PO CH / NL / 0011

PART A

PART 2

OPTIONS FOR REDUCTIONS

Options

sorry, private secretary again!

SECRET

FROM: F. E. R. BUTLER
30th June, 1987.

CHIEF SECRETARY

c.c. Chancellor*
Sir P. Middleton
Sir G. Littler
Sir T. Burns
Mr. Anson*
Mr. Monck*
Mr. Turnbull*
Mr. Luce
Mr. Hawtin
Mr. Robson
Mr. Moore
Mr. Scholar
Miss Peirson
Mr. Burgner
Mr. Gilmore
Mr. Mountfield
Mr. Gieve*
Miss Walker
Mr. Cropper
Mr. Tyrie*

*with all attachments

Ch
I doubt you'll want to go through this in any detail at Tuesday meeting. I suggest that once CST has studied these (& lists) we have series of smallish meetings with Tsy groups
DM (1) Defence
ST (2) Health & social security
LG (3) DOE (housing, LA capital)
HE (4) DES, DTP, HO
IAE (5) Industry, employment
AA

For meeting tomorrow

PUBLIC EXPENDITURE: OPTIONS FOR REDUCTIONS

I attach a note from Mr. Gieve, covering three possible packages of reductions in public expenditure plus the full lists of suggestions from which they are drawn.

2. The starting point for the attached packages is the assessments which Divisions individually made about the outturn of the Survey. In considering the effect of these packages therefore you should compare them, not with the baseline, but with the predicted outcome of the Survey in the minute which I submitted to you on 12th June.

3. In one major respect that assessment has become worse. As Mr. Hawtin's note makes clear, a later assessment of local authority relevant current expenditure indicates an overspend, compared with present plans, which is higher by £0.4 billion in 1988-89 and £1.5 billion in 1989-90. This need not be reflected in the provision agreed in this

FERB to CST 30/6

year's Survey but it does imply increased pressure on the Reserve. E(LA)'s acceptance of your proposals on the grant settlement could eliminate this excess over the previous assessment in 1988-89 and reduce it to £½-1 billion in 1989-90.

5. I suggest that you may want to use this note for three purposes:-

i. It will give the Chancellor and you a flavour of the range of options for reductions as background for the discussion on the approach to the July Cabinet, on which I have put up a separate submission.

ii. Subject to the outcome of that discussion, you may want to draw on these options for a package of measures to put to the July Cabinet.

iii. Alternatively you may want to draw on these options in your bidding letters.

For the purposes of ii. and iii. you will want to go through the Groups' notes in detail and perhaps discuss them with us before forming your own view on which propositions may be practicable. None are easy but all are worth considering. I particularly commend the DM note to you as one which contains options which would be radical and controversial but should be considered by a Government which is serious about reducing public expenditure.

F.E.R.B

F. E. R. BUTLER

I/031

SECRET

FROM: JOHN GIEVE
DATE: 29 June 1987

1. MR F E R ~~BUTLER~~ FERB
2. CHIEF SECRETARY

cc Chancellor* Sir P. Middleton
Mr Anson* Sir G. Littler
Mr Monck* Sir T. Burns
Mr Turnbull*
Mr Hawtin
Mr Robson
Mr Moore
Miss Peirson
Mr Gilmore
Mr Luce
Mr Scholar
Mr Mountfield
Mr Burgner
Mr Tyrie*
Miss Walker

OPTIONS FOR REDUCTION

You asked for a note setting out more radical options that we might put forward in the coming Survey in order to produce a lower outcome than was indicated by our initial assessment.

2. I attach notes by expenditure groups setting out a variety of proposals that you will wish to consider. As you will see, in their initial assessments some groups had already assumed that it would be possible to make savings to offset unavoidable additions (eg defence and health). In other cases (eg social security), the initial assessment was a broader view of the extent to which bids would be resistible, although it did take account of the policy changes agreed in the last and previous Surveys.

3. Groups will be refining their assessments of the force and size of the bids in the next couple of weeks as your colleagues write in. The more radical options discussed in the attached minute would go beyond those that groups have hitherto expected to achieve. It would be helpful to know which of these you would like to pursue. That will in turn be reflected in the overall assessment of the position that we will be letting you have once all the letters have come in.

4. None of the options is easy and simply adding them all up would give a misleading impression of the room for manoeuvre. It may be more helpful to think in terms of groups of options which would achieve specified levels of saving. You will have your own views on which areas of expenditure are most vulnerable and which options least palatable but, as the basis for discussion, I have set out three packages of increasing degrees of difficulty. Package 1 on its own would deliver savings of £500m in 1988-89. Packages 1 and 2 would raise that to £1 billion and the three packages together would produce savings of about £2 billion.

5. The packages are generally built up from the specific options listed in Groups' notes. However:

a. on defence and employment they include successive layers of cash reductions which could be achieved in a number of ways rather than particular policy changes; in practice you might adopt a similar approach in negotiations on other areas eg health and social security, leaving it to the Minister concerned to choose the method of achieving savings;

b. they group together all local authority capital expenditure. Our initial assessment was that we would have to accept increases in provision of £300m in 1988-89 and £400m in 1989-90 which would leave gross spending in cash terms broadly stable. The packages include reductions below that level without spelling out the policy consequences for the various services;

c. the packages do not include anything on local authority relevant spending; as Mr Hawtin's note makes plain actual spending is likely far to exceed the totals for provision agreed in E(LA) so there seems little point in reducing the latter further; that does not mean that the savings in practice from a tough grant settlement are negligible;

d. on health the packages include only specific options for charges; an alternative would be to reduce the increase in the

HCHS programme; such reductions would be on top of the £50m a year extra efficiency savings in the HCHS assumed in ST's initial assessment;

e. the packages do not include specific departmental savings on running costs; instead packages 2 and 3 show the savings from holding the increases in running costs provision for departments other than the MOD ½% and 1% a year respectively below those implied by the initial assessment (an increase of about £400m in 1988-89). The note from FP on the revenue departments illustrates what would be involved in making savings there: they account for about 20% of non-defence running costs. We will be putting a separate submission to you shortly on the approach to running costs in the Survey.

Very Helpful.

JSG. Gieve

JOHN GIEVE

	1988-89	1989-90	£m 1990-91
Employment measures*	30	50	100
Charging for settlement and immigration services	10	10	10
Reduce agricultural grants/ extra forestry disposals/ increased industry support for ADAS and R&D	15	20	50
10% cut in SDA and WDA budgets	15	15	15
Scottish block - Population baseline cut (partial)	90	90	90
1% rather than nil annual real increase in electricity charges	100	200	300
3% rather than 2% annual real increase in water charges	25	50	75
LA capital allocations	100	100	100
Defer some planned new national roads	30	30	30
Health - £5 sight test fee	25	25	25
Social security - occ. pensions offset	-	50	50
- New benefits 10p below illustrative levels	60	60	60
PACKAGE 1	**500**	**700**	**905**

* These are reductions from the programme totals increased to reflect both the January package and the cost of measures needed to accompany the removal of supplementary benefit from 16 to 17 years olds (which is to be financed from the savings in Supp Ben). So the package assumes that the abolition and the consequent savings are delivered.

PACKAGE 2

	1988-89	1989-90	£m 1990-91
Further reductions in employment measures	50	75	100
Defence	100	200	300
Health - £10 (not £5) sight test fee	25	25	25
Scottish block - full population baseline cut	50	50	50
2% not 1% rise in real electricity tariffs in 1988 (followed by 1% rises annually thereafter)	100	100	100
Social security - abolish entitlements below £5	50	50	50
- new benefits 25p not 10p below illustrative levels	90	90	90
?? Running costs ½% annual saving (excluding MOD)	40	80	120
PACKAGE 2	505	670	835
CUMULATIVE PACKAGES 1 AND 2	1005	1370	1740

	1988-89	1989-90	£m 1990-91
Further employment measures cuts	50	75	100
Further defence cuts	100	200	300
Terminate ATP (with consequent savings in ECGD)	40	70	90
Further cuts in L.A capital allocations	100	100	100
Further reductions in regional assistance	10	20	35
4 month moratorium in 1988	35	(5)	-
Agriculture - further ADAS cost recovery	-	15	15
- further industry funding for R&D	-	30	45
- 10% reduction in HLCAs	-	10	10
Raise contributions for legal aid and new fees for advice	40	50	50
Withdraw legal aid from matrimonial cases	-	-	100
Scottish Block - cuts in health, L.A capital and truck roads	60	100	100
Health - £10 annual charge for place on GP list (existing exemptions)	250	250	250
Social Security - tighten-up on UB	-	100	100
- income support for boarders and residential homes	50	50	50
- introduce new benefits at 50p (not 25p) less than illustrative rates	150	150	150
- industrial injuries	-	50	50
- attendance allowance	50	50	50
1% not ½% annual saving in running costs (excluding MOD)	40	80	120
PACKAGE 3	975	1395	1715
CUMULATIVE PACKAGES 1 - 3	1980	2765	3455

PACKAGE 3

DEFENCE

(i) Savings assumed in original PES assessment

In the discussion before the Election between the former Chief Secretary and the Defence Secretary, the MOD had produced a list of the savings which they would need to take to get the defence programme back inside the PES baseline. These savings were organised into four "baskets" of increasing "pain and grief" (as MOD saw it).

2. Following a meeting with the Prime Minister on 5 May, the Defence Secretary has implemented the easiest two of his four baskets. We anticipate his PES bid will seek the money necessary to finance his programme without recourse to his baskets 3 and 4 savings.

3. Our assessment of the survey outcome assumes you are successful in getting him to implement all the savings in basket 3 plus another £200 million a year in 1989-90 and 1990-91. This approach would mean taking measures like cancelling an order for a new frigate, disbanding RAF communication squadrons, cancelling an anti-aircraft weapon, plus substantial savings through improved efficiency in stockholding, training and other support services.

4. On this basis the PES outcome might add £200 million, £400 million and £500 million to the baseline in the 3 PES years.

Further options

5. Looking beyond this to more radical savings, it is useful to reflect on our starting point. At present the UK devotes 5.1% of GDP to defence. Italy - a country of similar population and, if anything slightly higher GDP, - devotes 2.7%. If we spent Italy's share of GDP on defence we would save £7.7bn a year (at 1987-88 prices).

What!

6. This is easily said. It is much harder to bring about. There

are two broad ways of reducing defence spending - reducing commitments and meeting commitments more cost-effectively

A. Reducing Commitments

7. Any radical options for reducing defence expenditure need to recognise our place as a middle-rank European power. A first step is to cut out commitments outside the North European theatre (except Cyprus and Falklands). This means abandoning our maritime role in the Atlantic and removing our troops from Belize. The second step is to identify non essential commitments in the North European theatre. The most obvious example of this is the commitment to reinforce Norway, which carries with it the expensive commitment to amphibiosity (ie an ability to land men off ships), and the Allied Force in Denmark.

8. We calculate savings as follows:

	£M		
	1988-89	**1989-90**	**1990-91**
Withdraw Wartime commitment to provide Carrier Battle Group for Atlantic	90	90	90
Withdraw Belize Garrison W Indies Guardship	15	15	15
Withdraw Amphibious commitment to Norway and Allied Mobile Force	300	360	420
	415	465	525

9. There would be strong political and military resistance to such a reappraisal of our role, both domestically and internationally. The US would particularly dislike a withdrawal from Belize. NATO as a whole would regard our ending the Norway commitment as a significant step to unravelling other nations' commitments. But Canada has unilaterally taken a similar step and Norway spends only 3.1% GDP on defence. Ending amphibiosity and out of area intervention capability removes any role for the

Army can take over some duties

Royal Marines. But the fact remains that equitable burden sharing (an avowed NATO aim) must mean reduced commitments by the UK; we currently spend 5.1% of GDP on defence, compared with the European NATO average of 3.5%.

B. Meeting commitments more cost effectively

10. The most general example in this area is procurement policy. Present policy is meant, broadly, to be to buy British where other things are equal, but to buy foreign where this offers greater value for money. In practice this does not happen. 80% of the procurement budget is spent on national projects, 15% on collaborative projects and only 5% abroad. National development is a high risk activity which has wasted scarce resources at the expense of the civil sector and the defence budget itself.

11. MOD have recently stated that they do not want to undertake R&D in areas where equipment hase been successfully developed by our Allies. We doubt if they are going to implement this potentially far reaching change . If we could hold them to it and increae the amount of equipment bought off the shelf from abroad, or by licensed production in this country, at the expense of equipment developed nationally, we calculate possible savings as

£m cash

1988-89	1989-90	1990-91
140	260	450

There would be political and industrial implications, eg in withdrawing from collaborative projects and reducing defence demands on high tech industries. But better value for money would be secured, and there would be military advantages in greater reliability and interoperability of equipment.

Heseltine! (the RAF v Germany or something)

12. Apart from changing the general thrust on procurement, the UK should become more rigorous in assessing the cost effectivness of individual equipment projects. The key example at present is the European fighter aircraft (EFA). This collaborative project is the major equipment project, apart from Trident, to figure in the programme (£5.5bn in total). It is due to enter full development this year, subject to Ministerial approval; this is the last chance to stop it. Alternatives are purchase of a US fighter, or more Tornados. But fundamentally there are doubts about the utility of a 'dog-fighter' in the next century, and an alternative option could be missiles. Cancellation would immediately save development expenditure of:

1988-89	**1989-90**	**1990-91**
80	120	180

13. The scope for improved cost-effectiveness is not confined to equipment - there is abundant evidence of inefficiency in the whole range of support activities. But it is difficult to focus on these in any radial way : progress will depend on the long-run application of FMI type efforts. Nevertheless, there are radical options for savings in this gneral area, in Armed Forces allowances and pay.

14 A fundamental review of the allowances system has just been completed. It indicates that savings of the following order would be possible by taking a radical approach outdated or unjustified allowances :

100	100	100

The attempt to achieve such savings would undoubtedly meet with very fierce Service opposition.

15. Armed Forces pay awards are currently inflated by the commitment to comparability. Dropping this commitment and constraining awards to, say, the rate of inflation, would provide savings (with a cumulative impact) of the following order :

100	200	300

Again there would be Service opposition, with particular difficulties if other groups - e.g. police - maintained comparability. And as with allowances, the Services would argue the adverse effects on recruitment and retnetion. It would mean overriding the Armed Forces Pay Review Body - or putting that body into suspense.

j223

HEALTH: HPSS OPTIONS FOR REDUCTIONS (See note i below)

Options	Likely savings £m 1988/89	1989/90	1990/91	(ii) Need for legislation P=Primary, S=Secondary
*1. Increase level of efficiency savings by health authorities (currently £150m p.a.)	50	50	50	-
*2. Extend coverage of Selected List.	50	100	100	-
3. Introduce £10 sight test fees - except for low income groups.	50	50	50	P
*4. Halt further growth in medical and dental professions (see note iii).	50	50	50	-
5. £10 charge for home visit by a GP. (exemptions as now).	75	75	75	P
*6. Restrict exemption from prescription charges to supplementary benefit recipients (see note iv).	75	75	75	S
7. £5 charge for each visit to GP or £10 annual charge for a place on a GP list. (exemptions as now)	250	250	250	P
8. Take dental treatment out of the NHS except for those on low incomes.	-	230	230	P
9. Abolish welfare milk.	-	100	100	P
10. Charge full cost of drugs issued on prescription (retain exempt groups as now)	300	300	300	S
11. Introduce compulsory private insurance with restrictions on basic entitlements to NHS for certain groups eg working population plus dependents.	-	-	See note -(v)	P

j223

. Other smaller (eg extend generic substitution, £5 charge for out-patient visit to hospital).	Less than 50 pa each	P (in some cases)

Notes

i The options are not mutually exclusive, so cannot be simply added up. Not all are costed by DHSS; some represent Treasury estimates. Some other options have been considered and ruled out eg introducing vouchers for health care (savings uncertain), hotel charges for hospital stays (Mr Fowler pledged not to introduce such charges in May 1987).

ii The options assume a Primary Health Care Bill in 1987/8 and a major NHS Bill in 1988/9.

iii Direct savings from halting for three years the present growth of 2% p.a. in numbers. There would also be significant savings on the drugs bill.

iv £75m already scored in PES for removing exemption from elderly above supplementary benefit level. Option is addtional and assumes change in other exempt groups e.g children of families above the supplementary benefit level.Level of savings depends on precise changes made to exemptions.

v The most radical change.Up to half of NHS resources (including FPS) are used at present by these groups. But it is likely that demand by other groups would expand to fill the gap, and that for some chronic illnesses etc the target groups could not get full private insurance. So savings are very speculative - in principle up to a few £ billion pa. A lead time of 3-5 years would be necessary for implementation.

*Assumed in earlier assessment of Survey outcome.

j241

ns pensions page

SOCIAL SECURITY: OPTIONS FOR REDUCTIONS

Note: All figures are savings; no transitional protection assumed. (P) = Primary legislation (mostly assumed in 1988/89 session) (S) = Secondary legislation. See notes attached.

SOCIAL SECURITY

Options	Likely savings £m 1988/89	1989/90	1990/91	Need for legislation
1. Offset occupational pensions exceeding £35 a week against Unemployment Benefit.	-	50	50	P
2. Income Support and Housing Benefit: increase tapering of entitlement when claimants have more than £3000 capital.	50	50	50	S
3. Housing Benefit: increase rates taper from 20% to 25% and rents taper from 60% to 65%.	50	50	50	S
4. All benefits: abolish entitlement below £5 minimum.	50	50	50	S
5. Attendance Allowance: reduced rates for children of all ages.	50	50	50	S
6. Industrial injuries benefits; various changes eg no special hardship allowance in retirement, align constant attendance allowance with general attendance allowance.	-	50	50	P
7. Income Support: no uprating of any limits for ordinary boarders or those in residential homes in April 1988.	50	50	50	S
8. Remove supplementary benefit entitlement from 16/17 year olds.	50	100	100	P
9. Tighten up availability testing and take other initiatives on DE programme to tighten up on benefits paid to unemployed.	-	100	100	S/P

10. One parent benefit: abolish.	-	100	100	P
11. £100 earnings rule for Widows Benefit and Retirement Pension.	-	100	100	P
12. Fully or partially offset Mobility Allowance, Attendance Allowance and Severe Disablement Allowance against Income Support.	-	100	100	P
13. Restrict Christmas Bonus to supplementary & NIC. pensioners.	-	100	100	P
14. (a) Child Benefit; no uprating in 1989 (as well as 1988).	-	150	150	S
(b) OR: restrict uprating to first child.	-	50	50	S
(c) OR: means test child benefit.	-	2000	2000	P
(d) OR: tax child benefit (but this gives no pe savings).	-	-	-	P
15. Offset occupational pensions exceeding £35 a week against Sickness Benefit/Invalidity Benefit.	-	300	300	P
16. Introduce income support, family credit and housing benefit at 50p less than illustrative rates(revalued).	300	300	300	S
17. Move to biennial upratings (ie no uprating April 1989). (Unlike 14(a), saves nothing in years of uprating - eg 1990/91).	-	1500	-	P

See notes overleaf

Notes

i. There are no easy options for cuts. All are likely to be seen as difficult in political terms. They have not therefore been listed in order of palatability.

ii. Some of the savings estimates are very rough. Further work is being done to refine them, where possible.

iii. An alternative strategy would be to identify an overall target for savings (eg to get back to baseline) rather than specify particular areas for cuts. This worked tolerably well last year. It would involve DHSS/Treasury officials working up a paper on options to meet targets agreed by Ministers.

iv. We need to bear in mind that the baseline assumes no uprating of child benefit in April 1988 - worth £130m in 1988-89 - and not yet announced. This means that further immediate action on child benefit (eg means-testing) could be difficult.

v. The baseline also assumes other measures, totalling £100m in 1988-89 and £250m in 1989-90, not yet announced and where DHSS have the option to substitute equivalent savings from elsewhere.

vi. The list mostly assumes that, where primary legislation is necessary, savings could not be made before 1989-90. But if desired more of these options could be legislated for in the forthcoming Social Security Bill, enabling savings in 1988-89. Eg we could move to biennial upratings by having no upratings in April 1988.

SCOTLAND: OPTIONS FOR REDUCTIONS

Options	Likely savings £m 1988/89	1989/90	1990/91
1. Population baseline cut	140	140	140
2. Update population ratio annually for calculation of consequentials	2	2	2
3. Health	40	80	100
4. Education capital	10	20	30
5. Other local authority capital	50	50	50
6. Trunk roads	10	10	10

Note: No legislation required

Scotland

4. On Electricity the main further option would be to go for real increases in electricity tariffs. On a GB basis each 1% gives about £100 million in each of the first two years rising to £115 million by the third. If there were increases of 1% real in each year that would give roughly and cumulatively savings of 100, 200, 300. This option is obviously politically tricky but will be pursued in the discussions on financial targets and in the context of preparations for privatisations.

5. On Water each 1% on charges is worth £25 million a year i.e. cumulative additional revenue over the 3 years of 25, 50, 75. We are already assuming at least 2% real a year. As for Electricity the scope for more real increases may be limited but our best chance lies in the context of privatisation preparations.

6. In so far as we did not press for further Coal redundancies, or failed in our bid to get them, likely additional bids would be reduced but at the expense of later years.

7. For the rest there is always scope for yet further capital investment rationing. But in making the assessment in para 2 we are already assuming a need for investment cuts and more may be necessary to offset further additional bids we could be facing e.g. higher BR investment related to the Channel Fixed Link, restructuring of British Rail Engineering (BREL); Docklands Light Railway; further problems with British Shipbuilders; environmental pressures for more Water investment.

PE Group
26 June 1987

CONFIDENTIAL

NATIONALISED INDUSTRIES

The end-May opening bids from the nationalised industries (generally unprocessed by Departments) were for additions to baseline of:

	£ million	
1988-89	**1989-90**	**1990-91**
897	1212	1238

2. PE's current guess at the outcome is: NAT. INDS.

	1988-89	1989-90	1990-91
Energy			
Transport	650	700	400
DTI	40	25	25
DOE	40	25	0
	-	-	[-25]
TOTAL:	730	750	400

These figures will undoubtedly alter as the exercise progresses; in particular when the industries put in revised bids on 31 July.

3. In coming to them, we assume that we might get financial targets broadly consistent with electricity tariffs moving in line with inflation and that most power station construction, other than Sizewell, might be deferred. We also assume that poor prospects for Coal will call for substantial further redundancies so adding to costs in the PES period, with the savings coming later. Beyond that our guesses are built on a hotch-potch of possibilities for cutting investment, securing more savings on current expenditure, and imposing more realism on the forecasts.

3452/027

SECRET

OPTIONS FOR REDUCTIONS: DOE PROGRAMMES AND LOCAL AUTHORITY RELEVANT AND CAPITAL EXPENDITURE

Earlier assessment: offsetting savings

Our earlier assessment did not assume any offsets in gross expenditure. But it did assume extra receipts in 1988-89 of £70 million on housing and £40 million in DOE Other.

