor's Department	19.4	26.4	60.5
Department of Education and Science	259.7	328.0	327.2
Office of Arts and Libraries	35.6	46.5	52.9
DHSS - health and personal social services	710.0	790.0	1,230.0
DHSS - social security	984.0	1,846.0	3,090.0
Scotland	78.2	159.8	209.7
Wales	114.5	103.5	118.5
Northern Ireland	94.0	113.3	146.0
Chancellor's departments	155.9	183.5	217.0
Other departments	42.3	24.8	47.3
Local authority relevant expenditure	1,038.1	1,275.6	1,477.1
Nationalised industries	344.7	23.9	-330.1
TOTAL CHANGES TO PROGRAMMES	4,591.1	6,054.3	7,654.4

Note: these figures differ from those negotiated in the Survey as they are consistent with the position which will be published in the Autumn Statement ie after implementing agreed interdepartmental transfers.

SUMMARY OF AGREED PROGRAMMES

	1988-89	1989-90	1990-91
			£ million
Defence	+228	+493	+671

The additions recognise the pressures on the programme following the end of a period of substantial real growth. The figures also incorporate the additions agreed earlier this year for Lynx helicopter orders for Westland.

	1988-89	1989-90	1990-91
2. **FCO (Diplomatic Wing)**	-8	-5	-4

Increased provision for the BBC External Services (current), the refurbishment of the Old Public Offices and some other minor items are more than offset by reductions in the capital provision for the BBC External Services and the estimated cost of the FCO's overseas operations.

	1988-89	1989-90	1990-91
3. **ODA**	+33	+63	+73

The revised plans provide for the programme to rise slightly in real terms from its present level. Within the totals the Foreign Secretary will accommodate the cost of a number of international initiatives including the interest relief costs of the IMF's Structural Adjustment Facility. If the Chancellor's debt initiative for Sub -Saharan African gains international acceptance the consequent costs will be met from the Reserve or be accepted as agreed bids in subsequent Surveys.

	1988-89	1989-90	1990-91
4. **EC Contributions**	+346	+396	+219

In order not to prejudice our position in the negotiations on future Community financing, the projection assumes the continuation of the 1.4 per cent VAT ceiling. The sharp increase in the net contribution in all years is a result of an increase in our share of gross contributions, reflecting higher customs duties and levies and a revised forecast of our VAT base, and of a sharp fall in our forecast share of agricultural receipts.

5. **IBAP** (excluding territories)	-223	-208	-101

The main change here is to the estimated cost of CAP support in the UK including savings on account of CAP reform already agreed and still subject to negotiation. The projections make some allowance for future devaluations of the Green Pound but assume that EC support prices in ecus remain constant on average in the next three years.

6. **Other Agriculture** (excluding territories)	+25	+24	+26

Increases for ALURE, the EC extensification scheme, a variety of minor programmes and increased estimates for demand-led schemes are offset in part by savings on capital grants and from increased industry funding for R&D and ADAS.

7. **Forestry**	+6	+9	+9

Increases in forestry grants under the ALURE measures.

8. **DTI**	+286	+292	+197

The greater part of the overall increase in the programme is accounted for by launch aid for Airbus, the transfer of functions from Department of Employment, and revised costing of demand-led schemes. The Secretary of State is proposing a restructuring of regional assistance. This will have an initial cost but will produce increasing savings by the end of the Survey period. The allocation between programme and running costs remains to be decided.

9. **ECGD**	+23	+93	+73

These changes mainly result from changed assumptions about interest rates in the UK and abroad.

10. **Energy**	+26	+27	-11

There are increases for increased estimates of the cost of redundancy payments to miners in the first two years, with reductions in the third year for the cost of new accommodation and for increased payments to the Atomic Energy Authority for work on decommissioning and nuclear waste management.

11. **Employment**	+42	-4	-59

In the light of the improved unemployment prospect, the Secretary of State is restructuring his programme to absorb the extra costs for his department and the MSC of the January employment package and the withdrawal of income support for school leavers. Measures will include the closure of the Job Release Scheme and the New Workers Scheme and savings on the Youth Training Scheme, the Community Programme and adult training. He is planning also to privatise Professional and Executive Recruitment and restructure the Skills Training Agency.

12. **Transport**	+32	+28	+33

The main increase is for the national roads programme, mainly for a programme of bridge renovation. There is higher gross capital expenditure by local authorities, offset by higher receipts.