More radical options

Housing

2.i. We could press for a cut in local authority housing capital provision, covering both new build and renovation - perhaps up to £100 million off the baseline in each of the Survey years, compared with the additional bid of £190m in 1988-89 now submitted by Mr Ridley. Legislation would not be required. We could draw attention to the fact that the outturn for renovation last year was about £100 million below provision, and combine this with arguments about the new role of HATs. But DOE would point out that the new build programme is already in real terms less than half its 1983 level, and point to statistics of rising homelessness and maintenance backlog. Particularly given the post-Election emphasis on housing and inner cities we still think we could do well to achieve an outcome better than our previous assessment of increases in local authority capital provision for renovation of £150m in 1988-89and £100m in 1989-90).

DOE PROGS

ii. Restrict a proportion of housing association new building and rehabilitation provision to schemes attracting private finance. If, say, 25% of the existing housing association programme were restricted in this way then, allowing for a modest increase in output, about £50 million might be saved on the baseline. Mr Ridley's own legislative proposals for paying housing association grant at the percentage needed to keep rents to "affordable" levels will require increasing amounts of private finance. But they will not guarantee a particular proportion of private finance over the Survey period, and Mr Ridley intends to use private finance to increase, not just to maintain, current output. Again, it will be hard in practice to achieve an outcome much lower than our previous assessment of +£50 million, which is the amount Mr Ridley has now bid for in 1988-89.

iii. Restrict home improvement grants, slum clearance subsidy and derelict land grant to the inner cities. These grants are probably already concentrated in the inner cities, but we do not know the proportions. Overall, we might expect to save at least 25% of current spending - £120 million a year off the baseline over the Survey. Such a change would be very contentious (there would be a lot of losers) and would require legislation.

iv. Repeal of the Housing Defects Act. This would save about £90 million a year. But the Act was introduced to deal with the pressure of protest from right to buy purchasers and legislating to abolish compensation now would redouble the protest and be impossible to defend in terms of equity. The current review of the Act is unlikely to propose radical changes and a decision to repeal would have to be presented as a necessity imposed by resource constraints.

v. capitalised housing repairs which are not financed by borrowing could be "prescribed" so that they are brought within the capital controls system. About £350 million pa of repairs are now capitalised. DOE might be allowed to keep say £150 million to increase allocations. The net saving would be around £200 million. This option would require primary legislation and could cause some pre-emptive spending in 1987-88. It would be particularly difficult to combine within (i) above.

It would probably not be plausible to contemplate pressing all the housing items at (i)-(v) above. Of these (i) might be the most credible runner.

Other environmental services

3.i. The main candidate here is a cut in provision for capital expenditure on local environmental services. We might press for a reduction of up to £50 million in gross provision. (Our previous assessment assumes an increase in gross provison in £20 million in both 1988-89 and 1989-90). We can point to a consultants' report which criticises the absence of priorities and appraisal methods among local authorities. The problem is that local authorities consistently overspend in this area. A more radical approach would be to abolish the Other Services allocation block (£180 million in 1987-88). Local authorities would then need to rely on spending power from (unevenly distributed) receipts to justify spending on fire (shire counties only), leisure facilities, environmental services and administration. DOE would need some allocations to deal with special cases, but the net saving in provision could be up to £100 million.

ii. Elsewhere within OES, where we have assumed a net increase of £7 million in both 1988-89 and 1989-90, there are now prospects of small reductions to reflect the abolition of dog licences and our aim of phasing out support for London Zoo; and we could also argue for some further cuts in areas where DOE have been deficient in providing value for money indicators, notably the Historic Buildings and Monuments Commission and the Sports Council. But all this might amount to savings of £15-20 million a year at most. A more radical option still would be to propose abolition of the Sports Council (present spend £ £37 million).

PSA and Crown Suppliers

4. Our previous assessment (of a net increase of £15 million a year for PSA) assumes that the Agency would be permitted to retain extra disposal receipts, estimated at £17 million in 1988-89 and £22 million in 1989-90 and 1990-91. We could seek to claw back these extra receipts, at the expense of exacerbating the maintenance problem and reducing incentives to generate disposals.

5. On the Crown Suppliers, which operates as a trading fund, a consultant's report has identified efficiency savings of about £16 million per year, together with one-off proceeds if they could dispose of some capital items, notably their headquarters (possibly £30

million). However, the effect of the efficiency savings would be to reduce costs to customer departments' programmes; and there would be problems in harvesting the savings from them. Without this, there would be no reduction in public expenditure.

Local authority relevant expenditure

The previous assessment assumed that, on the basis of present policies, outturn expenditure in 1988-89 and 1989-90 would be £2.5 billion and £3.5 billion respectively above the present baseline for local authority relevant expenditure in Command 56. Our latest assessment suggests a rather higher rate of growth of outturn expenditure, on the basis of established trends and pay awards - an overspend on the present baseline of £2.9 billion in 1988-89 and £5 billion in 1989-90.

A firm stance on grant (ie our objective for the E(LA) negotiations) might reduce the overspend by £250 million a year, to £2.65 billion and £4.5 billion respectively. Re-introducing targets and penalties could, depending on how tough they were, have a similar effect. Taken together, a restrictive stance on grant and targets could, therefore, reduce spending compared to the present trend by about £½ billion (1½%) in 1988-89 and £1 billion (3%) in 1989-90. This is probably the maximum that could be achieved without direct action to limit local authority budgets or legislation to impose lower local authority pay settlements and in practice the impact could be less.

Local authority capital expenditure

The earlier overall assessment of local authority capital expenditure (net increases of £0.3 billion in 1988-89 and £0.4 billion in 1989-90) assumed gross provision would be held broadly at the level of 1987-88 spending (excluding forward leasing), with some offset from increased in-year receipts. It also assumed that baseline provision for local authority capital in England (DOE/LA1 only) is consistent with £2250 million allocations (compared with £2580m this year). The baseline allocations figure needs to be reconsidered and agreed next month.

The earlier assessment assumed an increase in allocations of over £100 million in 1988-89. Holding DOE/LA1 allocations to their 1987-

88 level would save around £100 million. The options put forward above housing and LES would go beyond this.

M V HAWTIN
LG Group
26 June 1987

CONFIDENTIAL

DEPARTMENT OF EMPLOYMENT PES 1987: OPTIONS FOR REDUCTIONS

The outcome projected in May was no net change (but that meant totals about £150m above the PEWP figures because of the January package). We assumed that Lord Young would want increases of about £250m in the fields of enterprise, tourism, small firms, higher education, adult literacy, jobclubs, and North/South & inner cities; offset by savings on YTS and the Community Programme.

2. It is too early to say what Mr Fowler will want to do. But our best guess remains an outcome of no net change. Ministers agreed in May that DE Group programmes could be increased by the estimated amount (about £100m) of the social security savings resulting from the withdrawal of SB for under 18s. Thus "no net change" would probably mean an increase of some £250m above the PEWP totals (with £250m savings on DHSS programmes).

3. DE will probably make bids worth in total £150-200m (not counting the £250m as a bid). Offsets may be offered largely from CP and YTS. (The switch of CP to benefit plus might generate savings of some £70m for DHSS).

4. To do better than the +£250m central estimate, we would need to make further savings. The table below sets out the possibilities. It focusses on the PES position, not running costs. Gross running costs could change within the total by different amounts. We have omitted local authority current. The figures are not an opening bid but an estimate of a tough but not impossible outcome in each case. On most items the level of savings achieved is variable depending on the exact decision taken.

5. There are two categories of options. The first ("A" in the table below) is to press harder in the two areas--CP & YTS--where we already assume some savings in the forecast outcome. These are the biggest targets, each accounting for a quarter (£1 billion) of the total baseline; neither is easy.

6. The second category ("B") covers other options, ordered by degree of palatability. One danger is that DE may have already used some of these to offset their own bids. And there are of course difficulties in each of the options, sometimes severe.

23 June 1987

CONFIDENTIAL

DEPARTMENT OF EMPLOYMENT PES 1987: OPTIONS FOR REDUCTIONS

Item and comment		88-89	89-90	90-91
A. i) Youth Training Scheme Assumes savings of c.£30m already made to offset DE bids; extra savings are from cutting level of grant to employers: a 3% cut gives about £20m. Makes quality improvements harder to get; complaints from employers		-20	-50	-70
ii) Community programme Assumes savings of £140m already pre-empted by DE to offset bids; extra savings are from reducing number of places: roughly £80m for every 20,000 places. Less help for long term unemployed; slower progress towards manifesto 5 year aim	*	-100	-150	-200
B i) Miscellaneous admin (implementation of staff inspection etc, cuts in UBS costs as unemployment falls)		-5	-15	-20
ii) Publicity To move DE group publicity nearer 1985-86 level		-5	-10	-10
iii) Job Release Scheme Present provision about £80m. Various options possible to cut programme roughly in half. JRS probably reduces employment in long term; but a popular antidote to unemployment	*	-5	-15	-35
iv) Miscellaneous training (NAFE, NPSS, open learning, etc). Complaints from interest groups		-10	-25	-35
v) Jobcentres Charging for services, abolition of gateway role, resiting off high streets.		-15	-25	-30
vi) STA & old JTS Abolition of STA would allow rundown of £115m old Job Training scheme. Contentious redundancies		-	-40	-60
vii) Small employment measures (Jobstart, NWS, VPP, TIS) Easier if unemployment falling; some supply performance benefits forgone (eg for NWS)	*	-10	-15	-15
viii) ACAS Charging, privatising or restricting work. Needs legislation; politically difficult		-3	-5	-7
ix) Redundancy Abolition of rebates to small firms or of payments to employees of bankrupt firms. Needs legislation; politically difficult		-20	-30	-30

* These items could lead to some increase in social security expenditure as people leave schemes for unemployment

568/13/SC

SECRET

DTI: OPTIONS FOR REDUCTIONS

1. The previous assessment included launch aid for Airbus (an agreed bid) and a further addition of about £20 million a year to the baseline. This estimate was based on a PES bid of around £30-£40 million which might be reduced by a combination of reducing the bid and achieving small offsets eg on DTI Research Establishments and BOTB charges. Our present view is that both the DTI bid and the eventual result will be larger than this.

2. The attached options are in general order of palatability ie it is probably easier to take fairly radical action on regional expenditure than to get anything worthwhile from BOTB or ESA. The options under RDG and RSA are alternatives similarly moving from softer to harder options.

DTI

OPTIONS FOR REDUCTIONS

RDG/RSA: Effect on DTI PES of options for reducing regional industrial support. (Equivalent figures for all GB in brackets).

		Primary Legislation Needed?	(£m)	1988/89		1989/90		1990/91	
	RDG & RSA PES			234.9	(419.1)	226.1	(409.6)	231.7	(419.8)
(i)	Extending RDG moratorium to 4 months	No		- 5	(- 9)	- 1	(- 2)	-	(-)
(ii)	Introducing 4 month moratorium on RSA	No		-15	(-27)	+ 2	(+ 4)	-	(-)
(iii)	Reduce RSA and RDG/RSA combined cost per job limit, by 25%	No		-	(-)	-15	(-27)	-25	(-45)
(iv)	Reduce RSA and RDG/RSA combined cost per job limits by 50%	No		? -	(-)	?-25	(-45)	?-40	(-72)
(v)	Cash limit RSA to reduce value of projected new offers by 25%	No		- 6	(-11)	-16	(-29)	-23	(-42)
(vi)	Redraw assisted area map to limit Development Areas to 10% (within existing total assisted areas of 35%)	Yes		- 5	(- 9)	-12	(-22)	-18	(-33)
(vii)	End RDG for new cases (equivalent to ending Development Area status) and cash limit RSA to level of originally projected new offers	Yes		-15	(-27)	-35	(-63)	-53	(-96)

Notes

(i) All options assumed to start 1988/9.

(ii) GB figures are DTI figures grossed up.

(iii) All figures ignore the effect on EC grants from the ERDF, which will tend to reduce the value of savings though not in 1988/9 due to delays in payment of grant.

(iv) All figures are indicative only of orders of magnitude involved.

DEVELOPMENT AGENCIES

Straight percentage reduction (could be offset by transferring money from blocks).

(£m)

		1988/89	1989/90	1990/91
SDA/HIDB	5% cut	- 5.7	- 6.1	- 6.2
	10% cut	- 11.3	- 12.1	- 12.4
WDA/DBRW	5% cut	- 2.7	- 2.8	- 2.8
	10% cut	- 5.4	- 5.5	- 5.7
BOTB	Full cost recovery by 1990-91	- 7	- 15	- 21
EUROPEAN SPACE AGENCY	UK withdrawal	-	- 30	- 40?

PES 1987: OPTIONS FOR REDUCTIONS: AGRICULTURE

Mr Gieve's minute of 19 June asked for some further information for his assessment of Survey prospects. In May I suggested that the likeliest outcome for the MAFF/IBAP programme was a baseline settlement. This implies that the likely net bids for IBAP administration, domestic agriculture and forestry (say, £40-50 million a year) could be offset largely by estimating savings on the IBAP programme.

2. To answer Mr Gieve's first question we have made no explicit assumption about offsetting savings. To the extent that IBAP's estimating savings (currently about £100 m in 1988-89 and 1989-90) are reduced in subsequent forecasts it would be necessary to draw on some of the options listed in paragraph 3 to achieve a baseline settlement. The main threats in this area are (i) the size of the 1987 harvest (each 1 million tonnes above the current forecast of 25 million tonnes will cost £100 million in 1988-89) and (ii) the likelihood of a further green pound devaluation next year (£23 million per 1% off the MCA - now likely to be in the range -8% to -16%). Given the latter it would be prudent to keep at least £100 million a year above the current forecast in IBAP's programme or in the Reserve.

AGRI-CULTURE

3. The options which Ministers would need to consider to achieve a significantly better outcome include:

	£m 1988-89	1989-90	1990-91
(a) <u>domestic agriculture</u>			
(i) reducing capital grant rates by 1/3 (from 15/30% to 10/20%	-5	-15	-30
or			
(ii) reducing capital grants on selected operations e.g. farm roads, land drainage, farm buildings	-5	-10	-20

(iii) increasing ADAS cost recovery target from 20% to 50%	0	-15	-22.5
(iv) increasing industry funding of R&D on improved technology from 7% to ~~25%~~ 50%	0	-30	-60
(v) 10% reduction in HLCAs	0	-10	-10
(b) IBAP			
(vi) unit cost reductions in storage rates (savings depend on volume assumptions)	[- 5	- 10	- 15]
(c) Forestry			
(vii) additional disposals	-10?	- 10?	- 10?
(viii) privatisation of Forestry Enterprise	0	0	?

4. Apart from (viii), none of these options would require primary legislation. The farming community would regard any of options (i) to (v) as penal coming on top of the £100 million reduction in grants, ADAS and R&D agreed in 1984. The present Minister of Agriculture (when Chief Secretary) favoured strict control of capital grant expenditure but in his present capacity he is unlikely to offer more than modest trimmings to offset ALURE type bids. Increased charging for ADAS and R&D could only have a significant impact on expenditure ~~in 1990-91~~ the later years: precipitate action would involve additional redundancy costs. Reductions in hill livestock allowances (HLCAs) or a ceiling on individual entitlements have been considered and rejected before because of the political implications, especially in Scotland and Wales.

5. Privatisation of the Forestry Enterprise would require contentious primary legislation. A full scale review of current forestry policy (including the tax breaks) would be a necessary precondition. A decision to privatise would effectively preclude

reform of the tax position in the foreseeable future and could involve higher tax and grant expenditure in the medium term. (Separate advice on the case for a forestry review will be submitted shortly by ourselves and the Revenue).

FCO (INCLUDING ODA)

a. Savings assumed in earlier assessment

Diplomatic Wing

£9 million reduced requirements in each year from changes in overseas inflation and exchange rates. More recent figures suggest this should be £11 million a year. It may change again considerably before September. This is governed by an automatic formula.

ODA

ODA refuse to pay the cost to UK of a World Bank General Capital Increase. Our figures assume they will have to find £2 million in each of the last two Survey Years (and £12-£14 million a year thereafter) within their present programme.

b. Further options

Diplomatic Wing

There are no large individual items which could yield major savings. But the present level of diplomatic activity is simply what history has produced, and it would be possible to ask the Foreign Secretary to reduce it by some specified amount, leaving him to settle his own priorities of which he is particularly jealous. He would resist this very strongly. Attached at Annex A is an illustrative list of reductions totalling £million:-

40	65	65

At Annex B are similar lists for the British Council and the BBC External Services, to which FCO give grants in aid (they will be making an additional bid for the BBC). Both

FCO

organisations have powerful lobbies and a public outcry could be expected. The possibilities illustrated would amount to £million:-

			British Council
6	7	8	
			BBC External Services
11	12	13	

Most of these have been unsuccessfully attacked in the past. It may be that the Foreign Secretary would redistribute between these three heads.

ODA

A reduction in the aid programme would be particularly difficult to achieve this year. Ministers announced last year that they were keeping the programme constant in real terms over the succeeding 3 Survey years. Even so it is falling as a proportion of GNP and in the international league table. Additional costs will be imposed by the proposed enlargement of the IMF Structural Adjustment Facility which the Treasury favours, and an additional bid for which is expected (we do not yet know the amount but will suggest that you ask for at least some contribution from existing provision). Moreover it is publicly known that the Chancellor has agreed that the UK cost of his Sub-Saharan debt initiative would not be borne by the aid programme.

The only reduction which might possibly be defended as not going back on the Chancellor's undertaking would be phasing out the Aid and Trade Provision (including soft loans), the aid value and domestic economic benefit of which are both weak. (The bulk of it goes to a very narrow segment of the capital goods industries, about 3% of total exports.) This would be in line with UK and other OECD countries' policies, and actions, to reduce the use of mixed credits, though further progress on this internationally is unlikely. ATP is the part of the aid programme least jealously regarded by the Foreign Secretary but the Trade and Industry Secretary would strongly oppose any reduction. We were proposing to suggest an opening position of resisting the additional £12 million needed for soft loans in the final Survey year. Termination of ATP, allowing for existing commitments to be discharged, would save £million:-

36	62	82

This seems worth a try.

Illustratively, a 10 per cent reduction in the aid programme in real terms would save £million:-

129	134	139

But as around 95 per cent of **multilateral** aid commitments are inescapable, this would produce a reduction in ODA's **bilateral** spending of up to 17 per cent, or 30 per cent if additional to removal of ATP. Bilateral programmes have already been reduced by 35 per cent (15 per cent of total net aid programme) between 1979 and 1983. We do not recommend this as a target.

ECGD : Fixed Rate Export Finance

a. Savings Assumed in Earlier Assessment.

£8m in 1988-89 rising to £12m in 1990-91 from a switch to capital market financing and reduced bank margins, more than offset by increases in assumed interest rates (over £70-90m in 1989-90 and 1990-91)

b. Further Options.

Subsidy gradually reduced in last few years through international negotiations. Only option for further reduction in short-term is partial or total unilateral withdrawal of support from UK exporters. Economic arguments same in principal as for ATP (see above) though concessionality is less and benefits therefore spread wider. Likely to be unacceptable to colleagues, with strong opposition from capital goods industry. Potential savings assuming implementation from 1 April 1988.

1988-89	1989-90	1990-91
7	18	32

ECGD : Trading Accounts

Although not defined as public expenditure, tight control of ECGD risk-taking, particularly on doubtful markets, is essential to contain the PSBR cost of ECGD operations in future years. Decisions periodically arise on individual - often sizeable-cases. Case for re-circulating the previous Chancellor's 'Guidelines on Subsidy and Risk'. Best addressed during discussion at ECGD's Business Plan later this summer.

Annex A

FCO DIPLOMATIC WING

Overseas Representation:

	1988-89	1989-90	1990-91
			£ million
(a) reduce complement to s.i.p -200 at £19,000 each	- 3.8	- 3.8	- 3.8
(b) maintain increase in number of teeth staff as proportion of total, reducing mainly home staff (net of redundancy costs in first year)	- 2.9	- 4.4	- 6.3
(c) Further reductions; closure of 40-50 smaller posts, consulates etc, UK based staff cost of £50,000 each (net of redundancy costs in first year)	- 5.0	- 10.0	- 10.0
(d) 10% reduction in overseas estate capital build	- 1.5	- 2.5	- 2.5
(e) 20% reduction in FCO's information work	- 2.0	- 4.0	- 4.0
(f) 10% reduction in purchase of capital equipment	- 2.0	- 2.0	- 2.0
(g) cut in furniture costs by complete untying from Crown Suppliers	- 1.0	- 2.0	- 2.0
(h) 25% reduction in use of Queen's messengers and couriers	- 1.0	- 1.0	- 1.0
(i) greater use of locally engaged staff replacing expensive UK based staff (200)	- 2.0	- 4.0	- 4.0
(j) contracting out Government Hospitality Fund	- 0.3	- 0.3	- 0.3
(k) stop commercial work in:			
North America	- 5.6	- 11.2	- 11.5
Australasia	- 1.0	- 2.0	- 2.1
Western Europe	- 3.6	- 7.2	- 7.4
	- 31.7	- 54.4	- 56.9

Other External Relations

(a) alternative finance or close Commonwealth Institute	- 2.7	- 2.7	- 2.7
(b) abolition of Marshall Aid Commemoration Commission	- 0.7	- 0.7	- 0.7

	1988-89	1989-90	1990-91
			£ million
(c) end Commonwealth Scholarship schemes to 'white' Commonwealth	- 2.2	- 2.2	- 2.2
(d) reduce by 10% FCO's scholarships to other overseas students	- 1.0	- 1.0	- 1.0
(e) reduce by 10% Military training	- 1.3	- 1.3	- 1.3
(f) 5% efficiency savings in United Nations force in Cyprus	- 1.3	- 1.3	- 1.3
	- 9.1	- 9.2	- 9.3

Annex B

A. BBC: External Broadcasting and Monitoring

£ million

	1988-89	1989-90	1990-91
Eliminate all vernacular transmissions except to Eastern Europe, China and the Arabic service, and reduce World Service broadcasts from 24 hours to 16 hours a day peak times only.	- 10.0	- 10.0	- 11.0
Joint use of BBC relay stations by other broadcasters.	- 0.5	- 0.5	- 0.5
Reducing monitoring service current expenditure by 10% efficiency savings.	- 0.5	- 1.0	- 1.1
Increasing revenue earning activities.	-	-	- 1.0
	- 11.0	- 11.5	- 12.6

B. British Council

Withdrawing from Europe and North America.	- 5.0	- 5.0	- 5.0
Increasing income from revenue earning activities.	- 0.5	- 1.0	- 1.5
Collecting and increasing library membership fees and partnership scheme with commercial organisations.	-	- 0.5	- 1.0
Closing BC's regional offices in UK.	- 0.5	- 0.5	- 0.5
	- 6.0	- 7.0	- 8.0

OPTIONS FOR REDUCTIONS

Transport

1. The figures you have for a possible outcome do not assume any specific savings beyond some pretty strong efficiency savings in running costs.

2. Options for savings in descending order of palatability are:

   (i) cut provision for BR pension fund (5/8/10): demand-led expenditure, but we suspect over-provision;

   (ii) cut already planned expenditure on new national roads to pay for bridge maintenance (say, 40/40/40);

   (iii) reduce provision for LA capital (say, 45/45/45): would reduce new construction on local roads;

   (iv) minimise Freight Facilities Grant (3/4/5): argued last year without success.

3. More generally, of course, this programme is dominated by expenditure on national and local roads. There is no special mag[illegible] about the level at which provision is pitched: in particular, existi[illegible] provision is already less than would be justified on cost-benefit grounds. There are yet more radical policy options for roads expenditure, like a major step into tolling, or (in the longer term) electronic road pricing. But these will not produce public expenditure savings in the Survey period, and are likely to be side-tracked into [illegible]vices for outflanking public expenditure controls which would not be welcome to the Treasury.

Home Office

4. The figures you have for a possible outcome assume savings of 20/20/25 for increased receipts from fines and fixed penalties; and 10/10/10 for increased receipts from police housing (counts as LA capital).

5. Further options for savings in descending order of palatability would be:

(i) charging for settlement certificates and specific immigration services (10/10/10): the necessary legislation is in the programme for 87-88;

(ii) various arguments based on output and performance material and staff inspection (15/15/15);

(iii) civilianise 1000 prison officer posts and civilianise or contract out crown court escort work (10/10/10): the second probably requires legislation

6. In addition we shall mount an argument over measures to reduce the prison population. But this ground is now well-trodden and I would not want to imply to the Chief Secretary that the effect of a major effort here will be better than tactical in the final reckoning.

7. After that, we are into options like repealing the Data Protection Act; allowing the CICB backlog to grow (dramatically to get anything out of it); or a moratorium on prison building. In my view, these lie beyond the bounds of what can be argued with a straight face in current circumstances.

8. Our figures assume continuing efficiency savings to offset continuing upward pressure on work-loads; and no improvement in waiting times.

9. Further options for savings in descending order of palatability would be:

(i) raise contribution fraction for legal aid from ¼ to ⅓ of "disposable income" (10/10/11): needs affirmative resolution;

(ii) introduce application fee of £10 for Green Form assistance (4/5/5): needs primary legislation;

(iii) introduce application fee of £25 for civil and criminal legal aid (7/8/9): needs primary legislation.

(iv) confine Green Form assistance to those on supplementary benefit and FIS (25/28/30 inclusive of savings at (ii) above): needs primary legislation.

The need for legislation is less daunting than usual because there is to be primary legislation on the whole legal aid scheme following the current White Paper. The policy changes proposed, however, are changes which we were not successful in having canvassed in the White Paper, and the third in particular is said to be contrary to the European Convention on Human Rights.

11. To go further would take us into more radical options about the whole coverage of the legal aid scheme. Confining civil legal aid to matrimonial cases and cases involving personal injury and domestic violence would ultimately save about £20m a year, but nothing before the last year of the Survey. Withdrawing legal aid from matrimonial cases would save about £100m a year ultimately, but nothing before the last year of the Survey. I doubt that these options are worth parading. There might be a long-term policy option of developing legal insurance to replace areas of legal aid, but it would be a slow business, at best, and doubtful of success unless legal aid itself were radically curtailed, which Ministers have never been willing to contemplate.

Crown Prosecution Service

12. Our figures assume efficiency savings to offset increasing workloads. It is too soon to see specific options for savings, and with this programme we ought not to assume that we shall be able to construct any credible policy options.

2. We have included no offsetting savings in our assessment of the likely outcome for either DES or OAL. I offer the following suggestions on radical options.

DES

3. In general, substantial reductions would be a matter of arguing large amounts off the programme rather than of seeking specific policy changes. In effect, we would have to reverse the concessions made in the last Survey. To succeed, we would obviously require a very strong imperative that reductions should be made in programmes generally. Subject to that, one could aim for the following savings:

	£ million
Universities	50
Science	25
Local authority capital	25

In principle, one might expect to secure a rising profile of savings through the survey period. But the above numbers are only orders of magnitude, and it would be spuriously precise to refine them in this way. I believe that they would be feasible from 1988-89 onwards, although in present circumstances they are scarcely realistic.

4. One specific measure would be to put the CTC initiative on a mark time basis, given the slow progress so far, and agree to no more CTCs until experience had been gained with the present four. That would save about £25 million in both 1989-90 and 1990-91.

5. I hesitate to make judgements about relative palatability. All would be very unpalatable; but no legislation would be needed.

OAL

6. No significant savings in the Survey period would result from stopping the British Library project after Stage 1A. But stopping the purchase grants of the national museums and galleries, and squeezing the Arts Council, might make broadly equal contributions towards savings of £15 million in all years. No legislation would be needed.

CONFIDENTIAL

OPTIONS FOR REDUCTIONS: INLAND REVENUE AND CUSTOMS & EXCISE

Our earlier assessment made

(i) for Customs no specific assumption of offsetting savings (other than £1m in 1988-89 and £2m in 1989-90 arising from the decision to defer implementation of the final stage of Keith by one year); but assumed either a substantial cut-back in Customs' additional bids for more VAT control and drugs staff etc, or a less substantial cut-back plus a general squeeze eg on manpower;

(ii) for Inland Revenue, similarly, no specific assumption of offsetting savings, but a general squeeze eg local office manpower, the capital baseline, ADP consultancy support.

I attach, at Annex, lists of further options which Treasury Ministers would need to press in order to go beyond these figures. For Customs only option 7 would require legislation. If all the options were agreed in the Survey total savings of, say, £10m in 1988-89, £14m in 1989-90 and £18m in 1990-91 might be secured.

For the Inland Revenue none of the reductions suggested would involve legislation. But anything like the full ration would carry with it a significant cost to the PSBR and a set back to the Chancellor's aims for the Revenue's work plans, possible industrial relations problems, and a medium-term efficiency loss if the capital programme is held back.

This minute disregards paper savings of up to, say, £75m in 1988-89 and more in later years, which would come from changes to the pay assumptions implicit in these two Departments' bids.

I.R.
C+E

3315/015/AC **ANNEX**

SECRET

CUSTOMS AND EXCISE : OPTIONS FOR REDUCTIONS.

1. Perhaps £2m from increasing the interval between visits by control officers to the smallest VAT traders. This would be resisted by Customs, who would argue that it would weaken the deterrent effect of VAT control visiting, and would have a PSBR cost of about three or four times the expenditure saving (but this is the least cost-effective type of VAT control visiting).

2. At least £1m reflecting the fact that Customs manpower tends to run below profile during the year - this happens because of the squeeze imposed by higher than allowed for pay settlements, and such a reduction could, therefore, increase the likelihood of Customs needing a Supplementary Estimate during the year.

3. Perhaps £5m for introducing merchants' charges for Customs service at all times outside normal hours on weekdays. There would be very strong opposition from traders and other Departments. It took Ministers three years to decide to introduce in 1985 the present system of charges, which applies only on Sundays and bank holidays.

4. Perhaps £2½m for withdrawal of Customs facilities at small ports and airports. There would be an outcry from traders. Charging for all attendance at such ports and airports could save a similar amount in net expenditure terms.

5. Up to £1m for a reduction in the scope and quality of trade statistics. This would be opposed by other Departments and trade interests. We should need to ask Customs for more information about the nature and consequences of this change.

6. £1m for a reduction in documentary checks on imports, mainly carried out on behalf of other Government Departments, who could be expected to oppose it. Again, we should have to ask Customs for more detail on the consequences.

7. £6m for compulsory deregistration of VAT traders below the VAT threshold. (Would also increase tax yield by about £20m.) This was the subject of a consultation exercise last year, and was strongly opposed by the traders affected. It is contrary to our EC obligations.

Inland Revenue: Options for Reductions

	1988-89	1989-90	1990-91
General squeeze on local office manpower Reduce additional black economy Cut in PAYE audit work Reduce Schedule D company investigation coverage Squeeze on capital baselines and slippage Reductions in ADP consultancy support Drop right to buy work in the Valuation Office Some cuts in accommodation bids	£20 m	£30m	£40m

SECRET AND PERSONAL

py

FROM: A C S ALLAN

DATE: 24 June 1987

ACSA TO TURNBULL 24/6

MR TURNBULL

cc PS/Chief Secretary
Sir P Middleton
Sir T Burns
Mr F E R Butler
Mr Anson
Mr Scholar
Mr Culpin
Mr Gieve
Mr Tyrie

PUBLIC EXPENDITURE SURVEY

The Chancellor has been considering further the points raised at the meeting last Thursday. He would be grateful if the paper which GEP are preparing could consider all the options for handling public expenditure discussions in July, including whether we might avoid announcing any specific increase in the planning total then, for example by simply reaffirming the Government's commitment to its public expenditure strategy.

ACSA

A C S ALLAN

3645/13

SECRET

Thanks. Discuss (briefly) @ meeting. ~~[illegible]~~ Interesting [illegible] note shows no sign at all of our opposition.

FROM: A G TYRIE
DATE: 19 JUNE 1987

CHANCELLOR

cc Chief Secretary

TYRIE TO CH/EX 19/6

A PUBLIC EXPENDITURE STATEMENT IN JULY?

Michael Scholar has developed his arguments against a clear-cut announcement of increased totals in July in a note to Robin Butler, which I attach. He is opposed to the idea of a July statement, mainly because he thinks it would damage the credibility of the MTFS.

2. I am hesitant about a July statement for several other reasons: first, because I think we would end up spending more money; secondly, (a related point) it could impair the credibility of the Chief Secretary's position in the bilaterals; thirdly, because I am not entirely convinced we cannot take last year's trick again.

3. On the first point, I feel sure that spending departments would increase their bids after a July announcement. They would also be more difficult to budge in bilaterals.

4. Secondly, the Chief Secretary's plans to bare his spending teeth in a speech at the end of this month would sit very awkwardly against an announcement of an unprecedentedly big increase only a few weeks later. I can't think that would help him in the bilaterals, or the press. Come what may, I think the Chief Secretary has to say something to change the bountiful atmosphere.

I would [illegible] the points are good ones, but am suspicious of this.

5. Thirdly, I doubt if many people would expect us to try and take the same trick twice - a "routine" July Cabinet followed by increases in November. Robert Culpin says his

clients don't have even an inkling at the moment.

6. Last year we were very concerned that probing after the July Cabinet could have led to a very bad reaction in the markets. I am no expert but I would think that a July Cabinet which left a hint of ambiguity in the air (the end result, in a worst case, from Michael's line) would have a much less damaging effect this year.

AGT.

A G TYRIE

5.22

SECRET

pup

SCHOLAR TO FERB 19 JUNE

FROM: M C SCHOLAR
DATE: 19 JUNE 1987

MR F E R BUTLER

cc Sir Peter Middleton
Sir Terence Burns
Mr Turnbull
Mr Culpin

JULY PUBLIC EXPENDITURE STATEMENT

Reflecting on yesterday's meeting I feel worried on two points:

(i) the impact of a July statement announcing large expenditure increases at the start of the Survey, before the arguments have really begun;

(ii) our position in November explaining that these large increases do not mean a change in fiscal policy.

2. I am more worried about the second of these points than the first - although I think it will be seen as a painful contrast with July 1983, and an indication of how complete has been the Government's change of heart on public expenditure; and is there not a big risk both that we will set the figure too low in July, and that the increases will whet Departments' appetites?

3. But how will we deal with the argument after the Autumn Statement that revenue is clearly no longer determining expenditure? Surely, if increases on this scale are in prospect, and at the beginning of a new Parliament, we will have to drop our usual practice of refusing to update the MTFS in mid-year? Shouldn't we first announce the increases in the context of a proper reappraisal of policy, with new MTFS figures for revenue as well as expenditure - ie in November? Shouldn't we, in other words, bring forward the kind of exercise we discussed yesterday morning, and do it with a view to publication in November?

4. This would mean a more limited departure from past practice in July - ie something on the lines:-

"the Government reaffirmed its commitment to its public expenditure strategy. Public spending will be tightly constrained, as a falling proportion of GDP" (if asked if we will be raising the cash totals and by how much we would have to say that it was necessary to await the outcome of the Survey for the cash figures, as usual).

And it would mean a different sort of envelope for the Star Chamber: ie minimise the additions to the cash totals, within the overall constraint of the GDP/GGE ceilings. But isn't that in effect, the only real envelope they will have anyway?

MCS

M C SCHOLAR

013/3291

SECRET AND PERSONAL

pup

NOTE OF A MEETING No 11 18 JUNE

CHIEF SECRETARY TO THE TREASURY

NOTE OF A MEETING HELD IN No. 11 DOWNING STREET AT 3.00PM ON THURSDAY, 18 JUNE

Those Present:

Chancellor
Chief Secretary
Sir Peter Middleton
Sir Terence Burns
Mr F E R Butler
Mr Anson
Mr Scholar
Mr Turnbull
Mr Gieve
Mr Culpin
Mr Tyrie

PUBLIC EXPENDITURE SURVEY PROSPECTS

Papers:

Mr Gieve's minute of 12 June, and Mr F E R Butler's covering note.

The Chancellor asked Mr F E R Butler to introduce Mr Gieve's paper.

2 Mr F E R Butler said that he felt it would be impossible to repeat last year's tactics of concealing from colleagues in July the need for an increase in the planning total. Given therefore that the Cabinet would be asked to endorse an increase in the planning totals he thought that it was essential to consider:

(a) what the Chancellor and Chief Secretary would say in Cabinet;

(b) the line that would be taken in public and

(c) how the decision would be made public.

3 Mr Gieve's paper explained that the Treasury's best estimate, barring any new radical ideas, was that there would have to be additions to the planning totals of £4 billion and £6 billion in 1988-89 and 1989-90 respectively, assuming reserves followed the pattern in this year's White Paper. Even that assessment looked on the low side for 1989-90 and was below the forecasters' view of the likely public expenditure outturn for both years. These figures were above those that would be compatible with the White Paper path for GGE as a percentage of GDP on the basis of the projections of GDP published in the FSBR.

4 He believed that against this background the right approach within Whitehall would be to reassert the policy in the last White Paper. For Cabinet the emphasis should be on the cash figures; in the outside world the emphasis should be on delivering the policy, using any leeway provided by the revisions in the forecasts of money GDP in June and in the autumn.

5 Looking beyond this year there was a danger in stressing the GGE percentages since forecasts of GDP tended to go up, and this could lead to an expectation that increased forecasts would be followed by an increase in the planning total in successive surveys. It was important therefore to return in the 1988 Survey to holding to the cash plans established this year.

6 On the actual method, if Parliament was still sitting on 23 July, there could be an oral statement, although the precise formulation would be difficult. An alternative would be simply for Mr Ingham to tell the Press at the end of the Public Expenditure Cabinet that the Government had reasserted its policy on public spending.

7 <u>The Chancellor</u> said that the figures reported in Mr Gieve's minute were horrific. They posed severe presentational problems.

It would be important to scrutinise the figures very carefully, so that we were satisfied that they were indeed realistic figures, which we had no option but to accept. He believed that presentationally there would be an enormous row if the fact that the Cabinet had endorsed increased planning totals simply slipped out without some sort of Parliamentary statement. He saw advantages in taking the initiative by making such a statement.

8 He saw two desiderata. The figure for the second year of the Survey (1989-90) must be a realistic figure which could be held. Moreover it was vital that the figures announced in July should not be changed again in November. To achieve that there were two areas of potential flexibility - the Reserve and privatisation proceeds. Although he would be reluctant to manipulate privatisation proceeds that would be preferable to having to alter the cash total again. The emphasis on GGE offered a further degree of flexibility because of the inclusion of debt interest in that aggregate.

9 The question then arose of how to generate the cash figures to be put to Cabinet. He believed that the key was the GDP ratio. He thought that the figures presented to Cabinet should be justified on the basis of the ratio to GDP; if by the time of the Autumn Statement it turned out that the cash totals based on the best assessment of outcome in July, actually implied a higher ratio of GGE to GDP the percentage should be changed in November. There would be no question of manipulating the money GDP forecast in the published Industry Act forecast to generate the "right" percentage. The <u>Chancellor</u> thought that the two stage process - moving the cash figures in July, while being able to point to an unchanged GDP ratio, and then holding the cash figure in November but if necessary pointing to an increasedGGE/GDP ratio-would prove presentationally much easier.

10 <u>Sir Peter Middleton</u> said that the Treasury's objective must be to secure the lowest possible outcome to the public expenditure round. It was vital to re-establish the cash basis for public

expenditure control. He believed that undue reliance on GDP percentages was inimical to public expenditure control. It gave the Treasury a vested interest in under estimating public expenditure and over estimating money GDP. Moreover it allowed expenditure to increase in the wake of higher inflation. His own preference, if there was any need to manipulate the figures, was to manipulate the Reserve rather than privatisation proceeds. He endorsed the Chancellor's view that it would be essential to make a statement to Parliament.

11 Mr Turnbull pointed out that the problem was that expenditure had been planned on the basis of deflators in the previous year's MTFS. Inflation was now going along a higher path and this was causing an cumulative squeeze on Departments which was too big to expect them to absorb. Mr Anson pointed out that realistic figures for the later years of the Survey would imply the need for much larger Reserves in those years. The Chancellor asked to see a run of GGE/GDP ratios on the basis of more realistic expenditure aggregates.

12 Sir Terence Burns said that he saw considerable difficulties in the approach outlined by the Chancellor. He thought it was unwise to build too much on the GGE/GDP ratio. The figures for money GDP were very imprecise and often were revised quite substantially by the statisticians. He did not believe the discussion in Cabinet should - or needed to be conducted on the basis of precise figures. He would prefer a broader formulation, that the increases in the planning totals proposed were consistent with ratios similar to those published in the Public Expenditure White Paper. It was implausible that Cabinet colleagues would engage the Chancellor and the Chief Secretary in a debate on the precise arithmetic. He thought that the increases could be presented as what was necessary in the light of the bids, and what was affordable within the scope of overall fiscal policy . He was concerned that by using the ratio device in the 1987 Public Expenditure Cabinet, problems would be stored up for the following year. Although the Chancellor had said that

he would wish to stick to the same cash figure for 1989-90 when that became the first year of the Survey, colleagues might turn the argument back on the Treasury if money GDP were again higher. The upward revisions to money GDP were coming mainly from increases in the GDP deflator, particularly from increased profits and construction prices rising well ahead of the price level generally.

13 The Chancellor acknowledged that the position would indeed be very awkward. But there were no simple ways out of the present predicament. The Chancellor did not see that it would be possible to take one line with the Cabinet and another line in public on the same day.

14 Sir Peter Middleton said that he acknowledged the dangers to which Sir Terence Burns had referred, but saw no way of justifying the change to the July Cabinet, without using the GDP ratio argument. It would be important to present the changes as part of the Government's overall economic strategy, and in particular point to the downward path of money GDP underlying the MTFS.

15 Mr F E R Butler suggested that the approach to the July Cabinet should be based on pointing to the extremely large bids, saying that this pointed to the need to increase the planning totals but getting the Cabinet to endorse the figures for both 1988-89 and 1989-90 - Cabinet would be offered a package deal. The Chancellor thought that this was a promising approach . The numbers in July would have to give the Chief Secretary and Star Chamber plausible negotiating remits which would avoid a subsequent increase in the planning total. It would be important to provide for large reserves to give the Chief Secretary some room for manoeuvre.

16 Mr Scholar wondered whether such a major break with the tradition of previous years was needed. Last year Cabinet had simply asked the Chief Secretary to work within the existing planning totals although this was unachievable. The Chancellor thought that there had to be an envelope agreed by Cabinet.

17 The Chancellor asked for an early submission along the lines

set out by Mr F E R Butler above. It should cover in detail the underlying arithmetic on GGE/GDP ratios. The ratio would have to be used as one factor in justifying the increases proposed to Cabinet. He believed there would have to be a statement to Parliament. The submission should not however exclude other options.

Jill Rutter

JILL RUTTER
Private Secretary

Distribution:

Those present

SECRET

pp

FROM: A TYRIE

DATE: 18 June 1987

CHANCELLOR

Discuss

cc Chief Secretary
F E R Butler
P Cropper

TYRIE TO CH. 18 JUNE

THE PESC ROUND

I felt that there was too much resigned acceptance of the overrun in the meeting this afternoon. Now is the time to make changes in policy to secure compensating increases in revenue and spending cuts from spending departments.

2. I have not yet thought this through, but somehow we need to exchange our "flexibility" on the totals for some genuine cuts/changes in policy.

3. I set out a list of targets in my note yesterday. Of these, taxation of child benefit, charging for visits to GPs, hotel charges in hospitals, a needs study for the territories and rigorous pruning of Lord Young's former training and employment schemes are the most prominent targets. We should also allow a greater burden of local authority spending to fall on the rates. The more unpopular rates are, the less difficult it will be to introduce the community charge.

✓ (but not PES saving)

4. There must be many more targets. I suggest that spending divisions be asked to produce lists of candidates for savings/policy changes, big and small, which have been shelved over the past couple of years because they could not be acted upon at the end of a Parliamentary term. This year Treasury counter bids need to be more than up-market negotiating counters. With such a huge overrun we should not feel constrained to find savings within the parameters of existing policies.

5. Perhaps your message to Cabinet colleagues should be that it would be disastrous for Government economic policy to be blown off course at the start of the Parliamentary term. A £10 billion increase in spending for Year 2 would result in just that. The Treasury can provide £x billion in Year 1 and 2. But spending colleagues are going to have to take advantage of the start of the new Parliamentary term to implement tough policies. Without tough action a second increase in the total could lead to a loss of market confidence and wreck our economic strategy.

AGT.

A TYRIE

SECRET AND PERSONAL NB

Rayner

FROM: A G TYRIE
DATE: 17 JUNE 1987

CHANCELLOR

cc Chief Secretary

TYRIE TO CHANC. 17 JUNE

THE COMING PUBLIC EXPENDITURE ROUND

We badly need to change the atmosphere. We do not start from a strong position:

(i) The £4.7 billion 'rabbit out of the hat' last year, the forecast fiscal surplus, and a general sense of plenty will make the going tough.

(ii) So far we have managed to deny collective consideration of the overall level of public spending. How long can we carry on withholding that collective consideration?

(iii) We may be running out of tricks. For example, we cannot repeat the 1983 cheese-paring exercise. The social security review probably exhausted most of the political capital for cuts in the social services budget. Education and health are tough targets and the other big area, defence, is already very tight.

Ways of dealing with the problem

(i) Priorities. We should emphasise the need to switch resources to our priorities at the cost of other areas as a major justification for renewed stringency.

(ii) Political objectives. Perhaps it is worthwhile giving some key political objectives to colleagues. I would suggest three:

- Taking spending out of local authority control (for example the urban programme, housing repair grants, phoney local authority job creation initiatives). This should eventually bring savings.
- Cuts which can be made without reductions in service through increased efficiency. As in the private sector, improvements in productivity should be maintained. ('Even while we cut waste, more accumulates.')
- Cuts which can be shown to reduce "the nanny state".

We can claim that we set ourselves these objectives in the election.

(iii) Collective consideration? Is it worth considering using the reserve as a pool of funds available for colleagues collectively to scrap over? I gather that this idea has been periodically examined and rejected. In the last round, in practice, the Star Chamber was asked to allocate the reserve. I raise the question, but I do not know the answer: will we always benefit from the denial of collective consideration of the totals?

(iv) A speech? I think there is a strong case for a short pithy speech by the Chief Secretary or yourself. It can set out:

- How much the control of public expenditure has contributed to the defeat of socialism.
- Prudence has been rewarded first economically, now politically.
- The importance of meeting our ambitious tax and tough borrowing targets etc.

I think we need to show our newly sharpened row of public spending teeth by the end of next week at the latest. In a few weeks spending Ministers could easily misinterpret any remarks and bring on an unfortunate public exchange.