13. **Housing**	-31	-127	-169

Increased projections of receipts will yield some £1 billion over the three years. This will allow substantial additions to gross capital spending in each year, including the setting up of Housing Action Trusts. The figures shown are after transferring to DHSS the Housing Benefit costs of projected increases in rents.

14. **Other Environmental Services**	-130	-3	+2

A higher level of receipts from New Towns and Local Environmental Services will provide for increased spending on Urban Development Corporations, the Development Commission, the Countryside Commission, the Nature Conservancy Council and the Sports Council.

15.	**PSA**	-22	-59	-56

A combination of higher receipts from disposals and rents and a small addition to provision in 1988-89 should enable the PSA to reduce the present backlog of maintenance over the next three years.

16.	**Home Office**	+83	+115	+105

Over 80 per cent of the net addition is accounted for by the prison building programme following H Committee's decision in July that there should be a substantial expansion and acceleration of the programme.

17.	**Lord Chancellor's Department**	+19	+26	+61

There are increases for court building, running the courts, and for the phasing in of the permanent scheme of payments on account for lawyers to which the Government is committed.

18.	**Education**	+260	+328	+327

Additions have been made to establish a fund to assist university restructuring and for the consequences of the academic pay award following last year's Survey. There are also increases for capital work to schools, for science and for the cost to central government of implementing the national curriculum.

19.	**Arts and Libraries**	+36	+47	+53

A significant part of the increase is for new estimates of the costs of the British Library. For the main programme, a three-year rolling settlement has been agreed under which the figures will not be reopened in future Surveys except in specified circumstances.

20.	**Health and Personal Social Services**	+710	+790	+1230

The increases reflect principally increased demand on the Family Practitioner Services, the growing cost of AIDS, and the knock-on costs of this year's Review Body awards. In addition the health service will benefit from service improvements financed by the higher dental and sight test charges agreed in September and by a new programme for generating income from non-NHS use of hospital goods and services, including franchising. Part of the overall increase is reserved for the financing of future Review Body and negotiated pay awards.

21. **Social Security** +984 +1846 +3090

In spite of the improvement in the unemployment prospect, there are very large estimating additions to this programme. The main reasons for these increases include larger numbers of Income Support claimants; the reduction in unemployment being disproportionately among those with lower entitlement to benefit; and an increase in projected expenditure on sickness and invalidity benefits. The figures also reflect the agreement to raise benefits to protect income support claimants against the cost of the 20 per cent rates contribution. To offset part of these increases, the Secretary of State has announced the introduction of the new income-related benefits in April 1988 at levels slightly below the illustrative rates given in the 1985 Reform White Paper uprated in line with price movements. He has also announced that child benefit will not be uprated in April 1988 and that the housing benefit taper is to be increased to 65 per cent in 1988-89; the taper will be further increased in 1989-90.

22. **Scotland** +78 +159 +210

The settlement provides for an increase to Scottish programmes of industrial assistance so as to allow for a shift in regional policy in line with the changes proposed for England. On the Block, the Secretary of State has agreed to offset against his formula consequentials on other programmes the £71 million by which the increase agreed in July for his local authority relevant provision exceeded the formula consequential of the increase for England.

23. **Wales** +115 +104 +119

The settlement on the Block reflects the formula consequentials of the agreements on English programmes. There is increased provision for industrial assistance both to meet estimating increases in demand-led programmes and to permit a restructuring of regional policy in line with changes proposed for England.

24. **Northern Ireland** +94 +113 +146

Apart from the normal operations of the formula, the main increase is required to meet revised estimates of social security costs in the province.

25. **Chancellor's Departments** +156 +184 +217

Additional resources have been provided for the Revenue Departments to deal with increases in workload and to strengthen controls against drug smugglers. Nearly one-third of the overall increase reflects changes in the estimates of the cost to public expenditure of providing relief on life assurance premiums and mortgage interest to non-taxpayers.

25. **Nationalised Industries** +345 +24 -330

The settlements provide for increases in capital investment programmes particularly in the Electricity and Water industries. To help finance these it has been agreed that the profitability of the electricity industries in England and Wales and in Scotland should be increased from its present low level. This will involve an average electricity price increase of about 8½ per cent next April. There are substantial savings from a number of other nationalised industries particularly British Coal and British Steel.

26. **Capital expenditure**

Taking all the programmes together, the additions to planned capital expenditure are likely to be around £1 billion in each of the next two years, mostly for local authorities and nationalised industries.