Targets for cuts/ revenue

I set out below a list of politically sensitive targets which, it seems to me, are best tackled early in a Parliament and on which we should press particularly hard this year. This is more of a personal than an exhaustive list!

- charges for library loans;
- the legal aid green form system;
- extension of the base for prescription charges;
- charging for visits to GPs. (I am checking whether the PM's remarks on this at an election press conference rule this out.)
- student loan top-ups as a substitute for increases in grant to compensate for inflation.
- draconian legislation to force empty dwellings out of the hands of local authorities.
- taxation of child benefit.

3. Several other areas probably require slightly longer-term treatment, but we need to initiate work on them now.

- a needs study for the territories;

- a review of long-term research projects: CERN, JET, Space;

- a defence review;

- a review of Lord Young's former schemes, for example, loan guarantees for small businesses;

- a review of subsidies which ease the break-up of families, for example, on single parent housing.

AGT.

A G TYRIE

011/4206

PWP

RP

CONFIDENTIAL

CC CHANCELLOR
SIR P MIDDLETON
MR F.E.R. BUTLER
MR ANSON
MR GILMORE
MR HAWTIN
MISS PEIRSON
MR TURNBULL
MR BURR
MISS NOBLE
MR GIBSON
MR KAUFMANN
MR JACKSON
MR TYRIE.

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Kenneth Baker MP
Secretary of State for Education and Science
Department of Education and Science
Elizabeth House
York Road
London
SE1 7PH

10 July 1987

Dear Secretary of State,

ESAC REPORT ON STUDENT AWARDS: DRAFT GOVERNMENT REPLY

Thank you for copying to me your letter of 2 July to Willie Whitelaw.

I am grateful to you for making some of the changes to the draft reply requested by my predecessor and other colleagues. However, I am still not happy with the reference to a Government "contribution" to students' needs. In his letter of 6 May John MacGregor stressed the dangers of claiming that the maintenance element of the grant is not enough to live on. I do not press that the reply should go out of its way to emphasise the adequacy of the grant. But equally, I cannot accept that it should imply insufficiency. Could I suggest instead that the first sentence of paragraph 5 be redrafted to read "It has always been Government policy to relate provision for students' maintenance to what the taxpayer can afford".

I have two further comments, both on aspects of the draft response to recommendation 2. First, our officials have been in touch on what the 1987 edition of the booklet "Grants to Students" might say about the adequacy of the student grant. I doubt whether they will achieve a formulation which can be described as "clarifying" the explanation of grant rates in this respect and I would suggest the deletion of the final sentence of the first paragraph. Second, I think, on reflection, that the words 'and has no reason to dispute their findings' at the top of page 7 should be omitted. It could prove to be a hostage to fortune if the CVCP and NUS were one day to come up with findings on students' living costs which we did not wish to accept.

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

Yours sincerely,

Jim Lutt

PP JOHN MAJOR

(Approved by the Chief Secretary and signed in his absence).

PS

FROM: PAUL DAVIS

DATE: 10 July 1987

PS/CHANCELLOR

cc: PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Sir G Littler
Sir T Burns
Mr Sedgwick
Mr Peretz
Mr Kelly
Miss O'Mara
Mr Culpin
Mr Bottrill
Mr Barrell o/r
Mr Owen

PUBLICATION OF MAY OVERSEAS TRADE FIGURES

I attach a note from DTI together with a press notice announcing a firm date of publication for these figures.

2. The Press Office at DTI hope that the notice will be issued today, though it may be delayed until Monday.

Paul Davis

PAUL DAVIS
EA2
35A/3
X 5384

Reference.......................................

To Mr Moorey Inf

From Alan Hewer
S2A1
V/251 Ext. 4897

8 July 1987

cc PS/SOS
PS/CDL
PS/MFI
PS/Sir Brian Hayes
Mr Dell
Mr Liesner
Mr Stibbard
Mr Harvey
Mr Boyd S2A
Mr Hibbert CSO
Mr Wells CSO
Mr Sedgwick Treasury
Mr Cowley C&E
Mr Laing CSO

PUBLICATION OF THE OVERSEAS TRADE FIGURES

1 Following the return to work by operators at Customs computer centre at Shoeburyness, we are now in a position to announce a release date for the May trade figures. This will be Wednesday 22 July.

2 I would be grateful if the attached press notice advising of the new release date could be issued this week. We hope to be able to announce a release date for the June figures in the press notice containing the May figures.

A R HEWER

CODE 18-77

DTI PRESS NOTICE

PUBLICATION OF MONTHLY OVERSEAS TRADE FIGURES

The press notice containing overseas trade figures for May 1987 issued jointly with the Central Statistical Office, has been scheduled for release at 11.30 am on Wednesday 22 July.

Information on release dates for later months will be given in that press notice.

10/3706

RESTRICTED

Papers P2e

FROM: G NOBLE
DATE: 10 JULY 1987

CHANCELLOR

Thanks. This is clearly a useful weapon for the Bank for use against Jap bks.
NWS

to be borne in mind.

No!: UK banks

cc Economic Secretary
Sir P Middleton
Sir G Littler
Mr Cassell
Mrs Lomax
Mr Ilett o/r
Mr Board

UK/US AGREEMENT ON BANKING SUPERVISION

You picked up some remarks by Mr Volcker and asked if we also will be able to apply the "convergence" risk asset ratio as a test on overseas banks which want to buy US banks (Mr Allan's minute of 24 June.)

2. In principle the answer is yes - indeed, the Bank confirm they could more or less do this now (subject to the limited scope of its 1979 Act powers on controllers). From 1 October, any controller of an authorised institution will be subject to the test of not threatening the interests of depositors in that institution - a dangerously undercapitalised bank would not be a fit and proper controller. The UK/US proposals which were issued in January are closer to our existing risk asset ratio than to the current US primary capital to total assets ratio, so we have the basic methodology in place already. The Bank could apply a ratio in judging whether a foreign bank was fit and proper to become a UK bank controller, whether or not the ratio was agreed with the Americans: the most troublesome new arrivals would probably not be American banks anyway.

3. The Bank would still have to decide on what was an appropriate minimum level of the chosen ratio for the foreign bank. It would not necessarily stick to the published UK/US minimum level (the January proposals envisaged that such a level would be published but that many banks would still face a higher, private, individual minimum appropriate to their business).

4. The real difficulty is that the Bank could not apply a qantitiative test capriciously. If it replaced a more rounded

and judgemental view of fitness and properness, and so excluded some "undesirables", it would keep other banks out too. Volcker's real message was, presumably, that the Japanese should get on board the convergence exercise, since their banks are undercapitalised by the proposed UK/US measure of capital. It may well have been uttered more for effect than implementation. The value of any effect is not clear at the moment; while the Japanese sounded fairly positive in their bilaterals with the US, their line remains unmoving within the Basle group. If it came to implementation, Volcker seems to have bolted in some escape hatches:

".... such a framework can, under appropriate circumstantces, assist in evaluating the capital positions of foreign banks...."

G Noble

G NOBLE

Ro

THE PRIVATE SECRETARY
TO THE

CHANCELLOR OF THE
EXCHEQUER

PRESS
AND
INFORMATION SERVICE

CSO

CENTRAL STATISTICAL OFFICE

GREAT GEORGE STREET
LONDON
SW1P 3AQ

PRESS CALLS ONLY 01–270 6357
(AFTER 1800 HRS 01–270 3000
OTHER ENQUIRIES 01–270 6363/6364

CSO (87) 65

13 July 87

AMENDMENT TO RELEASE DATES OF ECONOMIC STATISTICS IN JULY 1987

The following amendment should be made to Press Notice CSO (87) 55 of 22 June giving release dates of economic statistics in June and July 1987:

ADDITION: The joint DTI/CSO monthly press notice giving the overseas trade figures and current account of the balance of payments for May will be released on Wednesday 22 July at 11.30 hrs.

The delay in publication, which was originally scheduled for 25 June, was due to industrial action at the Customs and Excise computer centre at Shoeburyness.

The release date for the June trade figures will also be announced on 22 July.

Alex / David Owen suggests:- PWP

"underlying level of non-oil export volumes has fallen a little in recent months from the high level at the end of last year".

He says there is no getting away from fact that u/lying level is down - & DTI may not accept this)

NP

Reference ....

SECRET AND PERSONAL until release of Press Notice on 22/7/87 at 11.30 am

Thanks. [This will enable us to unwind some of the intervention!] 2. Does the [illegible] cushion the [illegible] I have [illegible] the product of [illegible] seasonal adjustments? [illegible]

To:

MINISTER FOR TRADE

From:

PETER STIBBARD
US/S2
V/260
215 4872

13 July 1987

Copy ...3.....
No (28)

OVERSEAS TRADE FIGURES FOR MAY 1987 : EXPORTS

1 The monthly trade figures are now becoming available again, following the strike at Customs Computer Centre during June.

2 The value of exports in May, seasonally adjusted on a balance of payments basis, is estimated at £6.3 billion, £0.3 billion (4½ per cent) lower than in April. A fall in oil exports (of about £0.2 billion) accounted for much of the reduction - mainly due to the temporary closure of BP's Leith terminal. Exports of the erratic items were little changed. Excluding oil and the erratic items, exports decreased by about 1 per cent between April and May.

3 In the three months ending May, the total value of exports was 2 per cent lower than in the previous three months. Excluding oil and the erratic items there was a fall of 2½ per cent between the two periods.

4 In the three months ending May, total export volume was 3½ per cent lower than in the previous three months and 6 per cent higher than in the same period a year earlier. Excluding oil and the erratic items export volume decreased by 4 per cent in the latest three months. The underlying level of non-oil export volume has fallen in recent months.

Is there a better form of words for this — D Owen to spk to Robert

5 Recent export figures are shown in the attached table; charts plotting the main aggregates are also attached. Import figures for May are not yet available. A note describing imports and the current account will be circulated on Thursday 16 July and the press notice is scheduled for release on Wednesday 22 July.

PJS

P J STIBBARD

CODE 18-77

SECRET and PERSONAL until release of press notice on 22 JUL 87 at 11.30am and thereafter unclassified

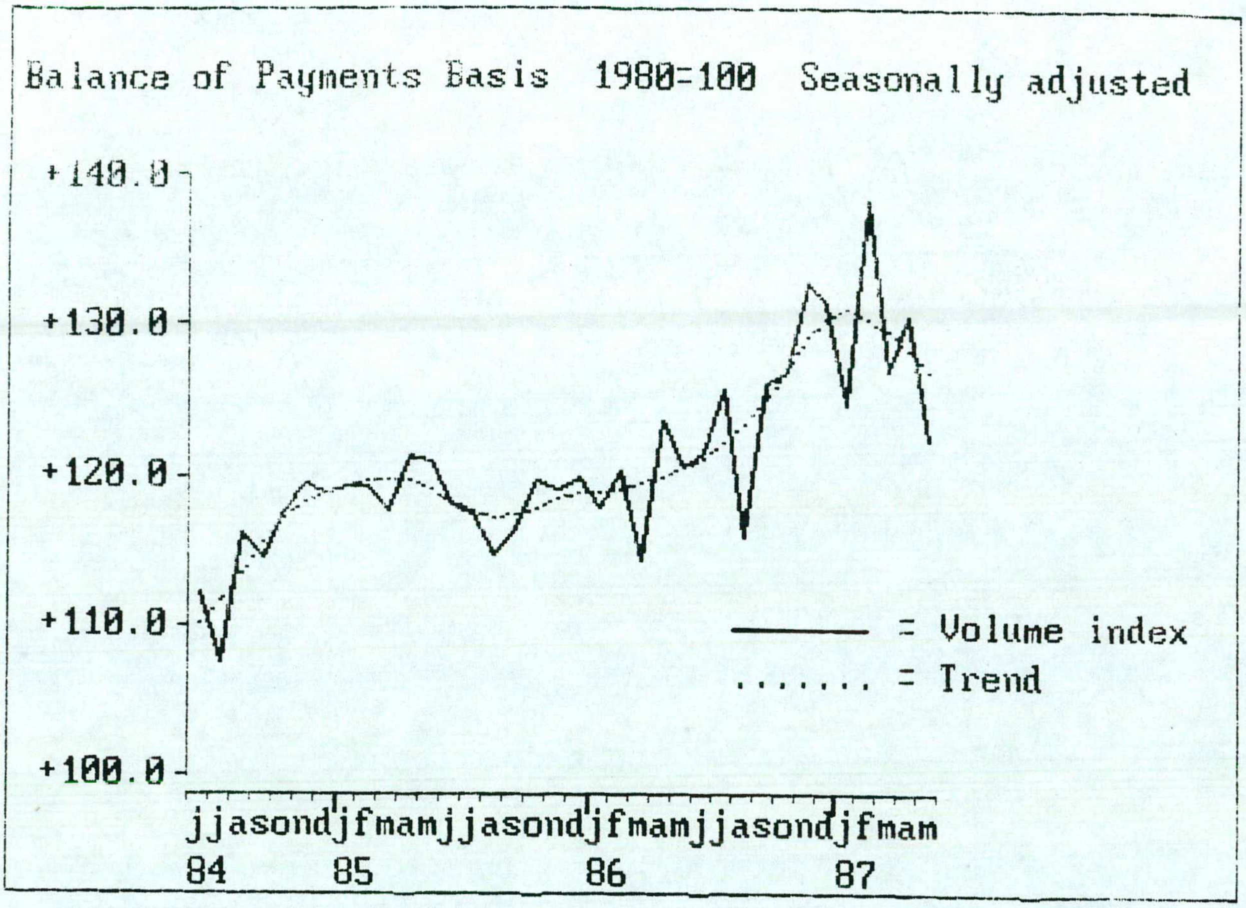
Copy No...( )

EXPORTS

(Balance of payments basis: seasonally adjusted)

		---TOTAL TRADE---		--EXCLUDING OIL & ERRATICS--	
		VALUE £m	VOLUME (1980=100)	VALUE £m	VOLUME (1980=100)
1986	Q1	18164	117.5	14071	111.9
	Q2	17786	121.9	14455	115.1
	Q3	17553	122.6	14839	118.5
	Q4	19340	130.5	15873	125.3
1987	Q1	19637	130.0	15899	124.4
1986	DEC	6477	131.6	5311	126.5
1987	JAN	6235	124.6	5034	118.7
	FEB	6973	138.4	5697	134.2
	MAR	6429	126.9	5168	120.5
	APR	6572	130.8	5272	122.7
	MAY	6290	122.5	5207	120.1

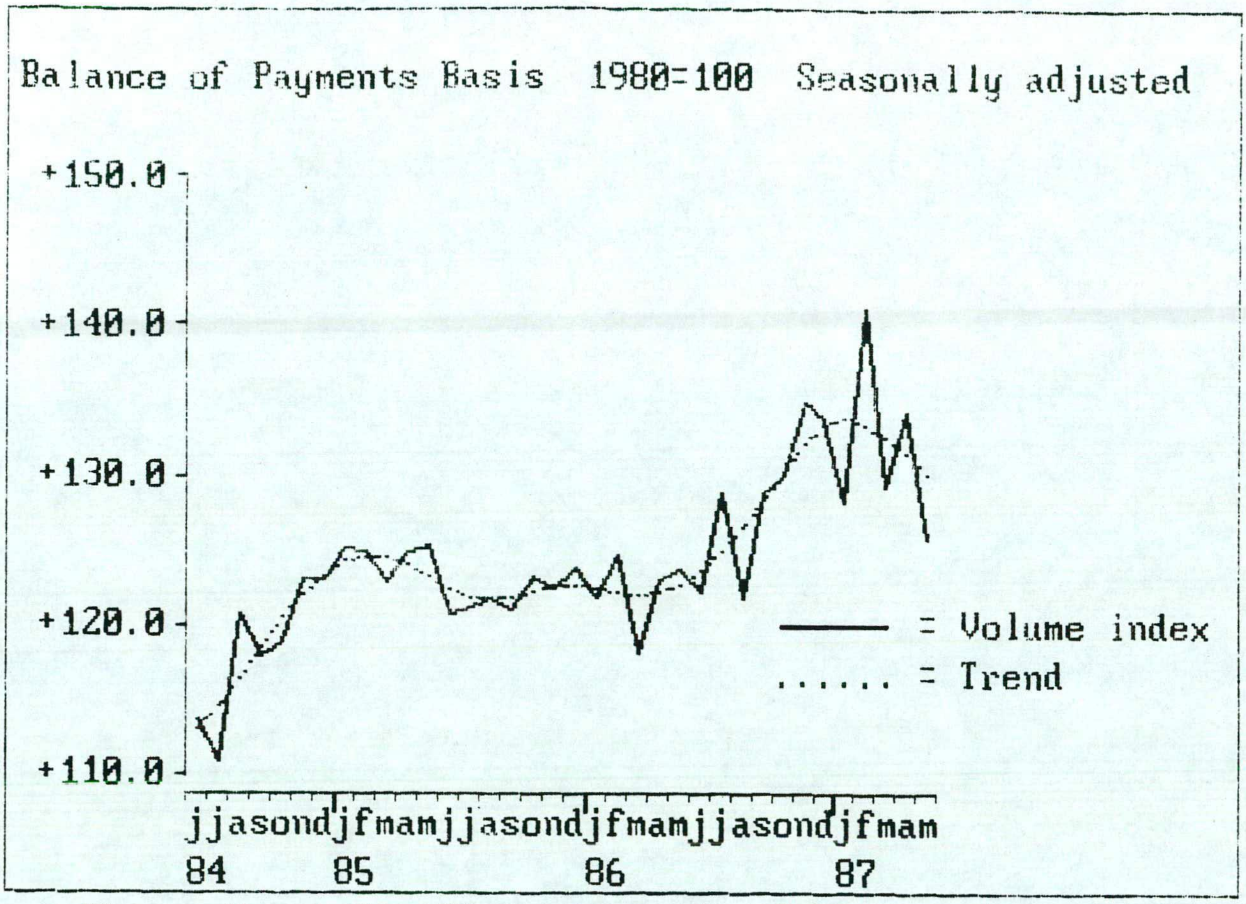
TOTAL EXPORTS



SECRET AND PERSONAL UNTIL RELEASE OF PRESS NOTICE ON 22.7.87

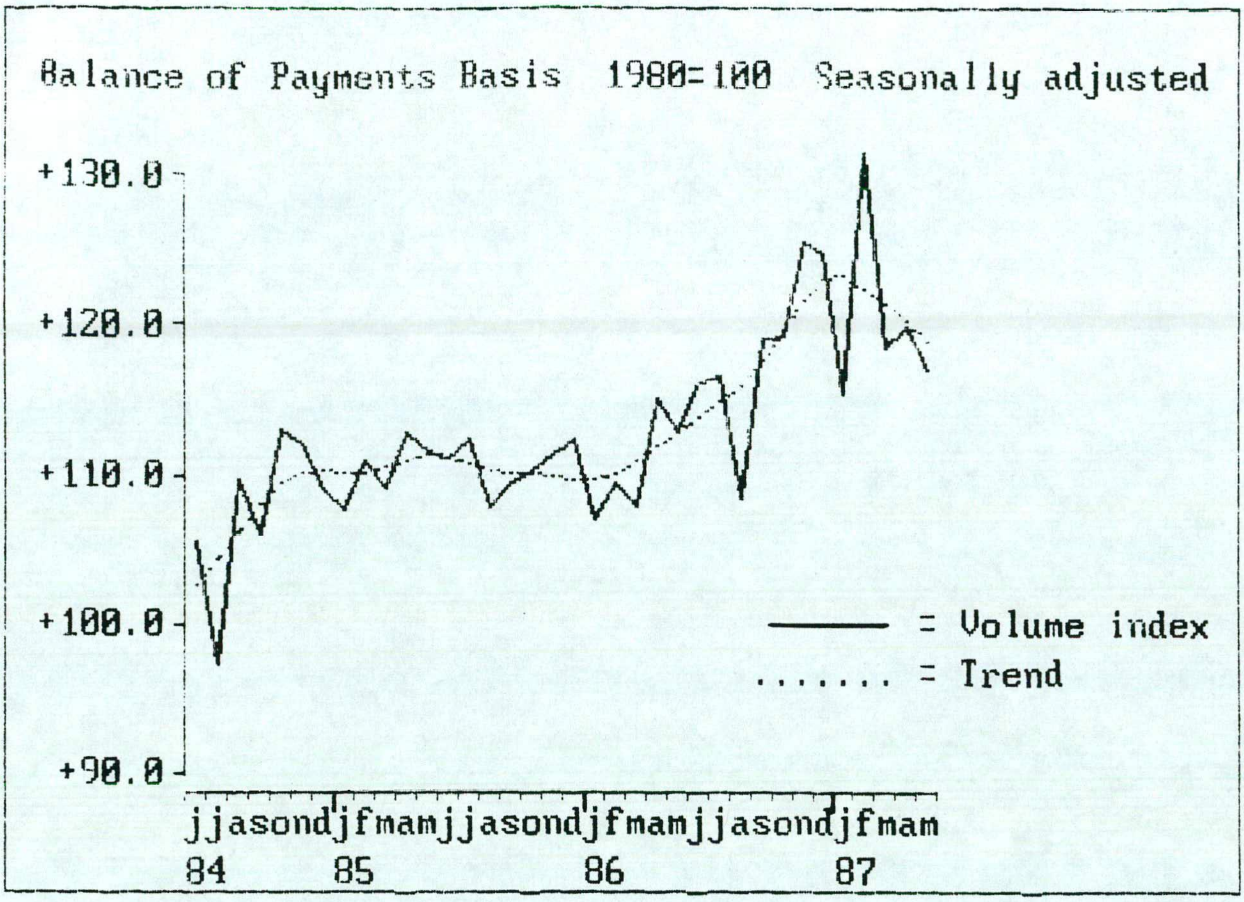
SECRET AND PERSONAL UNTIL RELEASE OF PRESS NOTICE ON 22.7.87

EXPORTS LESS ERRATICS *



* = Ships, North Sea Rigs, Aircraft, Precious Stones & Silver

EXPORTS LESS OIL



SECRET AND PERSONAL UNTIL RELEASE OF PRESS NOTICE ON 22.7.87

CIRCULATION LIST

Copy No 1	Minister for Trade	
2	Prime Minister	
3	Chancellor of the Exchequer	
4	Secretary of State for Trade and Industry	
5	Chancellor of the Duchy of Lancaster	
6	Sir Robert Armstrong (Cabinet Office)	
7	Sir Brian Hayes (Dept of Trade and Industry)	
8	Sir Peter Middleton (H M Treasury)	
9	Govenor of the Bank of England	
10	Chairman of the Board of H M Customs and Excise	
11	Mr J Hibbert (CSO)	
12	Mr Finlinson (H M Customs and Excise)	
13	Mr B Buckingham (CSO)	
14	Mr Davies (H M Treasury)	
15	Mr Barrell (H M Treasury)	
16	Mr P Sedgwick (H M Treasury)	
17	Mr D Owen (H M Treasury)	
18	Mr A McIntyre (CSO)	
19	Dr P Rice (Dept of Energy)	
20	Mr Bottrill (H M Treasury)	
21	Mr H H Liesner)	
22	Mr P J Stibbard)	
23	Mr W E Boyd)	
24	Mr E J Wright)	Dept of Trade and
25	Mr A R Hewer)	Industry
26	Miss C Siddell)	
27	Miss H Chapman)	
28	Mr D Packer)	

CHANCELLOR OF THE EXCHEQUER

HONI SOIT QUI MAL Y PENSE

Ch

Export figures

− £282 million,

but this is made up

of − £203 million on

oil exports & − £79 million

on non-oil exports.

AA

MR.O.

SECRET and PERSONAL until release of press notice
on.. 22 JUL 87 at 11.30am and thereafter unclassified

Copy No.5.(8)

THE CURRENT ACCOUNT - TABLE 2

Balance of payments basis
£ million; seasonally adjusted

	CURRENT BALANCE fob	EXPORTS fob	IMPORTS fob	VISIBLE TOTAL	BALANCES: OIL	NON-OIL	INVISIBLE BALANCE
1985	3450	78111	80289	-2178	8104	-10282	5628
1986	-120	72843	81096	-8253	4153	-12407	8133
1986 Q1	1064	18164	19391	-1227	1889	-3116	2291
Q2	163	17786	19337	-1551	772	-2324	1714
Q3	-762	17553	20426	-2873	646	-3519	2111
Q4	-585	19340	21942	-2602	846	-3447	2017
1987 Q1	667	19637	20772	-1135	1164	-2300	1802
1986 SEP	-127	6103	6934	-831	258	-1088	704
OCT	-43	6294	7009	-715	226	-941	672
NOV	-327	6569	7569	-1000	354	-1354	673
DEC	-215	6477	7364	-887	266	-1153	672
1987 JAN	84	6235	6752	-517	383	-900	601
FEB	398	6973	7174	-202	328	-529	600
MAR	184	6429	6846	-417	454	-870	601
APR	96	6572	7076	-504	419	-923	600
MAY		6290					

MAR-MAY 86	17684
DEC-FEB 87	19684
MAR-MAY 87	19291

PERCENTAGE CHANGES:-

LATEST 3 MONTHS ON PREVIOUS 3 MONTHS	-2.0%
SAME 3 MONTHS ONE YEAR AGO	9.0%
JAN-MAY86	30083
JAN-MAY87	32498

SECRET and PERSONAL until release of press notice
on. 22 JUL 87 at 11.30am and thereafter unclassified

Copy No. . . (69)

SPECIAL FACTORS — SUMMARY

£ million seasonally adjusted
Balance of payments basis

	TOTAL TRADE EXP	TOTAL TRADE IMP	SNAPS EXP	SNAPS IMP	TOTAL LESS SNAPS EXP	TOTAL LESS SNAPS IMP	TRADE IN-OIL EXP	TRADE IN-OIL IMP	NON-OIL TRADE EXP	NON-OIL TRADE IMP	TOTAL LESS OIL & SNAPS EXP	TOTAL LESS OIL & SNAPS IMP	VISIBLE BALANCES TOTAL	SNAPS	TOTAL LESS SNAPS	OIL	NON-OIL	TOTAL LESS OIL+ SNAPS
1980	47421	46061	3874	4350	43548	41711	6133	5818	41288	40243	37414	35893	1360	-476	1836	315	1045	1521
1981	50977	47617	3092	2679	47885	44938	9108	5996	41869	41621	38777	38942	3360	413	2947	3112	248	-165
1982	55565	53234	3447	2458	52118	50775	10686	6042	44879	47191	41432	44733	2332	989	1343	4643	-2312	-3301
1983	60776	61612	4495	3429	56280	58183	12501	5525	48274	56086	43779	52658	-836	1067	-1903	6976	-7812	-8879
1984	70367	74751	4622	3561	65745	71191	14852	7915	55515	66836	50894	63276	-4384	1061	-5445	6937	-11321	-12382
1985	78111	80289	4292	3540	73819	76749	16134	8029	61977	72259	57685	68719	-2178	752	-2930	8104	-10282	-11034
1986	72843	81096	5384	3568	67459	77528	8221	4068	64621	77028	59238	73460	-8253	1816	-10069	4153	-12407	-14223
1985 Q1	20081	21280	901	1102	19180	20177	4728	2834	15354	18445	14453	17343	-1198	-201	-997	1893	-3091	-2890
Q2	20192	20403	1282	1035	18909	19369	4326	1878	15866	18526	14584	17491	-212	248	-459	2448	-2659	-2907
Q3	18703	19300	914	762	17790	18537	3394	1615	15309	17685	14396	16923	-596	152	-748	1779	-2376	-2527
Q4	19135	19306	1195	641	17940	18665	3687	1703	15448	17604	14253	16963	-171	554	-726	1984	-2155	-2710
1986 Q1	18164	19391	1070	907	17094	18484	3024	1134	15140	18257	14071	17350	-1227	163	-1390	1889	-3116	-3279
Q2	17786	19337	1547	897	16238	18440	1783	1011	16003	18326	14455	17429	-1551	650	-2202	772	-2324	-2974
Q3	17553	20426	1186	876	16367	19550	1529	882	16024	19544	14839	18668	-2873	310	-3183	646	-3519	-3829
Q4	19340	21942	1581	888	17759	21054	1886	1041	17454	20901	15873	20013	-2602	693	-3295	846	-3447	-4140
1987 Q1	19637	20772	1512	939	18125	19833	2225	1061	17411	19711	15899	18772	-1135	573	-1709	1164	-2300	-2873
1985 DEC	6415	6296	383	174	6032	6122	1201	665	5215	5631	4831	5457	119	209	-90	536	-416	-625
1986 JAN	6239	6192	369	257	5870	5935	1273	430	4967	5762	4598	5505	48	112	-64	843	-795	-907
FEB	6160	6463	357	306	5803	6157	1050	377	5110	6087	4753	5780	-304	50	-354	673	-977	-1027
MAR	5765	6736	344	344	5421	6393	701	328	5064	6409	4720	6065	-971	1	-972	374	-1345	-1345
APR	6049	6303	636	307	5413	5997	671	365	5378	5938	4743	5632	-255	329	-583	306	-560	-889
MAY	5870	6555	435	335	5435	6221	582	352	5288	6203	4853	5868	-685	100	-785	230	-915	-1015
JUN	5867	6478	477	255	5390	6223	530	293	5336	6185	4860	5930	-612	221	-833	237	-849	-1070
JUL	5970	6629	448	241	5522	6388	554	324	5416	6305	4968	6064	-659	207	-866	230	-889	-1096
AUG	5480	6863	234	248	5246	6615	440	282	5040	6581	4805	6334	-1383	-13	-1370	159	-1542	-1528
SEP	6103	6934	504	387	5600	6547	534	276	5569	6658	5065	6271	-831	117	-947	258	-1088	-1205
OCT	6294	7009	468	309	5826	6700	629	403	5665	6607	5197	6298	-715	159	-875	226	-941	-1101
NOV	6569	7569	572	316	5997	7254	632	279	5937	7291	5365	6975	-1000	256	-1256	354	-1354	-1610
DEC	6477	7364	541	264	5936	7100	625	359	5852	7004	5311	6741	-887	278	-1164	266	-1153	-1430
1987 JAN	6235	6752	469	263	5765	6489	731	348	5504	6404	5034	6141	-517	206	-723	383	-900	-1106
FEB	6973	7174	524	291	6449	6884	752	424	6221	6750	5697	6460	-202	233	-435	328	-529	-762
MAR	6429	6846	519	385	5910	6461	743	289	5686	6557	5168	6172	-417	134	-550	454	-870	-1004
APR	6572	7076	467	385	6105	6691	833	414	5739	6662	5272	6277	-504	82	-586	419	-923	-1005
MAY	6290		454		5836		630		5660		5207							

14346
16842
15664

17684
19685
19291

15664

Alex

1 Alex
2 [illegible]

FROM: A BOTTRILL

DATE: 7 July 1987

BF 13/7

to Alex

MR SEDGWICK

cc: PS/Chancellor
Sir P Middleton
Sir T Burns
Mr Cassell
Mr Owen
Mr P Davis

MAY TRADE FIGURES

The DTI is currently working to the following timetable for publication of the delayed May trade figures:

Monday 13 July	- Exports note circulated
Thursday 16 July	- Imports figures available
Friday 17 July	- Draft Press notice to Ministers
Wednesday 22 July	- Press notice published

2. A Press notice announcing the new publication date will be circulated in the next few days as soon as DTI is confident that Customs can meet these deadlines. Customs and DTI will be aiming to make good lost time in subsequent months.

A Bottrill

A BOTTRILL

UNCLASSIFIED

2/7

FROM N I HOLGATE

DATE 13 July 1987

1. MR POTTER BAP 14/7
2. CHIEF SECRETARY

Ch
I think this is broadly OK (some v minor points)
AA

cc Chancellor
Sir Peter Middleton
Mr F E R Butler
Mr Anson
Mr Hawtin
Mr Scholar
Mr Turnbull
Mr Fellgett
Mr Cropper
Mr Tyrie
PS/IR

NON-DOMESTIC RATING

Mr Ridley wrote to the Prime Minister on 25 June to seek agreement on certain details of the national non-domestic rate (NNDR). Mr Clarke has commented on 10 July, that he agrees broadly with Mr Ridley's proposals.

Operation of the NNDR Pool

2. Under the "Paying for Local Government" proposals local authorities (LAs) would still collect non-domestic rates. The total would be notionally pooled at national level and then distributed to LAs at a flat rate per adult. In practice LAs with greater rates income than their entitlement would pay the excess into a pool, which would be distributed to those with insufficient non-domestic rate income.

3. Mr Ridley seeks agreement on the following principles for operating the NNDR pool.

(a) notional payments to LAs from the national pool should be fixed in advance;

(b) the size of the payments need not be dependent upon the estimated income each year, but all income to the pool should be paid out taking one year with another;

(c) the Exchequer should meet any deficit between receipts into the pool and the fixed amounts to be paid out by "providing for greater flexibility in the use of the Vote provision for Exchequer grant to local government."

4. Fixing payments in advance would provide LAs with certainty on their income from non-domestic rates. If they were not so assured they might set higher community charges to be certain of sufficient cash during the year.

5. But giving LAs complete confidence in their non-domestic income has three disadvantages:

(i) it reduces the incentives upon those LAs which are net contributors to the pool to maximise the yield of non-domestic rates. They will pay less attention to the non-domestic rateable base and be less assiduous in passing on information to the Valuation Office.

(ii) it creates no incentive for such authorities to pay NNDR receipts into the pool promptly;

(iii) it could produce an unexpected call upon the Exchequer if receipts were not paid in; a 1 per cent shortfall in yield is equivalent to £80 million.

6. It could be more appropriate to fix schedules of payments from and to the pool in advance. Payments from the pool should be at a slightly lower level than payment into the pool to provide a safety margin. (This will be particularly necessary in the first year when there will be many appeals against revaluation.)

7. In our view charge payers not the general taxpayer, should bear the cost of this safety margin and of any shortfalls in yield

caused by LA inefficiency. Shortfalls caused by sucessful appeals and changes in the property base would have to be allowed for by adjusting future contributions to and from the pool. There would be no risk of a call upon the Exchequer. LAs cannot be entirely immune (from, for example, strike action that halted the collection of rates) that would cause cash flow problems. Mr Ridley's intention (to which the Chancellor drew attention - Mr Allan's minute of 29 June to Mr Potter) is to use the Vote provision for block grant on a temporary basis to make up cash shortfalls. This mechanism is at our suggestion and is to be preferred to an additional call on NLF resources; but if our proposals for a safety margin are adopted, it should mean that even this mechanism is only rarely called upon.

8. I recommend that.

a. LAs should bear the uncertainty of the yield, not the Exchequer; and therefore

b. the timing and amounts of payments to and from the pool should be fixed in advance. This will maximise the incentive on LAs to collect and pay in proceeds of the NNDR promptly

9. Officials can work out the details. There are some difficulties over the classification of these payments which need further consideration.

Indexation of the NNDR

10. The Chancellor will have the power to override the automatic indexation of the NNDR. Mr Ridley suggests that this decision should normally be taken in July so that it can be taken into account in E(LA)'s discussion of the decision on grant; it could however be deferred until September to allow for later information on rateable values. But the NNDR should not be changed after the rate support grant settlement has been approved by Parliament.

11. I recommend that you agree to Mr Ridley's proposal. Overriding the indexation of the NNDR would reduce the non-domestic pool income and require adjustments to the community charge for spending at

need or to Exchequer grant. It is unlikely that much better information about rateable values will become available in the six or so months between the decision and its implementation. You will need to point out however that it is for the Chancellor, not E(LA) to determine the NNDR (and as the Chancellor is on E(LF) not E(LA), E(LF) would be the appropriate forum for consultation).

quibbling

Paying for Transition

12. Administrative costs of the NNDR will be met by the pool. Mr Ridley sees a need to make arrangements for a determination of this element of the NNDR separately from the rest of the NNDR poundage so that it is not included in the base to which indexation would be applied. There is no need to respond on this minor issue.

Other Amendments to Rating Legislation

13. Mr Ridley intends to publish a consultation document shortly. He proposes:

(i) to standardise the relief for empty commercial property at 50 per cent;

(ii) regular quinquennial revaluations rather than rolling revaluations;

(iii) to abolish domestic rates from April 1990, and from Royal Assent to his Bill to restrict the domestic appeals system to corrections of valuation errors and major physical charges in the property

(iv) abolishing the duty of LAs to consult business.

14. The first two proposals seem reasonable though Mr Clarke thinks that LAs should retain discretion on property relief. But there is little case to be made for giving LAs discretion over reliefs in an otherwise standardised system. IAE agree.

15. Mr Ridley will wish to reconsider his proposal on the domestic appeal system following E(LF)'s decision on 2 July not to abolish

domestic rating completely in 1990. DOE no longer intend to consult on this. Treasury Ministers have a strong interest because of sizeable savings in the Valuation Office (ultimately over 1000 staff) of bringing work from bringing work on domestic rating to a halt. But as you know there are also strong arguments for retaining rates for up to five years from 1990.

16. The Chancellor has commented (Mr Allan's minute to Mr Potter of 28 June) on the duty to consult business. You could suggest that this is kept as an exhortatory measure (though Mr Clarke has supported its abolition).

Conclusion

17. The major decision requested by Mr Ridley is whether local authorities or central government should meet any temporary shortfall in the yield of non-domestic rates. It is a local authority tax; it seems appropriate that LAs should do so.

18. A draft minute making this point and the others discussed above is attached.

N.I Holgate

N I HOLGATE

DRAFT MINUTE

MR RIDLEY

NON-DOMESTIC RATING

You wrote to the Prime Minister on 25 June putting forward proposals for the operation of the national non-domestic rate (NNDR) pool and for certain amendments to rating legislation. I have also seen the comments on your proposals from Kenneth Clarke.

Operation of the NNDR pool

2. I agree with your proposal that the income to the NNDR pool should broadly be paid out taking one year with another. But I do not accept that the Exchequer should be expected to meet any temporary deficit in the pool, in order to assure local authorities of their income. Certainty of income from the pool is clearly desirable to help local authorities in their financial planning: but to achieve that certainty, we must require authorities to collect non-domestic rates efficiently and pay them promptly into the pool. And mechanisms must be devised which avoid, so far as possible, the Exchequer making up any shortfall.

3. I therefore suggest that we should provide

for schedules of payments to be fixed each year for each LA's contributions into the pool as well as the payments out of it. The contributions and payments should be set to generate a very small surplus as a safety margin, as part of the administration costs of the scheme. In that way, we should be able to avoid any call upon the Exchequer; only on a contingency basis should there therefore be any recourse to the Vote provision for grant. This proposal would also mean that those authorities which have a greater non-domestic rates yield than their entitlement would have to collect their rates efficiently and promptly to meet the schedules - or borrow to the cost of their chargepayers.

Indexation of the NNDR

4. You propose that a decision in principle to override the automatic indexation of the NNDR should be taken before the rate support grant settlement has been approved by Parliament. I agree with this. But if the Chancellor should decide that it would be right to exercise his discretion on the uprating of the NNDR, I think it would be better if colleagues were consulted through E(LF) rather than E(LA).

Footling

Other amendments to rating legislation

5. I am content with your proposals on the rating of empty commercial property and future revaluations.

6. On local authorities' duty to consult business, I think we would all wish to encourage local authorities to pay close attention to the needs of business. Though the duty to consult is *may not mean much in practice* unenforceable, its abolition *could* may give a misleading signal that the government regards co-operation between local authorities and business as less important. Therefore I would favour retention of this duty.

7. I am copying this letter to the Prime Minister, other members of E(LF) and to Sir Robert Armstrong.

J M

July 1987

CONFIDENTIAL

Papers
PSC

CHIEF SECRETARY

FROM: B H POTTER

Date: 16 September 1987

cc: PS/Chancellor
Sir P Middleton
Mr F E R Butler
Mr Anson
Mr Hawtin
Mr A White
Mr Fellgett
Mr Tyrie
Mr Call

1988-89 SCOTTISH RSG SETTLEMENT: CURRENT EXPENDITURE GUIDELINES

Mr Lang's letter of 15 September describes his proposed approach to setting current expenditure guidelines for individual local authorities in Scotland in 1988-89. I recommend that you accept the proposed guidelines but indicate that you will be looking for a tough associated penalty regime to be announced in due course.

Background

2. Unlike the present RSG systems in England and Wales, the Scots have retained a form of target and penalty regime. Each authority is set a guideline on current expenditure (it may be above or below assessed need to spend). Expenditure above that guideline attracts grant penalty. The guidelines are usually announced around September each year; but the penalty regime is not announced until after the relevant financial year has began and local authorities have set their budgets for that year.

Assessment

3. There are three main issues to be considered - the level of the guidelines; the distribution of the guidelines to individual authorities; and the associated penalty regime.

4. Mr Lang's proposals are for guidelines which amount to a 5.1% increase over 1987-88 budgets and an average 8.2% increase in guidelines between 1987-88 and 1988-89. This is by no means attractive: a lower figure would have been preferable. But the high increases flow directly from the figures we agreed earlier for the increase in aggregate provision for current expenditure in Scotland. (Aggregate guidelines equal aggregate provision.)

5. We have considered the introduction of an unallocated margin between guidelines and provision as a means of squeezing guidelines further. But there is already an unallocated margin between aggregate assessed needs and aggregate guidelines. A second margin introduced for the last year of the present RSG system in Scotland would be hard to justify.

6. We are satisfied that the proposed distribution of the guidelines to the different authorities is broadly appropriate. The three main overspenders, against whom selective action was taken this year - Lothian, Edinburgh and Clackmannan - all have the minimum increase (3% over their 1987/88 budgets). Strathclyde region, another persistent overspender which escapes selective action perennially because of a quirk in the selection practices, also has the minimum increase in its guideline. And the proposals are generally tougher on the regional authorities, which account for the bulk of LA spending in Scotland. As Mr Lang notes, the large increases in guidelines go mainly to relatively low-spending rural District Councils; many of these are still receiving guidelines below their assessed needs.

7. Our view is that a reasonable balance has been struck between setting tough but just realistic guidelines for the worst overspenders and distinctly generous guidelines for low-spending authorities, unlikely to raise spending very far in any case.

8. It is customary not to say anything about the associated penalty regime when the guidelines are announced at the end of the month; and we do not wish to contest this. But we do need to be thinking about the penalty regime. Clearly the guidelines

themselves are meaningless without a penalty. Yet, despite the careful wording in the penultimate paragraph of Mr Lang's letter, we know that Scottish Office officials are contemplating just such a course of action for 1988-89 - ie guidelines but no penalties for exceeding them. Their argument runs as follows. 1988-89 will be the last year of the present RSG system. Penalties imposed in 1988-89 would have to be paid for in the 1989-90 FY. But that would affect the level of the new Community Charge and charges would be higher than otherwise. That would make it more difficult to generate support for the new system in its first year.

9. The argument has little logic: excessive spending by a local authority should be paid for by local taxpayers, whether raised via rates or the Community Charge. That is a basic tenet of the new system and at least the intended aim of the old. Nonetheless the political sensitivies are likely to run high on this issue in Scotland.

10. However, there is no need to take the issue head-on at present. Mr Lang has conceded in the penultimate paragraph that he will discuss grant penalties with you before any decision is taken (an important concession successfully resisted in previous years by the Scottish Office). We have agreed at official level that, when the guidelines are announced at the end of the month, nothing will be said to cast the slightest doubt on the Government's intention to continue with a penalty regime in 1988-89. You should, however, put up a marker that we expect a tough penalty regime.

11. I attach a draft letter for you to send to Mr Lang.

Barry H. Potter

BARRY H POTTER

DRAFT LETTER TO MR I LANG, MINISTER OF STATE, SCOTTISH OFFICE

1988-89 SCOTTISH RSG SETTLEMENT: CURRENT EXPENDITURE GUIDELINES

Thank you for your letter of 15 September setting out your proposed approach to determining the current expenditure guidelines for individual local authorities in Scotland for 1988-89.

The proposed average increase in guidelines at over 8% between 1987-88 and 1988-89 is alarmingly high. But I recognise that the guidelines flow from our earlier agreement on the level of provision. In putting forward your proposals, you will no doubt wish to empahsise that with such a relatively generous increase in guidelines, you will expect all authorities to contain their expenditure within them.

I am also content with the proposed allocation of guidelines amongst authorities. It is important that we continue to set tough guidelines for persistent overspenders like Strathclyde and in particular for the authorities subject to selective action in previous year.

In view of the relatively generous guidelines proposed for 1988-89 and the need to get spending under control next year before the introduction of the Community

Charge, I attach particular importance to a tough penalty regime for 1988-89. Guidelines without tough penalties for exceeding them risk being ignored. I note that you propose to come back to me later in the year to discuss grant penalties and I very much welcome that. I also welcome your intention, when announcing the guidelines, to warn authorities that we will once again be examining budget performance against guideline next year in order to determine grant penalties. We must create an expectation of a tough penalty regime for 1988-89.

I am copying this letter to Willie Whitelaw and Sir Robert Armstrong.

[J.M]

Personal

ACS Allan, Esq.

LORD PRESIDENT OF THE COUNCIL

Dear Alex.

I attach a copy of the internal note for the record I have done of yesterday's meeting.

Yours

Mike.

Ch
prep
(I'm not circulating to officials: substance already conveyed to them) AA

NOTE FOR THE RECORD

Rate Support Grant Settlement

The Chancellor of the Exchequer saw the Lord President this afternoon to discuss prospects for the Rate Support Grant Settlement.

The Lord President said he quite understood the Chancellor's concern at the way in which discussions in E(LA) were going. He was concerned himself but he could not manufacture decisions the Chancellor would consider reasonable while the Chief Secretary remained isolated in the Committee. The truth of the matter was colleagues were fearful of a repeat of the row over RSG of two years ago and were unwilling to risk that occurring, particularly when all the signals were that tax revenue and other receipts would exceed expectation.