HOME SECRETARY

RP

H/EXCHEQUER
REC. 29 OCT 1987 29/10
ACTION PMG
COPIES TO

PAYMASTER GENERAL

PROGRESS REPORT ON THE IMPLEMENTATION OF
"GOVERNMENT PURCHASING"

Thank you for sending me a copy of your minute of 14 October to the Prime Minister.

2. I welcome your endorsement of Mr Willacy's view that Departments have made substantial progress in the past twelve months. I agree that Volume I of the Report should be published, subject to the exclusion of sensitive information. In that connection, I should be grateful if the following extract from Annex 2 (page 28) referring to value for money improvements achieved by the Home Office could be deleted:

> "In the areas of catering, and TV licence enforcement, negotiations which delivered savings of over £6 million;"

We are at present in the midst of delicate negotiations with the Post Office on two major contracts. I believe that publication of these savings would not, at this stage, help our position.

3. I am copying this minute to the Prime Minister, other Ministerial colleagues, Sir Robert Armstrong and Sir Robin Ibbs.

Douglas Hurd.

27 October 1987

HJW

Reference...

To:

PS/SECRETARY OF STATE (Circulation list attached)

From:

PAUL MATTOCK
Room 2.463
Business Statistics Office
Newport
Gwent
GTN 2411 Ext 2600

28 October 1987

PRESS RELEASE DATES FOR 1988

Release dates for Retail Sales and Credit Business Press Notices are attached for information.

P. Mattock.

P MATTOCK

CODE 18-78

1 Alex
2 RO

RETAIL SALES INDEX AND CREDIT BUSINESS (INCLUDING RETAILERS' CREDIT)

PRESS NOTICE RELEASE DATES FOR 1988

RELEVANT MONTH		PROVISIONAL PRESS NOTICE*	FINAL PRESS NOTICE
1988	January	15.2.88	7. 3.88
	February	14.3.88	5. 4.88
	March	18.4.88	9. 5.88
	April	16.5.88	6. 6.88
	May	13.6.88	4. 7.88
	June	18.7.88	8. 8.88
	July	15.8.88	5. 9.88
	August	12.9.88	3.10.88
	September	17.10.88	7.11.88
	October	14.11.88	5.12.88
	November	12.12.88	9. 1.89
	December	16. 1.89	6. 2.89

*Retail Sales Index only

Distribution:

PS/ Mr Kenneth Clarke
PS/ Mr Alan Clark
PS/ Mr John Butcher
PS/ Mr Robert Atkins
PS/ Mr Francis Maude

Sir Brian Hayes

Mr Treadgold	GP
Mr Conn	GP
Mr Liesner	EC
Mr Ward	BSO
Mr Whiting	EC2
Mr Miner	EC2
Miss Lea	EC2a
Mr Stibbard	S2
Mr Richardson	S2
Miss Marson	S2
Mr Moorey	INF

Prime Minister's Office

Chancellor's Office

Sir Tèrence Burns	Treasury
Mr P N Sedgwick	Treasury
Miss M O'Mara	Treasury
Mr P Allum	Treasury
Miss S P Carter	CSO
Mr R Clare	CSO
Mr E Lomas	CSO
Mr M Stock	CSO
Mr M Dicks	Bank
Mr J Exeter	Bank

PWP

pvp

CONFIDENTIAL

FROM T R H LUCE
28 October 1987
Room 55/G
Ext 4544

MISS RUTTER

cc PS/Chancellor
Sir P Middleton
Sir T Burns
Mr F E R Butler
Mr Anson
Mr Monck
Mr Scholar
Mr Turnbull
Mr Gieve
Mr Hansford
Miss O'Mara
Mrs R Butler
Mr R I G Allen
Miss Walker
File A
File B

PUBLIC EXPENDITURE BRIEF FOR 29 OCTOBER CABINET: RUNNING COSTS

DONE TONY 28/10

Please substitute the attached for the last three pages of the briefing attached to Mr Gieve's note of yesterday.