The Chancellor said he appreciated the Lord President's difficulties but it was particularly important to send the right signals to the markets and to local authorities. He saw the grant percentage as the most critical indicator in this respect. This had been declining in recent years. Last year's generous settlement which had pegged the percentage at the preceding year's level had been understood by the markets because of the imminent election. But to maintain the same percentage for a third year running would give a completely contrary signal and convey the impression that the Government was not really serious about controlling local authority spending. It was true that revenue receipts were coming in well but this was because of the strength of the economy which was partly due to firm expenditure control. It was a fallacy to think that increased grant would keep rate increases down. High spending local authorities of whatever political complexion would set their rate levels at the maximum they thought their ratepayers would bear and extra grant would simply feed through into extra spending. Moreover, concessions made now in local authority spending would rebound in the PES round later in the year, for which, as the Lord President would know, substantial extra bids had already been made. It was also dangerous to talk of a generous settlement as a way of preparing for the community charge. With this in mind, if a satisfactory settlement proved impossible to achieve over the next week, one option might be to postpone the RSG announcement until after the Recess so that it considered further alongside the main PES exercise.

Following a short discussion of these points, the Chancellor and the Lord President agreed that he would see what he could do to reduce the grant percentage below 46 per cent. While the option of postponement might be possible technically there would be serious political drawbacks as there would inevitably be damaging leaks in the interval.

MJE.

M J ELAND
14 July 1987

2452/6

CONFIDENTIAL

FROM: N M KAUFMANN
14 July 1987

I agree [initials] 14/vii

1. MR GILMORE

C/letter to issue?

2. CHANCELLOR

CR 14/7

This v. poorly drafted letter may go as a P/S letter - not from me! N.

cc Chief Secretary
Sir P Middleton
Mr F E R Butler
Mr Anson
Mr Hawtin
Mr Scholar
Mr Potter
Mr Revolta
Mr Fellgett
Mr Cropper
Mr Tyrie

E(EP)(87)2: BOGUS DEGREES

Mr Baker's paper on bogus degrees is to be cleared in correspondence instead of being taken at a meeting of E(EP) on 15 July. This submission recommends you to write giving the conditional endorsement to his proposals which Mr Baker seeks.

The proposal

2. The aim of the proposals is to protect the reputation of British university and polytechnic education mainly in the eyes of foreign students who are vulnerable to bogus degree operators. Mr Baker's legislation would deal with this problem by stipulating as genuine only such UK degrees as are awarded by institutions authorised by Royal Charter or Act of Parliament. All certificates, advertisements, stationery and other promotional material by other bodies offering degrees would have to make it positively clear that they were not bona fide degrees. Failure to do so would be in breach of the law and incur liability to penalties.

3. Restricting the legislation to degrees means that qualifications such as BTECs and HNDs will not be covered. Business studies is an area where there is a certain amount of dubious practice and ideally legislation to cover these areas would be desirable. But that just does not look practicable.

4. The intention is for enforcement to be carried out by local authority trading standards officers and if that led to prosecution that would bring in the Courts, including Magistrates Courts. This raises the question of the new burdens procedure for local authority expenditure.

Financial implications

5. Mr Baker estimates that the costs will be less than £50,000 in the first year and fall to single thousands after two years. That estimate is based on assumptions which are not unreasonable but it is not possible to be sure at this stage whether they are realistic. Mr Baker therefore undertakes to consult the local authority associations on the costs. If they could convince him that his figures were significant underestimates he would reconsider his position, consulting colleagues since the new burdens procedure would be triggered.

6. We think this conditionality means you can accept Mr Baker's proposals. I attach a draft letter which reflects our interpretation of the new burdens procedure which is that, if no offsetting reduction in burdens can be made, then offsetting savings on central government should be found. Departments tend to resist that but it is a point you should press. LG agree.

N. K

N M KAUFMANN

CONFIDENTIAL

DRAFT LETTER

FROM: ~~CHANCELLOR~~ Cathy Rydings

TO : ~~MR BAKER~~

E(EP)(87)2: BOGUS DEGREES

Your ~~Private Secretary's~~ letter of 9 July asked for comments on ~~your~~ Secretary of State's proposal on bogus degrees as described in paper E(EP)(87)2.

2. ~~I am~~ The Chancellor is content with ~~your~~ the proposal, ~~given the condition that~~ on the understanding that, before going ahead, we would ~~have to conclude~~ satisfy ourselves that the costs really will be de minimis ~~under the new burdens procedure~~ in the light of the comments of the local authority associations (whom you are going to consult). If their views lead to the (opposite) conclusion, that the costs would be significantly higher than you have estimated, then the new burdens procedure ~~should~~ would apply. In that case, unless offsetting reductions in local authority burdens could be made, ~~I~~ the Chancellor would look to your Secretary of State for offsetting savings on your central government programme if you still wished to implement the policy.

3. I am copying this to Private Secretaries to members of E(EP) and the Lord Chancellor, and to Sir Robert Armstrong.

~~N L~~ CR

CONFIDENTIAL

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

The Rt Hon Kenneth Baker MP
Secretary of State
Department of Education and Science
Elizabeth House
York Road
LONDON
SE1 7PH

14 July 1987

CH/EXCHEQUER
REC. 14 JUL 1987 14/7
ACTION MR GILMORE
COPIES TO CST, SIR P MIDDLETON, MR F E R BUTLER, MR ANSON, MR TURNBULL, MR HAWTIN, MR BURR, MR POTTER, MR TYRIE

Dear Secretary of State,

FINANCIAL DELEGATION TO SCHOOLS

I have seen the draft consultation paper attached to your minute of 8 July to the Prime Minister.

I am concerned that the the consultation paper appears to move away from the proposal that the formulae for allocating resources should be based on the number and ages of pupils and include an automatic provision for dealing with social problems and schools of different sizes. The approach now described is more open ended and puts the initiative much more onto the local education authority. I note what you say about the difficulties in Cambridgeshire but I do not yet think that we should abandon the prospect of much greater consistency of approach to the funding of schools. I am particularly concerned about the interaction of this proposal with the proposal for Grant Maintained schools where the financial delegation will also set the basis for funding schools which opt out. I should prefer to see the consultative paper take a line much closer to that in your paper for the No 10 meeting on 8 April.

I should also note that there is an interaction between the proposal to allow schools greater freedom to choose where to buy services and our legislation on compulsory tendering. My officials are in contact with yours about this, but I believe that the consultative paper should at least acknowledge that there is an interaction and say that the matter is under consideration.

Finally, there are long standing arrangements for dealing with new financial and manpower burdens on local authorities. The consultative paper, however, makes no reference to the costs which would fall on local authorities as a result of the proposals. The monitoring and financial information proposed in paragraph 18 and the training proposals for governors and head teachers set out in paragraph 20, would have substantial resource implications which ought to be properly quantified. Experience of setting up cost centre arrangements for central administrative expenditure in Government Departments provides evidence for this, and if each school is to be a cost centre with appropriate monitoring, the setting up and running costs need to be estimated and local authority associations' views on the estimates sought.

I am copying this to the other members of E(EP) and to Sir Robert Armstrong.

Yours sincerely,

R. Young

pp NICHOLAS RIDLEY
(Approved in draft by the Secretary of State and signed in his absence.)

41
790

3081/008/pp

CONFIDENTIAL

FROM: J M HALLIGAN

DATE: 14 July 1987

1. MR GILHOOLY

I agree.
14/7

2. CHANCELLOR

cc: Chief Secretary
Sir P Middleton
Mr F E R Butler
Mr Anson
Mr Kemp
Mr Gilmore
Mr Hawtin
Mr Burr
Mr Potter
Mr S Kelly
Mr Cropper
Mr Tyrie

HIGHER EDUCATION PAY AND CONDITIONS : BRIEF FOR E(EP)

The issue of future pay determination arrangements in higher education is on the E(EP) agenda following Mr Baker's minute of 1 July advocating one approach and your minute of 6 July advocating another. Mr Rifkind's letter of 8 July to Mr Baker supports his proposals and sets out the implications for current Scottish arrangements. Your objective is to secure agreement to consultations taking place on the basis of your preferred model: the fallback is consultation with no Government preference indicated.

Background

2. This is set out in my minute of 3 July (attached). Mr Baker sent the Prime Minister a minute on 1 July suggesting:

a. Universities. Leave employers and unions to settle pay and conditions without direct Government involvement. Government influence exerted through financial levers and informal contacts.

b. Polytechnics and Colleges. A new collective bargaining body with minority DES representation on the management side but no veto over offers or settlements.

3. You minuted the Prime Minister on 6 July advocating Government representation on the management side, a veto over settlements, and powers to impose a settlement in the event of deadlock in both sectors.

Line to Take

The re-creation of Burnham (for polys etc)

4. We suggest that you argue as follows:

a. Mr Baker's proposals for both sectors are unsatisfactory. They put too much faith in financial levers and informal contacts influencing pay. All experience in the education world demonstrates that this influence will not be sufficient and at some stage we will have to strengthen it. We should do this now an opportunity has presented itself, rather than procrastinate and be forced to do something after several years of unsatisfactory results.

b. Financial levers will not guarantee reasonable pay settlements. Employers and unions could negotiate an excessive settlement and demand that the Government finance it. This puts Government in a dilemma. Either pay up at whatever cost to public expenditure. Or refuse and be blamed either for the parties' inability to reach a settlement or the cuts in student numbers, research levels necessary to finance it.

c. This is close to what happened with teachers in the last days of Burnham. The employers and unions reached expensive agreements that disregarded Government views on pay structure at Coventry and Nottingham which were made subject to the Government financing them. When we refused, on grounds of cost and structure, they blamed the Government for their failure to reach a settlement and accused us of indifference to education. The situation was not retrieved until the Government took direct control over pay in the Teachers and Conditions of Service Act.

d. It is quite likely that something similar will happen to the polytechnics/universities under Mr Baker's arrangements. Indeed it is more likely. We provide 80 per cent of university finance and 95-100 per cent of polytechnic/college finance. Pay settlements that are not consistent with existing funding levels will inevitably either be made conditional on more Government funds, or will require cuts in things like research. [Mr Baker will say that their financial dependence on Government means such settlements will not be made. This does not follow. The parties know that the Government is placing a very high priority on education and that if they can create a fuss about "cuts" in research or student numbers they can put very strong pressure on the Government to provide them with extra money to validate excess pay settlements ex post. The most favourable interpretation is that they will not ratify settlements if the Government does not agree in advance to pay for them. In which case there is deadlock, inability to settle pay, and blame on the Government for withholding the necessary funds.]

e. Under Mr Baker's proposals the Government will not be able to escape responsibility for taking a position on pay settlements. We should therefore make sure that we are able to influence, and where necessary, control them without being placed in the impossible dilemma of approving or disapproving them after they have been reached.

f. Our minimum objectives are:

i. voting strength on the management panel to reflect the Government's interest in the outcome. That includes pay structure and conditions of service as well as cost;

ii. a veto over settlements on cost grounds;

iii. power to impose a settlement in the event of deadlock.

This is a fair balance between the managerial prerogatives of universities and financial responsibilities of Government.

g. This will not require any extra legislation. There will have to be legislation on the polytechnics/colleges. Pay could be covered in that but otherwise content for the adoption of these new arrangements to be a condition of receiving any grant. Same for universities.

Alternatives

5. I understand that Professor Griffiths is advising the Prime Minister that now is the time to introduce more pay flexibilty between different institutions in the higher education sector. He favours arrangements that would allow each institution to settle its own pay and conditions of service without being part of a national bargaining structure.

6. While we have some sympathy with that as an ultimate outcome we doubt its feasibility at present. Mr Baker's proposals would allow this to happen for universities but, as he says, in practice they are likely to continue with national negotiations. This is partly because they depend on Central Government for 80 per cent of their funding and partly because there is a national (in some cases an international market) for university academics. Individual institutions could not go it alone. A single institution would not have the money to pay over the odds and any institution paying below the national or international rate is likely to lose these highly mobile staff, or at least the good ones. The same applies to polytechnics which are 95-100 per cent Central Government funded and where Mr Baker does propose to make a national negotiating body with DES representation a condition of grant. Again if the Government decided to play no part in the pay negotiating process the likely outcome is voluntary national bargaining.

7. We would agree with Mr Baker (paragraph 2 of this minute to the Prime Minister) that it would not be feasible to enforce local pay bargaining. If the idea is raised you could express your sympathy but say that it would not be practical until these institutions were raising a much higher proportion of their income from non-Government sources.

Fallback

8. You will get support for your ideas from Mr Ridley and possibly Mr Fowler. But if a consensus does not form around your views you

could argue that the consultations could go ahead without a statement of a clear Government preference. This line would be especially persuasive if the Prime Minister speaks up for a model that would give greater freedom to individual institutions. That would put three alternative ideas into circulation, and you could argue that all of them should be given a fair hearing.

9. That argument would, of course, be inconsistent with your line on the Green Paper, where you will be arguing for a clear Government view to be set out in the Document and, which will be the preceding agenda item. Whether you should (or will need) to deploy this fallback will depend upon the outcome of the discussion about the Green Paper. If your view has prevailed on the Green Paper then, given the similarity of the issues, you are very likely to carry the day on this item. If Mr Baker has prevailed on the Green Paper then he will not be in much of a position to argue against neutral consultation about the universities and polytechnics. So if Mr Baker does win on the Green Paper item and you are not getting colleagues' support for your position on higher education either we suggest you deploy the fallback in paragraph 8.

Scotland

10. Mr Rifkind's letter of 8 July, which supports Mr Baker's line, deals with Scottish consequentials. Whatever is decided for England should apply for Scotland. As university negotiations are UK based no separate consideration of Scotland arises. In Scotland the polytechnic and advanced colleges sector is already centrally funded. Local authorities deal with non-advanced further education. However pay and conditions of service for both are dealt with in one negotiating body - SJNC(FE) - on which the Scottish Office can be outvoted by the local authority representatives. This position needs to be regularised with the pay for the Scottish polytechnics and centrally funded bodies brought together into one body with Government influence and control on English lines.

J. M. Halligan.

J M HALLIGAN

FROM: J M HALLIGAN

DATE: 3 July 1987

Agreed in draft.

1. MR GILHOOLY
2. CHANCELLOR

cc Chief Secretary
Sir P Middleton
Mr F E R Butler
Mr Kemp
Mr Gilmore
Mr Hawtin
Mr Burr
Mr Potter
Mr Truman
Mr Tyrie

C/Letter to issue?

CR 3/7

HALLIGAN → CH/EX 3/7

HIGHER EDUCATION PAY AND CONDITIONS

Mr Baker's minute of 1 July to the Prime Minister makes proposals for new pay arrangements for academic staff in the university and the new polytechnics and colleges sectors. We do not think they give the Government sufficient voice and advise you to minute the Prime Minister with alternative ideas.

Background

2. The existing arrangements are set out in paragraphs 2-8 of the paper attached to Mr Baker's minute. For universities there is a two stage voluntary process. The employers and unions negotiate between themselves in Committee A and then put a proposal to Government representatives in Committee B. The proposal becomes a settlement if it is endorsed in Committee B. In practice most negotiations take place outside the formal Committee structure with DES representatives giving guidance to the negotiators about the Government position on funding. A proposal is only put to Committee B when the Government's approval is assured. Generally speaking this process has delivered reasonable settlements.

3. This is how the recent restructuring of university academics pay was achieved. The employers and union started negotiations last year in Committee A knowing that its size and structure depended upon how much extra money the Government would make available to finance it. Government views were put to the parties in meetings

outside this formal Committee structure and they were eventually told that the Government would make available an extra £170 million over three years on certain conditions. The employers and unions then agreed a package in Committee A, which while not ideal from the Government's point of view was judged acceptable, and was then formally endorsed in Committee B.

4. The new polytechnic and college sector is currently the advanced part of the local authority further education sector. Since the 1987 Teachers Pay and Conditions of Service Act the pay of these staff is negotiated between local authority and union representatives in a National Joint Council. The Government has no voting rights on the NJC or control over the settlement. At present negotiations are deadlocked on the 1987 pay settlement with the unions seeking a schoolteachers sized deal (16.4 per cent) and the employers offering 9.3 per cent. The DES observer on the NJC has told the parties that the Government will not provide extra finance for the settlement and that is about the extent of Government involvement.

Proposals: Universities

5. For universities Mr Baker proposes to abolish the existing Committee A/B structure and leave the employers and union to settle pay by themselves. Government influence would be through financial levers (Government supplies 80 per cent of university finance) and informal contacts. Mr Baker argues that this is pretty much how things work at present and that the universities have not done a bad job.

6. We think that the present arrangements have proved satisfactory in the past but they are only voluntary and there is a questionmark against their survival. The Croham Report calls for reform and we think the opportunity should be taken to entrench our existing influence. The Government cannot just pull out in the way Mr Baker suggests. It provides 80 per cent of the universities money and pay is about 80 per cent of their expenditure. The Government should have a degree of influence and control over pay which reflects this, meaning a voice on the management panel that negotiates pay and a veto over settlements.

7. Mr Baker's proposal would allow the management and unions to negotiate settlements higher than they can afford within present cash resources. The Government would then face the dilemma of either providing more money to finance the settlement or refusing. If it did the latter it would then be held responsible either for the parties inability to reach a settlement (as happened with the teachers) or the cuts in student numbers, research levels etc needed to finance the settlement.

8. To prevent this sort of thing happening the Government needs to be able to veto settlements. It should also have sufficient voice on the management panel to be able to influence the pay structure and conditions of service, which are important influences on the ability of the universities to deliver education. This is the basis on which Mr Baker should consult: the details can be fleshed out later.

9. Mr Baker says that such arrangements would mean legislation. This may make them unattractive to colleagues, who might otherwise support them. There is a possible alternative that Mr Baker himself proposes for the polytechnic sector - make acceptance of such arrangements a condition of receiving any grant. There may be legal problems with such an approach but it should be explored.

<u>Polytechnics and Colleges</u>

10. For this sector Mr Baker proposes:

i. A new collective bargaining body with minority DES representation on the management side and no veto over offers or settlements;

ii. This structure to be either established by legislation or preferably made a condition of grant (95-100 per cent of their finance will come from Government);

iii. The need for DES representation to be reviewed after two or three years.

11. Mr Baker favours DES participation, at least initially, because of the inexperience of management in pay negotiations. He argues that it is unnecessary for it to be legislated for because, as 95-100 per cent of their finance will come from grant, the institutions will have to agree if it is a condition of grant. For the same reason there is no need for Government representatives to have a veto over offers and settlements.

12. Again we are concerned that these arrangements will not give the Government enough control and could put us in the dilemma of providing extra money for excessive settlements or refusing and then either being blamed for the parties inability to settle or for cutbacks in other things like research or numbers. We would like Government representation on the management side (not necessarily a majority) and a veto. There should be a separate body for polytechnics/colleges. As there will have to be legislation to set up this sector we could use it to deal with the pay arrangements. But, if it was considered desirable to avoid putting this into legislation the alternative of making the adoption of such arrangements a condition of grant is a possibility.

Wales and Scotland

13. The university arrangements will cover all the UK. The polytechnic/colleges proposals are limited to England. There is only one Welsh polytechnic and we can safely assume that whatever pay and conditions emerge from the English arrangements will be replicated in Wales. Mr Baker says that whatever is agreed for English polys should also be the model for new arrangements covering the Scottish colleges of education and central institutions (polytechnic equivalents). We agree with that although we differ on what they should be. The English legislation could cover the Scottish position as well.

Consultation

14. Mr Baker says consultations should be initiated before the Summer holidays. We agree. Indeed, as our proposals could require

early legislation, we think it is even more urgent to get started.

Recommendation

15. We advise you to minute the Prime Minister on the above lines. This is likely to mean a meeting of Ministers will be needed and Cabinet Office are aware of this. Draft reply attached. HE agree.

J.M. Halligan.

J M HALLIGAN

~~DRAFT~~

From: Chancellor

To: Prime Minister

Copies: E(A)
Secretary of State for Social Services
Sir Robert Armstrong

HIGHER EDUCATION PAY AND CONDITIONS

Kenneth Baker sent me a copy of his minute of 1 July on this subject.

2. The Government provides 80 per cent of the money for universities and will provide 95-100 per cent for the new sector. Pay, in turn, is about 80 per cent of their costs. The arrangements for negotiating pay should reflect the taxpayers interest in the outcome: both the responsibility for paying the bill and concern about the pay structure and conditions of service and their effect on the quality of education. ~~I am afraid that~~ Kenneth Baker's proposals fall well short of a fair reflection of these interests. If we are to achieve our education objectives for these bodies within the funds we are prepared to allocate to them we must have greater control over this large element of costs.

(Committee B

3. For the universities, Kenneth argues that the Committee A/B) system has broken down and that financial levers and informal contact will give us sufficient influence over pay in future. The danger is that, under Kenneth's proposed arrangements, the universities could negotiate an excessive settlement with the union and then

come along to the Government and ask for extra money to finance it. We would be faced with the dilemma of either giving in or refusing. If we refused and the settlement was called off we would be held responsible for the managements inability to reach a settlement - rather like we were with teachers before Burnham was abolished. If, instead the universities went ahead and implemented the settlement we would then be blamed for the cutbacks in research and the student ~~numbers and research work~~ necessary to finance it. Either way we would not have avoided the responsibility of taking a view about pay and dealing with the consequences of the settlement. But we would have lost any influence over the outcome.

4. To avoid this ~~that sort of thing~~ happening we need a voice on the management side of the negotiating body and the ultimate ability to veto excessive settlements. Both are important: the former to ensure that we have an influence on pay structure and conditions of service which are a key influence on the quality of education, and the latter to protect both educational priorities and the public purse. I suggest that ~~What I have in mind is for~~ the official side of a reconstituted Committee A shall ~~to~~ contain some Government representatives who could vote on all matters. The weighting of the Government voting strength would be for consideration but I do not envisage the Government having a voting majority. Settlements negotiated by this Committee would take effect once the Secretary of State had confirmed them, but he could if absolutely necessary veto settlements on cost grounds, and in the last analysis impose his own. I think that these arrangements would provide an appropriate balance between the managerial prerogatives of the universities and the financial responsibilities of Government.

5. I would envisage the same kind of arrangement applying for the new polytechnic and college sector and its counterpart in Scotland.

6. I also agree with Kenneth Baker that it would be desirable to get consultations started before the summer holidays. I think they should be on the basis indicated above.

7. I am copying to E(A), the Secretary of State for Social Services and to Sir Robert Armstrong.

NIGEL LAWSON

2328/7

Prep

CONFIDENTIAL

FROM: R FELLGETT

DATE: 14 July 1987

[1. MR POTTER] not available

2. CHANCELLOR

cc Chief Secretary
Sir P Middleton
Mr F E R Butler
Mr Anson
Mr Gilmore
Mr Hawtin
Mr Turnbull
Mr Potter
Mr Tyrie

RSG SETTLEMENT

– with you in PM bilateral Friday.

You asked (Mr Allan's minute of 13 July) for further briefing.

Delay in July Announcement

2. From 1979 to 1981 RSG announcements were all made in the Autumn. It was brought forward to July in 1982 so that targets for individual authorities within a tough settlement could be announced in time to influence individual local authority budgets.

3. In 1983 after the Election, individual targets were again announced in July, but the aggregate of AEG was left until the Autumn. I understand that there was little complaint about this.

4. From 1984 to 1986 targets (until they were abandoned), aggregate provision and AEG were announced in July, together with the list of authorities selected for rate-capping. Rate-capping will need to be announced in July this year. But it is doubtful whether individual authorities obtain much useful information from a July announcement of aggregate AEG and provision. The distribution of grant to individual authorities has not been announced until the Autumn in any year; the announcement of generous or tough aggregates in July can be positively misleading for individual authorities who, in the end, do much better or worse than the average.

5. As to leaks, a delay in the RSG announcement would almost certainly give rise to informed speculation. But from our point of view newspaper stories that the Treasury was standing firm would be preferable to announcing a generous settlement.

Targets

6. We are working to see if we can devise illustrative targets that would, unless the authorities concerned reduced their spending, prevent grant flowing to the sort of metropolitan authorities which the DOE tables suggest may do well from this RSG settlement. One important feature is that no target would be below GRE.

7. However, a system of targets by themselves will not help authorities spending below target. That would require additional AEG or the recycling of grant held back from authorities spending over target. I would not offer additional AEG or some recycling unless we were confident that high spending authorities could not manipulate their accounts to evade or minimise the impact of targets: it would be much better to apply targets to public expenditure by local authorities than to so-called total expenditure, but this change would require legislation.

Barnet

8. At this stage, none of the figures for individual authorities in the DOE tables are reliable. They will all be overtaken by later information about population, rateable values, GRE data etc, and by decisions about GREs, nets and caps, the service distribution of provision, and the unallocated margin. The table which shows rate rises for Barnet above 20% also suggests Hammersmith and Fulham will reduce their rates by over 40%, while Wandsworth will more than double its. These figures are not a credible picture of how these authorities will behave.

9. Nevertheless, Barnet rate rises maybe higher than the average. In 1987-88 they increased their current expenditure by 9.6%, slightly above the England average of 9.3%. Within outer London boroughs, Barnet's increase in current expenditure was higher

than 11 of the 19 boroughs. It is now spending about 7% above GRE, more than other outer London boroughs apart from Brent, Ealing, Havering, Newham, Richmond, Sutton and Waltham Forest. If Barnet continues its spending policies higher rate rises than in other Conservative London boroughs are therefore likely.

10. At this stage, it would be premature to promise that anything can be done within the RSG system to help any individual authority, including Barnet. We have almost no idea what effect new data would have - if DES report there are more schoolchildren in Barnet, its GRE for education and grant entitlement will go up - but this cannot be controlled by the Government. Decisions on nets and caps, the unallocated margin, the service distribution of provision, any GRE changes, the particular arrangements for London in RSG system, might all affect the average position of outer London boroughs, but it is hard to predict their effects on any individual authority. However, Ministers will no doubt look at the distributional effect of these decisions as they are taken, with the aim of narrowing the wide range of rates increases projected at present.

Robin Fellgett

R FELLGETT

CONFIDENTIAL

10/180

RS

1. MR POTTER BHP 15/7

2. CHIEF SECRETARY

FROM: R FELLGETT

Date: 15 July 1987

cc: Chancellor
Sir Peter Middleton
Mr F E R Butler
Mr Anson
Mr Hawtin
Mr Gilmore
Mr Scholar
Mr Turnbull
Mr Cropper
Mr Tyrie

Ch
Line is right, but letter is duff.
AA

— right. But the pt is not primarily to allow Cab to discuss the RSG, but the crucial importance of securing a successful PX Cab for the RSG [illegible]

RATE SUPPORT GRANT SETTLEMENT AND RATE LIMITATION 1988-89

The DOE Private Secretary letter of 13 July proposes that Mr Ridley should announce the English RSG settlement and selection for rate capping on either Tuesday or Wednesday of next week.

2. There are a number of objections to this. First, DOE have not allowed time after the English RSG settlement is agreed for you to settle with Mr Walker and Mr Rifkind provision and AEG for Wales and Scotland. I understand that the Welsh and Scottish Offices will be writing to propose that the announcements, which are normally made together, should therefore be on Thursday 23 July, to allow a full week if E(LA) should reach agreement on England tomorrow. However this would be unwelcome to Mr Wakeham, who would find it easier to spread the announcements.

3. Second, it would be preferable for the RSG announcement to be made on the same day as the July Economic Cabinet, so the two public expenditure stories appear in the newspapers on the same day and not spread over a longer period.

4. Third, an announcement on Tuesday or Wednesday would preclude any discussion in full Cabinet on 23 July; colleagues should have an opportunity to see the RSG settlement alongside the other public expenditure proposals.

5. I therefore recommend that Miss Rutter writes objecting to the DOE timetable. A draft letter is attached.

Robin Fellgett

R FELLGETT

DRAFT PRIVATE SECRETARY LETTER

To: PS/LORD PRIVY SEAL

RATE SUPPORT GRANT SETTLEMENT AND RATE LIMITATION 1988-89

The Chief Secretary has seen Robin Young's letter of 13 July to you.

2. He thinks that all Cabinet colleagues should have an opportunity to discuss [see] the proposed RSG settlement [alongside his other proposals on public expenditure. The first opportunity would be at the Economic Cabinet on 23 July.]

in the context of the general outlook for public expenditure, on which he will be putting a paper to Cabinet on 23 July

3. He also feels than an announcement on Tuesday or Wednesday of next week, assuming agreement is reached in E(LA) on 16 July, would leave too little time for similar agreements to be reached covering the RSG settlements for Scotland and Wales. It is normal, and preferable, for announcements for the three countries to be made on the same day, if that can be arranged.

Not sure this is true

4. He [would] therefore feels we must [prefer to] plan on announcements on Thursday 23 July, and for local authorities in each country to be told this date as soon as agreement has been reached.

5. I am copying this letter to Robin Young, to Murdo Maclean and Rohdri Walters in the Chief Whips Offices, to the Private Secretaries of E(LA) members and to Trevor Woolley.

PRIVATE SECRETARY

CONFIDENTIAL

Peter Bo

CHIEF SECRETARY

FROM: B H POTTER

Date: 15 July 1987

cc: PS/Chancellor
Sir Peter Middleton
Mr F E R Butler
Mr Anson
Mr Turnbull
Mr Gilmore
Mr Hawtin
Mr Fellgett
Mr Perfect
Mr Tyrie

RATE LIMITATION 1988/89

In his letter of 14 July Mr Ridley seeks Lord Whitelaw's agreement to his proposals for rate capping in 1988-89.

2. The proposed selection criteria are:

i) for authorities already rate-capped, 1987-88 budgets set in excess of GRE + 12½%: this catches 12 of the 20 authorities being rate-capped this year;

ii) for all other authorities, 1987-88 budgets set in excess of GRE + 12½% and more than 6% above the 1986-87 outturn; this catches a further five authorities.

3. The Expenditure Levels (ELs) proposed for the 17 authorities selected are tough. For those previously selected, their 1988/89 EL would be frozen at the current year's level (and for 10 of the 12 that is the same as the 1986/87 level). For those newly selected, the ELs would be set at 6% above the 1986/87 outturn. An allowance for teachers' pay however would be made to ELs where appropriate.

4. In addition, it is proposed that the "undertakings" previously given to LAs would be dropped. For the last two years, any authority seeking redetermination of their EL at a higher level, in order to help unwind the effects of creative accounting, has been assured that they would not have their ELs set lower or have conditions imposed on how they meet their EL.

5. We recommend that you broadly support Mr Ridley's proposals on both the tougher selection criteria and the strict ELs; but that you should make your acceptance conditional upon an agreement about the treatment of redetermined ELs for the purposes of setting provision and grant at E(LA).

Assessment

6. In general, we support Mr Ridley's tough stance; but there are aspects of the proposals which cause concern.

7. As regards selection, the drop in the number selected (from 20 in 1988-88 to 17 in 1988-89) may be seen as a slight weakening of the pressure and hence an unfortunate signal. Also, as authorities become more adept at manipulating their accounts and forecasting the selection criteria, they are better at escaping the net. Table A shows the lists of reselected (Group A) and newly selected (Group B) authorities and those just missed (Group C).

8. Islington has escaped by substantially reducing its budget: as a result, however, of the need to finance past creative accounting and other off-balance sheet spending, a very large rate rise is to be expected. More worrying is the case of Hammersmith and Fulham which has produced an unrealistically low budget for 1987-88. DOE strongly suspect that, after the Government's decision on rate limitation is announced, a supplementary budget will be issued: had the total budget been declared now, Hammersmith would have been selected. DOE have taken legal advice but there seems no acceptable way of getting round this particular wheeze and selecting Hammersmith in 1988-89. It may be possible to capture them in 1989-90. But it illustrates the need for further action on creative accounting.

9. We welcome the tough ELs and the removal of the undertakings which took a somewhat accommodating line towards creative accounting. The right signals are being given. Nonetheless, as the "funding gap" between ELs and actual spending grows, while the scope for creative accounting to finance the gaps is narrowed, the risk of financial collapse increases. Our lastest information is that all authorities, even Haringey, will struggle through 1987-88. But several will face real difficulties in 1988-89. DOE's provisional assessment is that the rate-capped authorities (plus a few others like Brent) will face total funding gaps of £700m in 1988-89; of this some £200m is expected to be met through creative accounting devices. That leaves a large £500m gap; if it cannot be met by more accounting wheezes, one or two authorities are likely to face the choice between deep cuts in spending and collapse.

10. In our view, you should support Mr Ridley's tough stance on ELs. The problem of possible collapse and its repercussions must be addressed, and is being looked at. But it is not an argument for a more relaxed approach to ELs. (It needs to be borne in mind that, between the setting of the EL now and the final determination of the rate cap, authorities can seek a higher rate in order to help unwind past creative accounting.)

11. Finally, the proposals need to be seen in the wider context of the RSG settlement. Accepting the DOE proposals could have unwelcome repercussions for provision and grant. If some authorities successfully seek redetermination of their ELs (higher ELs for 1988-89), DOE envisage that the provision figure would be raised. We might then have to pay more grant for two reasons - first because DOE would argue that the grant percentage should be applied to the higher provision figure and second because of lower grant penalties for the authorities concerned. Broadly each £1 added to ELs would add £1 to grant.

NO

12. Last year ~~the figure was~~ £40m was added to provision but that was in part due to the need to redetermine ELs as a result of the Local Government Finance Bill. The scale of the likely effect this year is difficult to estimate. The absence of undertakings could discourage applications for redetermination: DOE officials reckon only Tower Hamlets and Basildon are likely candidates. But other, automatically selected, authorities like ILEA and joint transport authorities etc may seek redetermination. So the potential figure is significant. We therefore recommend that in your letter to Mr Ridley, you seek an assurance that redetermination of ELs will not add to the provision and grant quantum.

13. I attach a draft letter for you to send to Mr Ridley.

Barry H. Potter

B H POTTER

DRAFT LETTER TO SEND TO SECRETARY OF STATE FOR THE ENVIRONMENT

Thank you for copying to me your letter of 14 July to Lord Whitelaw setting out your proposals for rate limitation in 1988-89.

I welcome the toughening of the selection criteria for 1988-89. I note however that the number of authorities selected will nonetheless fall slightly next year; this is regrettable particularly since one or two authorities seem to have escaped the net more by manipulating their accounts then by genuinely reducing their spending. I hope we can take steps to limit further the scope for such evasion of rate-capping in the future.

I also welcome your tough stance on the Expenditure Levels for the authorities selected: we must increase the pressure on local authorities to reduce their funding gaps, now largely financed by creative accounting, and make real economies. The work your officials have in hand to limit creative accounting will, I hope, help to add to that pressure.

I am therefore ready to support your proposals for rate limitation in 1988-89; but I am unwilling to do so, until the treatment of redetermined ELs in setting provision is agreed between us. The likely figure for 1988-89 is difficult to estimate and I gather your officials do not expect many authorities to apply for higher ELs. But, if any authority does successfully negotiate a higher EL later this year, the extra amount should not change our provision figures at settlement: I cannot accept an open-ended figure for provision or grant. At E(LA) on Thursday I believe we should aim for a firm agreement on provision and the quantum of grant.

I am copying this to the Lord President and the other members of E(LA).

Table A

SELECTION OF AUTHORITIES FOR SELECTIVE RATE LIMITATION, 1988/89

	(1) Budgeted spending over GRE, 1987/88 (%)	(2) Spending growth over 1986/87 (%)
A. re-selected authorities (more than 12½% over GRE		
Basildon	112.2	4.4
Thamesdown	62.4	- 4.4
Camden	51.8	2.2
Lewisham	48.0	18.3
Greenwich	41.1	-11.7
Hackney	32.4	6.9
Middlesbrough	26.8	- 3.6
Tower Hamlets	22.0	- 4.0
Southwark	20.9	- 0.4
Haringey	16.7	- 3.1
Lambeth	15.9	- 9.2
Newcastle	15.6	- 5.4
B. Newly selected authorities (more than 12½% over GRE and more than 6% growth over 1986/87)		
Hull	28.8	8.8
Waltham Forest	24.4	12.3
Liverpool	14.8	8.3
Manchester	14.4	9.0
Ealing	13.7	21.5
C. Authorities missing selection on criteria above		
(a) for reselection		
North Tyneside	12.3	- 0.1
Newham	12.1	3.4
Gateshead	11.8	2.3
Brent	11.7	- 0.3
Brighton	7.1	- 5.6
Sheffield	6.7	- 6.9
Islington	6.1	- 2.9
Hounslow	- 2.0	-25.2
(b) for new selection		
City of London	108.5	3.8
Langbaurgh	33.8	3.7
Bristol	23.2	4.2
Leicester	20.5	- 3.5
Blackburn	18.7	1.7
Cumbria	12.1	8.4
Doncaster	12.0	7.9
Portsmouth	11.8	2.6

CONFIDENTIAL

PUP

Agreed with me

15/7

FROM: S KELLY

DATE: 15 July 1987

1. MR ~~GILMORE~~

2. CHIEF SECRETARY

cc Chancellor
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Mr F E R Butler
Mr Anson
Mr Hawtin
Mr Turnbull
Mr Gieve
Mr Potter
Mr Burr o/r
Mr Fellgett
Mr Cropper
Mr Tyrie

What was the outcome of E(EP) re Univ pay?

FOLLOW-UP TO E(EP)

Two actions arose from E(EP) this morning:

- you wanted to write to Mr Baker formalising the agreement you reached with him in the sidelines of the meeting about FE law, special educational needs and the youth service. A draft letter, along the lines discussed at your debriefing, is attached; and

- much more important, you wanted to write to Brian Griffiths as the first stage in fulfilling the remit you were given to report back to the Prime Minister on the best means of securing financial neutrality as a result of opting out.

2. The remit as we have it from the Cabinet Office and No.10 is to consider, in consultation with the Secretaries of State for Education and Science and for the Environment, "how best to construct an alternative" to the levy for recovering the cost of GM schools from the local authorities proposed by Mr Baker. You are to report back to the next meeting of E(EP). We understand that will be some time next week, although no date has yet been fixed. The minutes will not record that a levy was finally rejected, but will carry the sense that

an alternative is definitely required. You should be aware that, for reasons of his own, Mr Baker is anxious to accelerate the timetable and will press for decisions to be taken by the end of this week.

3. Your office has arranged for you to meet Brian Griffiths at 5.30pm tomorrow (Thursday). Treasury officials will be present. We considered whether DES and DOE officials should be invited to attend. On balance, we judge not at this stage. But both Secretaries of State may wish to weigh in to the correspondence. They, of course, are the proponents of a levy. The attached draft letter to Professor Griffiths, intended to form the basis for that meeting, adopts a less committed position on your part. This reflects our sense that tomorrow's meeting would be best played as going over the two financially neutral options in the paper attached and moving on from these to see if better ones can be devised. The one major Treasury point in all this, of course, is to preserve the commitment to full financial neutrality.

4. The two enclosures to Professor Griffiths are the starting point in considering the complex mechanics involved here, and how the policy has arrived where it has. We of course stand ready to discuss the issues with you before tomorrow's meeting if that would be helpful.

Stephen Kelly

S KELLY

CONFIDENTIAL

DRAFT LETTER FROM THE CHIEF SECRETARY TO RT HON KENNETH BAKER MP
SECRETARY OF STATE FOR EDUCATION AND SCIENCE

MAINTAINED FURTHER EDUCATION

I undertook to write to you, in the light of our discussion following E(EP) this morning, about the proposals in your paper (E(EP)(87)4) on FE law and on special educational needs and the youth service.

2. On FE law, I said that, by seeking to impose duties on LEAs, your proposals seemed to me to go much further than anything which could be justified on grounds of legitimising what currently exists. Imposing duties on LEAs, as you propose, would be bound to lead to levelling-up standards of provision of FE at an unknown, but potentially very significant, cost in additional public expenditure by those authorities. There are other, higher priorities for expenditure by LEAs within whatever level of provision can be afforded for education. I hope, therefore, that you can now agree to proceed on the basis of resolving the doubts about vires, which I acknowledge, - but no more - by including in the Bill a permissive power for LEAs to provide FE.

3. I welcome your agreement in discussion not to pursue further the proposals in your paper for legislation on the youth service. I explained my concern that your proposals on special educational needs might leave the Government in an untenable position in relation to other, higher

profile and much more expensive, areas of policy. For these reasons I should very much prefer not to pursue those proposals either. I understand the pressures, not least the political ones, which have led you to put those proposals forward. If you really do feel that those pressures are irresistible, I should reluctantly be content for something to be included in the Bill on special needs limited to legitimising what currently exists and couched in terms of a permissive power for LEAs rather than duties on them.

4. Finally, on a separate point, you undertook to consider further my proposals for cash limiting provision for aided schools capital. Those proposals have already been canvassed with your department at official level, but have so far elicited no response. I need not go into detail here: the essence of my concern is that it is at present open to the governing bodies of such schools to commit the Government to 85% of the cost of repairs, alterations and capital works at a cost of only 15% to themselves, without any means of limiting or staging the expenditure. Such an arrangement must surely provide the wrong incentives in terms of the accountability we are trying to bring into the system, and your Bill provides the opportunity to get it right.

5. Copies go to the Prime Minister, other members of E(EP) and to Sir Robert Armstrong.

DRAFT LETTER FOR THE CHIEF SECRETARY TO SEND TO PROFESSOR BRIAN GRIFFITHS, NO.10 POLICY UNIT

GRANT MAINTAINED SCHOOLS: RECOVERY OF COSTS FROM LEAs

In E(EP) this morning, while we endorsed the principle of financial neutrality between national and local tax-payers as a result of schools opting for GM status, we failed to resolve the issue of how to achieve it. I was invited to report back on the best way forward, taking account of the two options set out in Kenneth Baker's paper (E(EP)(87)5) but not necessarily being constrained by them. I should like to start by considering with you just what problems we are aiming to solve.

2. The best starting point is probably the paper prepared by the Cabinet Office for the Prime Minister's meeting on 7 May. I enclose a copy for convenience, together with the note of the meeting. That meeting established the principle of complete financial neutrality as a result of opting out. The two options for achieving that objective identified in the Cabinet Office paper were -

- to reduce both individual authorities' own grant and aggregate grant by the actual expenditure on GM schools in their areas (option C in that paper); or

- to leave grant unchanged but impose a levy or precept on each local authority to meet the cost of GM schools in its area.

These are the two options set out in Kenneth Baker's paper. Neither is ideal. But it was from my own careful consideration of these that I doubted this morning whether there was a third.

3. We need to review the pros and cons of these two methods, as well as considering again whether we can devise others. In terms of this morning's discussion I am not sure the grant reduction is necessarily more attractive than a levy (or some other arrangement for simple recovery of costs). The need to make a £ for £ reduction for grants to GM schools means that it would be equally transparent. Against it are the difficulties to which Kenneth draws attention in paragraph 5 of his paper. Although he does not mention it, grant reduction would also detract from local authorities' accountability under the new grant system. In favour of a direct system of recovery is its simplicity and the fact that it treats the totality of schooling in each LEA's area as a whole. It also maintains local accountability, and in a direct relationship with local decisions it is the cost of education in LEA schools which will directly determine the cost in GM schools and hence the amount to be recovered. But we clearly need to think through these and other considerations very carefully to help us to tackle the question of alternatives.

4. Copies go to Kenneth Baker and Nicholas Ridley.

24/15/2512

CONFIDENTIAL

This note follows discussion with me and I agree with it. To insist on per capita funding only would in my view make the policy untenable.

FROM: S KELLY

DATE: 15 July 1987

1. MR GILMORE
2. CHANCELLOR

cc Chief Secretary
Sir Peter Middleton
Mr F E R Butler
Mr Anson
Mr Turnbull
Mr Hawtin
Mr Burr (or)
Mr Potter
Mr Tyrie

Nigel

Thanks

15/vii

FINANCIAL DELEGATION TO SCHOOLS

You asked for a note on Mr Ridley's point, in his letter of 14 July to Mr Baker, about the formula for allocating resources to schools under the proposals for financial delegation.

2. Mr Ridley's point is that the draft consultation paper circulated by Mr Baker on 8 July departs from the previously agreed policy on financial delegation by suggesting (para 5(b)) that the formula for allocating resources between schools would need to take account of factors such as differential social need, and different types and sizes of school, as well as the numbers and ages of pupils. In fact, Mr Baker's ~~8~~ 6 April paper, to which Mr Ridley says he wishes to return, clearly flagged up (para 4(2)) the need for the allocation formula to take account of such factors. So Mr Ridley is wrong to suggest that what the consultation paper proposes represents a departure from the previously agreed policy.

3. On the merits, that aspect of the policy seems clearly right. It is not sensible to suppose that the same level of per capita resources should be allocated to leafy suburban as to depressed inner city schools catering predominantly for pupils from families suffering from multiple deprivation. Sizes of schools will also be relevant to the formula because of economics of scale in staffing in implementation of the national curriculum. Mr Ridley is concerned on two grounds: the initiative which this leaves with LEAs, and therefore the scope for inconsistencies of approach, and the read-across to determining funding for grant maintained (GM) schools. The answer to both points is that the 'soft' factors would be taken into account only on the basis of objective indicators and that the formulae proposed by LEAs will require Mr Baker's approval. He will also have a power to modify those formulae. That requirement for approval, and the power to modify LEAs'

proposals, mean that Mr Baker will be able both to iron out unacceptable inconsistences of approach and prevent the formulae being used to do unacceptable things to the resources of would-be GM schools in the period immediately before they opted out.

4. We therefore continue to recommend that you can be content with the proposals on financial delegation and, subject to the point you have already put to Mr Baker in your letter of 13 July about output and performance information, with the draft consultation paper. Neither of the other two points in Mr Ridley's letter, about the read-across to the legislation on compulsory tendering and the need for financial delegation to be subject to the new burdens procedures, is immediate. We therefore see no need for you to intervene further.

Stephen Kelly

S KELLY

27:2

PERSONAL AND CONFIDENTIAL
Until 11.30am on Thursday 16 July
thereafter CONFIDENTIAL

Seen, thanks
AH
PWP

FROM: P L PATTERSON
DATE: 15 July 1987

1. MISS O'MARA
2. CHANCELLOR

This record 12 month fall in unemployment and a further rise in the employment total bear out the other recent indications we have had of healthy economic performance. School leaver unemployment is improving too.