T R H LUCE

RUNNING COST SUPPLEMENTARIES

New Baseline

1. Existing baseline and new figures (with cash percentage increases) are:-

£m

	1988-89	1989-90	1990-91
Baseline	13216 (2.1%)	13574 (2.7%)	13914 (2.5%)
Forecast Outcome	13784 (6.5%)	13969 (1.3%)	14351 (2.7%)

Rate of Increase 1988-89 over 1987-88

2. Now likely to be 6.5% - ie 2% in real terms. Better to avoid mentioning it if you can, dealing with questions by

a. referring to increase being broadly in line with planning total increase, particularly if a run of forward years is taken (see 4 below)

or

b. giving cash increase figure of £843m 1988-89 plan over 1987-88 plan).

3. If pressed, can give the 6.5% figure, emphasising that it includes some allowance for a slight increase in Civil Service manpower (£70m - half a percentage point of the growth); a deliberate step increase in civil estate maintenance provision (£33m - another 0.3 percentage point); and some allowance towards reassessed market rents. (New guidance encouraging relocation to cheap

areas will help with property costs and labour costs in the medium and longer term - see below; in short term some property cost increases inevitable). Can also mention that in-year supplementaries (mainly MOD) will lift the 1987-88 level and thus reduce the growth into 1988-89 to some 5.7% cash (1.2% real).

Consistency with Planning Total Growth

4. Real terms increase in running costs between 1987-88 and 1988-89 (plan over plan) is now about 2%. Planning total growth figure is 1.7%. Share of running costs in the planning total should rise by less than 0.1% (8.71% to 8.79%). In later years, where planning total growth is higher, share is likely to fall.

Later Years

5. Later years figures in aggregate artifically low even though 3-year settlements reached with 10 departments (FCO and ODA, Customs, Treasury, Energy, IBAP, Lord Chancellor's Department, Land Registry, Paymaster General's Office, Registrar of Friendly Societies).

Relocation

6. As agreed between your predecessor, Mr Clark (as an Employment Minister) and the Minister for the Civil Service, following a policy decision of EA, we are preparing guidance to departments for issue this autumn. Will be offering colleagues opportunity to comment soon.

What is implied for Civil Service pay?

7. Have not disturbed departments' own assumptions about possible levels of pay increase. Future Civil Service pay offers will be subject to collective discussion in the normal way at a suitable

time. [Department's pay increase assumptions range around 5% but we would not want to give any figure in Cabinet.]

Any large settlements for individual departments?

8. As usual, the large manpower intensive departments take the lion's share of extra cash - Inland Revenue, Customs, Defence, Social Security and Employment. If asked about Revenue and Customs: Effects on revenue and PSBR mean extra resources give very good yield [figures to be added].

CH/EXCHEQUER
REC. 30 OCT 1987 3.11
ACTION PMG
COPIES TO

TO:

PRIME MINISTER

FROM:

KENNETH CLARKE

29 October 1987

PROGRESS REPORT ON THE IMPLEMENTATION OF GOVERNMENT PURCHASING

1 I have seen the Paymaster General's minute of 14 October and welcome the progress which he records on a number of fronts. However, I am less happy about what is said in the report by the Central Unit on Purchasing (CUP) about progress in implementing the Public Purchasing Initiative (PPI) and thus those improvements which might ensure that central government purchasing contributes to a healthy industrial base.

2 I was disturbed to see from paragraph 60 of the report that few Departments either understand the principles of the PPI or are putting them into practice. Since we are urging the rest of

the public sector to adopt PPI principles, it looks - and is - very bad if we are failing to do so in areas under the Government's direct control.

3 I recognise the importance of an improvement in organisation and procedures as recommended in paragraph 61 of the report but I do not think that more effective implementation of the PPI should rest solely on this. I would like to see the PPI as an integral part of our general drive to secure improvements in purchasing practice and to take the maximum possible action <u>now</u> to secure its implementation.

4 I would like to suggest that during the next twelve months the CUP (who have undertaken to lead on the PPI in central government) and Departments should give equal priority to action on those improvements which are likely to have a beneficial impact on industrial competitiveness. As the Treasury's Public Purchasing Guidelines made clear, the main areas for attention are improved dialogue between purchasers and suppliers, enhanced concern for quality and stimulation of innovation. But I think the first task is for the CUP to make clear to Departments the benefits which they and suppliers can achieve through concentration on these areas. I would then intend to review progress by the CUP in achieving this task in six months time.

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5 I am sure that with determination substantial progress can be secured, as is shown by the creditable achievements on other fronts noted in the CUP report.

6 I am copying this to Ministers in charge of Departments, the Paymaster General, Sir Robert Armstrong and Sir Robin Ibbs.

KENNETH CLARKE