MOM
15/7

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Monck
Mr Sedgwick
Mr Scholar
Mr Culpin
Mr S J Davies
Mr Pickford
Mr Dyer (+1 for No.10)
Mr Hudson
Mr Hunt
Mr MacAuslan
Mr Cropper
Mr Tyrie
HB/001

COMBINED RELEASE OF LABOUR MARKET STATISTICS ON 16 JULY

Summary Statistics (seasonally adjusted GB unless otherwise stated)

Thousands	Level	Change on previous period	Change on previous year
Unemployment (UK)			
Total (excl. school leavers) June	2,925	-27	-287
Total (not seasonally adjusted) June: 'Headline Total'	2,905	-81	-324
Vacancies (UK) June	233	+2	+49
Employed labour force 1987Q1	24,221	+105	+257
Manufacturing employment May	5,066	+ 2	-99

	Percentage change on previous year
Index of average earnings	
Whole economy May, underlying (actual)	7¾ (8.7)
Wage and salary costs per unit of output	
Whole economy 1987Q1	4.1
Manufacturing 3 months to May	0.8
Output per head	
Whole economy 1987Q1	3.3
Manufacturing 3 months to May	6.7

Unemployment

2. Seasonally-adjusted adult unemployment (excluding school leavers) fell between May and June, by 27,000 to 2.925 million (10.5 per cent). The average monthly fall in the seasonally adjusted total is 38,000 over the last three months and 32,000 over the last six months.

3. The headline total fell by 81,000 to 2.905 million, also 10.5 per cent of the working population. There was a fall of nearly 76,000 among adults, and nearly 6,000 among school leavers.

4. The stock of vacancies at Jobcentres (seasonally adjusted) increased in June by 2,000 to 233,000.

5. Points of interest:

(a) Seasonally adjusted total now at lowest level since December 1983.

(b) The seasonally adjusted total has fallen for twelve months in succession, a fall of 287,000 in total since last June, the largest twelve-month fall since records began.

(c) Falls over last three and six months both also largest since records began.

(d) Current downward trend in unemployment probably close to six-monthly average decline of 32,000.

(e) Fall in 'headline' total of nearly one-third of a million compared with year ago, also largest on record.

(f) Male unemployment (seasonally adjusted, adult) has fallen in each of the last 12 months by 173,000 in total. Female unemployment fell in June for the fifth month running, to maintain the general downward movement since last August.

(g) Unemployment fell in all regions in June. Similarly over past twelve months all regions saw fall, although only slightly in Northern Ireland. Over this period, unemployment has fallen fastest in Wales. Apart from Scotland and Northern Ireland, all other regions had falls in the the unemployment rate of around one percentage point.

(h) UK unemployment rate fallen more in past year than in any other industrialised country.

(j) The stock of vacancies increased by 2,000 in June to 233,000, the highest level since the current series began in 1980. Inflows of notified vacancies and placings into jobs all picked up in June after falling in April and May. [NOT FOR USE: DE again warn that these movements may have little economic significance as they are likely to have been influenced by the priorities given to Restart by Jobcentre staff.]

(k) Seasonal influences in July will be upward, of the order of 50,000. Unless there is an acceleration in the current downward trend, the headline total is likely to rise slightly.

Assessment

6. [NOT FOR USE: DE again emphasise that quantification of the factors affecting the unemployment count is extremely difficult and that it is likely that the various Government initiatives are having more impact because they are operating at a time when the economy and labour market are both improving. They think the fall of 27,000 in June would have been perhaps 5,000 larger if the Civil Service strikes had not delayed the termination of some claims. (The press notice describes the effect as "small".) There was a similar effect on the April (but not the May) count. DE estimate the effect of traditional employment measures on the count to have been 284,000 in June, down 4,000 from May; some growth in the effect of the EAS was more than offset by falls in the effect of Community Programme, etc. Against this, the effects of the new Job Training Scheme, which is now beginning to have an impact, could be up to 5,000. Restart (now in the six monthly programme) and particularly availability testing are continuing to have a downward impact on the count, with some further downward contribution from the recently appointed claimant advisers. DE tentatively suggest that these could be knocking 15,000-20,000 off the monthly count, including some allowance for the effect of the buoyant economy in reducing the numbers undergoing the availability testing procedure. Against a downward trend of about 30,000 per month, this leaves upwards of 10,000 a month for the impact of the economy on the unemployment count].

7. The claimant school leaver total, at 69,000, was 38,000 lower than a year ago, but 15,000 of this fall is attributable to the reversal of a 1985 ruling by Social Security Commissioners that certain Easter school leavers were eligible for supplementary benefit if they returned to school in the summer only to take exams. There were a further 104,000 non-claimant school leavers separately registered as unemployed at Careers Offices, some

0 more than a year ago. Taking the claimant and non-claimant school leaver figures together, there appears to have been a significant improvement in school leaver unemployment. This is unlikely to be entirely attributable to demographic factors, so DE think that two year YTS is at least partially responsible.

Employment

8. The new figures available this month are for the employed labour force in 1987Q1 and employees in manufacturing industries in May.

9. The employed labour force (employees in employment, the self employed and HM Forces) is estimated to have increased by 105,000 in the first quarter of 1987, the largest increase since 1985Q1. This continues the upward trend which started in March 1983, since when the employed labour force is estimated to have increased by 1,224,000. The employed labour force has now increased each quarter for four years. The rate of increase appears to have been strengthening since March 1986. However, it should be remembered that the estimated increases for the last three quarters each include an assumed growth of 25,600 in self employment (based on average recorded growth between 1981 and 1986) compared with the estimated average increase of 4,250 a quarter between June 1985 and June 1986, so it is possible that growth may be overstated.

10. The number of employees employed in service industries increased again, by 106,000, in the March quarter while the numbers in manufacturing and in energy and water supply industries decreased by 31,000 and 14,000 respectively and the number in other industries (agriculture and construction) increased by 18,000, mostly in construction industries.

11. Manufacturing employment is estimated to have risen by 2,000 in May, following falls of 11,000 in May and 5,000 in March. DE warn that no significance should be read into this increase as the monthly estimates can fluctuate erratically. A clearer picture may be obtained from the three month averages which suggests that manufacturing employment remains on a downward trend but one which is slowing. The average decrease of 5,000 a month in the three months ending May 1987 compares with average decreases of 10,000 a month in the three months ending February 1987 and 15,000 a month in the three months ending May 1986.

12. The breakdown of total employees in employment between groups of industries has been revised to incorporate "a more appropriate allocation between industries of the Labour Force Survey based adjustment for under-estimation included in the series" (quote from draft press notice). The net effect is to reduce employment in manufacturing by a

cumulative 3,500 per quarter, in other industries by 3,700 per quarter, and to raise employment in services by a cumulative 7,200 a quarter, starting from September 1984.

Other features

13. The underlying increase in average earnings in the year to May was unchanged at 7¾ per cent. The slightly higher level in April and May, following little change from 7½ per cent over the previous four years, reflects mainly the level of activity in the economy, in particular high overtime working. In manufacturing, the underlying trend was also unchanged at 8 per cent. Although settlements in manufacturing are still reducing year-on-year earnings growth, the same is not true for the whole economy. In particular, public sector settlements (eg teachers) are pushing up underlying earnings in the services sector which are now 7¾ per cent higher than a year ago, the highest figure since the series began two years ago and a rise of ¾ per cent since the start of 1986. This could give rise to comment. [NOT FOR USE: DE statisticians also warn that, with the nurses' settlement due soon, the figure for whole economy underlying earnings may reach 8 per cent in June or July.]

14. Whole economy productivity rose 0.5 per cent between 1986Q4 and 1987Q1 to a level 3.3 per cent higher than in 1986Q1. Manufacturing output per head in the three months to May was 6.7 per cent higher than a year earlier. This series has been revised to incorporate the new lower estimates of manufacturing employment, as well as the revisions to the manufacturing output series for 1986Q4 and 1987Q1, published on 14 July.

15. Whole economy unit wage and salary costs in 1987Q1 were 4.1 per cent higher than in the corresponding figure a year earlier. In manufacturing, the year-on-year increase in unit wage costs was 0.8 per cent in the three month period ending May 1987.

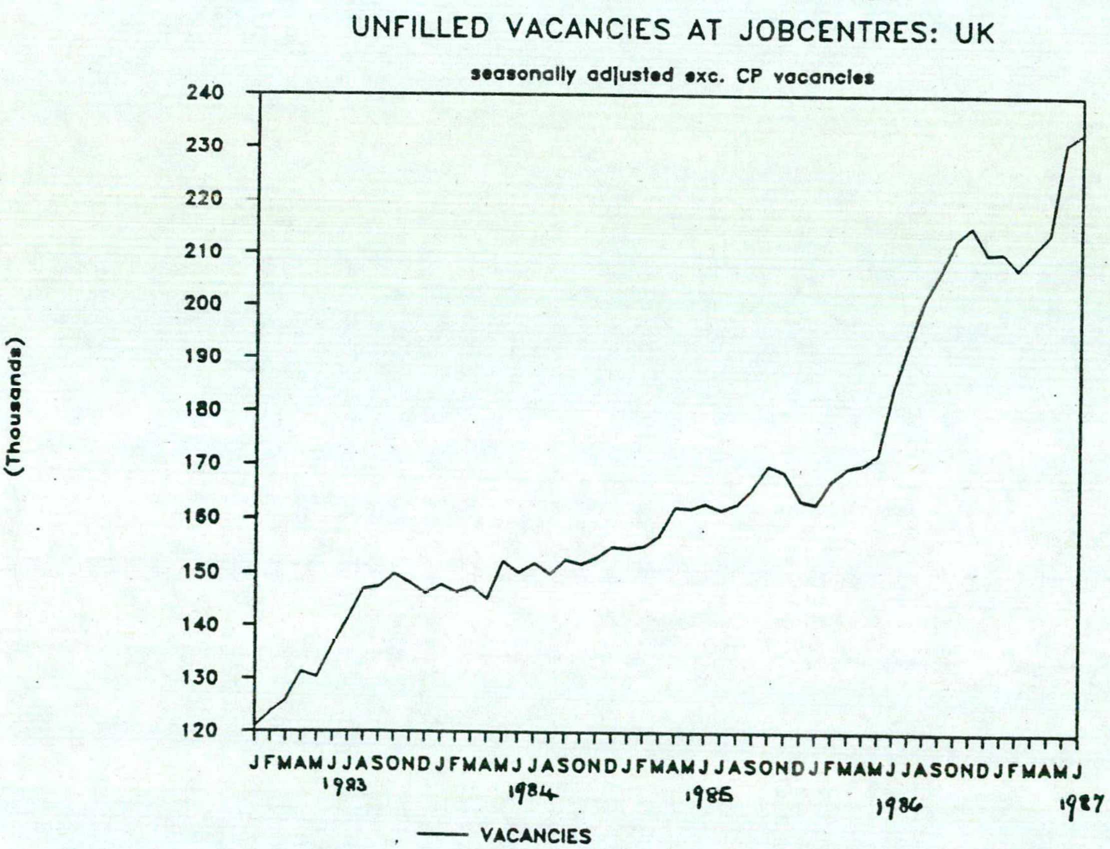
MANUFACTURING: PERCENTAGE INCREASE OVER PREVIOUS 12 MONTHS

	Average Earnings	Output per head	Wages and salaries per unit of output
1986 Q1	7.9	0.5	7.3
Q2	7.5	1.2	6.2
Q3	7.1	3.8	3.2
Q4	8.0	6.1	1.6
1987 Q1	7.8	7.1	0.7
3 months to May 1987	7.6	6.7	0.8

Peter Patterson

P L PATTERSON

PERSONAL AND CONFIDENTIAL UNTIL 11.30 AM 16 JULY 1987



PERSONAL AND CONFIDENTIAL UNTIL 11.30 AM ON 16 JULY 1987

FROM: MISS W P PRESTON

DATE: 15 July 1987

Tony?

cc Mr Mountfield

MR MAY

MR DENISON

MR PITCAIRN

MR JONES

MR BATT

MRS LESTER

MR SAVAGE

MR DOLPHIN

MS SYMES

COUNTERTRADE

You may be interested to see DTI's note on countertrade. They produce an annual volume on countertrade and issue the updating notes throughout the year.

2. DTI are aware of an increase in the number of countries (over 80) who have introduced formal countertrade legislation. They are mainly the poorer third world countries with a centralised economy, as well as the original nucleus of countertraders in the communist bloc. DTI could not say whether there had been an increase in the volume of countertrade deals as opposed to the number of countries involved in countertrade.

3. You might wish to relay any comments on specific areas which are of interest to you direct to Mark Jones in DTI (215 4854) who produces the countertrade note but I would be interested to hear any general comments or problems which you have encountered with the attached note.

Wendy Preston

MISS W P PRESTON

AEF1

Mr Redley
I think this must be for you.
Harry Bush 13/7/87

Mr Bush
Pl see if anyone here or in IF has problems with this

Reference ....

13 7

To:

SECTION HEADS
IN OT DIVISIONS

From:

MARK JONES
PEP3A
Room 232A
1 Victoria Street
215 4854

cc Mr Benjamin PEP
Mr Palmer PEP3
Mr Bundell PEP2
Mr Wheeler PEP1
Heads of Branches OT
Mr Butler Bank of England
Mr Mountfield Treasury
Mr Twyford ECGD
Mr Braithwaite FCO
Mr Smith (for COMET) OT4

10 July 1987

COUNTERTRADE

Attached is the third countertrade update. Comments are always welcomed.

P M Jones

MARK JONES

78

26/72

A) MARKET INFORMATION

Burma

In principle, counter-trade is not encouraged by the Burmese Ministry for Trade. However, recent foreign exchange difficulties have led the Burmese to look more favourably on it. The Ministry has indicated that it would like to see a 3:1 ratio in Burma's favour to improve export earnings, although it is unlikely that they can insist upon this ratio for all transactions. The principle commodity available for counter-trade is rice, but items such as sugar, metals and urea are also available. There is no central point for the coordination of counter-trade deals. However, firms considering counter-trade should copy proposals to the Foreign Economic Relations Department of the Ministry of Planning and Finance. While not participating in any deals they have a say in approving them.

Hungary

Western exporters are reporting counter-trade demands of 120-130% as Hungary looks to boost exports, especially of manufactured goods. Whilst a number of companies have noted that they are becoming accustomed to high counter-trade demands, it appears that they are having more and more problems locating suitable and/or available counter-trade goods.

Italy

There are no state organisations engaged in counter-trade. Italian private sector companies wishing to engage in counter-trade must obtain advance authorisation from the Government. This is given when it is evident that trade with the other country is only possible on this basis. When two or more Italian companies are engaged in counter-trade they are however permitted to settle each others debts and credits arising from such trade, without Government authorisation.

New Zealand

For the last ten years companies making bids for public sector contracts were invited to submit offers of counter purchase and/or offset. However, the corporatisation on 1 April 1987 of many of the Government Departments which issue large tenders has resulted in a reversal of this policy. From 1 June 1987 tender documents will no longer include clauses inviting tenderers to submit counter purchase proposals. Counter purchase obligations which have not yet been fulfilled will be continued until the end of 1989 when they will be cancelled. No decision has yet been taken on offset but it is likely that, even if tender documents do not contain an invitation to submit offset proposals, any such proposals particularly joint manufacture and technology transfer would be regarded favourably by the New Zealand authorities.

Pakistan

Pakistan has launched a new three year export and import policy which includes counter-trade proposals for imports of key commodities. Countries such as Kenya, Malaysia and Kuwait, which supply tea, palm oil and petroleum products to Pakistan totalling about $800 m per annum, are being told that purchases will be made elsewhere unless products from Pakistan's heavily underutilised engineering industry are bought in return.

Peru

Peru is close to completing a scheme that opens up the debt for export market to commercial banks. It is the first country to develop this payment mechanism, which it hopes will boost exports. Peru first became involved in debt-export swaps in 1983. Under the new scheme, one quarter of the export is paid for in debt, the rest in hard currency. This compares with the old scheme which involved 100% of the export being paid for in debt (no hard currency). The formula being looked at suggests the banks be offered payments for debt in exports on a pro-rata basis. The scheme will be opened to all 350 creditor banks to whom Peru owes $4 bn out of a total debt of $14 bm. The Peruvian Government intends to use this new payment mechanism to find new markets for existing products and develop new products for traditional markets.

B) SOME RECENT BARTER DEALS

Egypt/Iraq - Iraq is to exchange £66 m worth of sulphur, cement, aluminium chloride and fertilisers for Egyptian textiles, chemicals, aluminium and water pumps.

Indonesia/China - Indonesia has exchanged 400,000 tonnes of coal for 150,000 tonnes of Chinese cement.

Turkey/Saudi Arabia/Iraq - The Turkish Prime Minister, Turgut Ozal, has announced his plans to build two pipelines - one to Mecca in Saudi Arabia and the other to Baghdad in Iraq. The aim is to export water from the dam system at Keban in central Turkey and receive oil in return.

Austria/Nigeria - Steyr Daimler Puch of Austria has finally been awarded a major military contract by Nigeria. The contract is worth almost one billion Austrian schillings (AS) and involves the supply of 500 military trucks, 500 armoured personnel carriers and spare parts for cross-country vehicles. The contract forms part of a barter deal signed by the Nigerian Government and the Voest Alpine subsidiary Intertrading in 1985, under which Austria purchased one million tonnes of crude oil from Nigeria The exports to Nigeria will be financed partly from the AS 350 m proceeds from the resale of the oil.

UK/India - As an enticement to buy its ATP airliner, British Aerospace is to place a £6.5 m contract for 150 tail planes with the Indian state aircraft manufacturers Hindustan Aeronautics. BAe hopes to win favour with this deal with the Indian Government to facilitate the purchase of 12-17 ATPs worth $300 m, for India's third airline Vayudoot. The ATP is being offered with arrangements for some payments to be made in rupees and for counter-trade. An offset contract might be extended to cover components if BAe are successful.

Bangladesh/Iran - Over the next nine months, Bangladesh is set to import 200,000 tonnes of Iranian crude, in return for local jute and jute products.

Ghana/Rumania - A trade agreement has been signed in which Ghana will import synthetic rubber, dyes and metals and will export timber, manganese, bauxite and natural rubber.

Ghana/Poland - Ghana will export natural rubber, timber, cocoa beans and cocoa products - valued at $10 m - in exchange for the equivalent value of scientific and technical equipment for research institutions, industrial and agricultural machinery, electrical and pharmaceutical products.

UK/Bulgaria - On 10 July I shall have the pleasure of attending the launch of the award winning Astica premium strength beer in the UK. Barter Group (the London based counter-trade broking firm) has signed an exclusive agency agreement with Bulgarsko Pivo (Bulgaria's largest brewery.) The arrangement will allow Rank Xerox to raise the level of photocopier exports to the Bulgarian market.

Poland/Egypt	- Egypt will import electricity meters from Poland in exchange for ready made clothes, underwear and napkins from Egypt (value $2.3 m).
Czechoslovakia/UK	- The British subsidiary of H J Heinz has concluded a new compensation trade agreement with Czechoslovakia which will help to significantly increase Heinz's sales of ketchups, sauces, baked beans and other produce into the Czech market. Heinz will counter purchase more fresh vegetables to use in its soups and for further processing.
Netherlands/Poland	- Macintosh Confectie (NL) has signed a cooperation deal with Modar (Poland) under which it will exchange know-how, designs spare parts and some materials needed for the production of girls overcoats in return for around 5000 overcoats produced by Modar.

pup Papers ?

FROM: MRS E M WISEMAN
15 JULY 1987

1. MS ~~BOYS~~ 15/7
2. CHIEF SECRETARY

cc Chancellor 12/2
Mr F E R Butler
Mr Anson
Mr Spackman
Miss Peirson
Mr Gieve
Mr Tyrie

1991 CENSUS OF POPULATION

In his letter of 3 July Mr Moore seeks agreement to holding a Census of Population in 1991, at a cost of more than £80m, much of which will fall in 1991-92. This submission recommends agreement, subject to constraints on the size and cost of the Census.

Background

!!! 2. The decentennial Census provides information about the size, location and characteristics of the population, of value to central and local government, and also to industry and commerce. Its practical uses include the RSG calculation, social security benefit calculations, and planning for transport and hospital services.

3. It is expensive. The 1981 Census cost £60 million, and the 1991 Census on the 1981 model would cost about £80 million. The costs are peaky and fall on the OPCS programme (which totals only about £30 million a year excluding the Census), offset only to a small extent from receipts from the sale of Census data. The 1987 Survey bid includes £20 million for the Census over the period 1988-89 to 1990-91.

Discussion

4. In anticipation of significant Survey bids this year we have discussed with OPCS over the last 12 months both alternatives sources of information to the Census and alternative forms of financing.

5. OPCS have persuaded us that other regular forms of population data (eg the NHS Central Register, birth, marriage and death registrations, the General Household Survey) cannot substitute for a Census of the whole population. The information available from these sources would not provide the same full coverage as a Census. We also discussed the possibility of seeking the same information as in a Census from a rolling 10% sample of the

population. However, this could not achieve the same degree of accuracy as a full Census, and the costs over a 10 year period would be greater.

6. On financing we pursued the possibility of government departments sponsoring the core Census questions, meeting the costs from within their existing provision, or bidding in the Survey if that was impossible. This should have served to reduce the size of the claim for additional expenditure for the Census. However, it proved impossible to agree a basis that was other than arbitrary. Your predecessor therefore agreed that the Census should be financed on the traditional basis, ie by increasing the OPCS programme, but with a new provision that Census questions additional to the core based on the 1981 Census should be financed by the department concerned. This is the basis on which Mr Moore is seeking agreement from H Committee.

7. At this stage the overall costs of the Census are still provisional. As the components of the core are finalised (within the next year) it will be possible to firm up the manpower, accommodation and computing requirements. At that stage we recommend that the emerging costs should be taken as both a ceiling and ring-fenced. The ceiling will give the OPCS the incentive to manage this very large project most effectively, while ring fencing ensuring that savings arising from better management are not absorbed by other OPCS projects.

Conclusion

8. The Census provides important and valuable information on which many policy and resource allocation decisions are based. The alternatives are more inaccurate and less cost-effective. The costs, mainly for Census enumerators and falling in 1991-92, are too large to be financed by offsetting savings by OPCS, whose programme would need to be increased. Requiring Departments to pay for additional Census questions should sharpen up the discussion on the value on such questions.

9. I recommend that you write agreeing to Mr Moore's Census proposals on the lines of the attached draft.

EMWiseman

MRS E M WISEMAN

draft letter to:

The Rt Hon The Viscount Whitelaw CH MC
Lord President of the Council

1991 CENSUS

I confirm that I agree in principle that there should be a Census in 1991. I am content with the funding proposals described in the paper circulated by John Moore with his letter of 3 July.

The amounts involved are large and remain to be finalised. We will need to bear this in mind when we come to consider the precise content of the Census. Once decisions are taken on the content I would expect the Census then to be managed within agreed totals.

As John Moore points out no decision has been made on the issue of whether to include an ethnic question in the 1991 Census. However for the purposes of the 1987 Survey and additions to the OPCS programme I do not propose to include it. Its financing would thus fall to be considered when it is decided whether to include it or not.

I am sending a copy of this letter to other members of H Committee and to Sir Robert Armstrong.

JOHN MOORE

G35007/031/HI

Draft OK

FROM: DEREK JONES

DATE: 15 JULY 1987

I believe that the trick is to bang off a fairly confident Sandbrook letter asap, in the hope of influencing the AHC's response to the Bank/SIB accord. RL. 15/7

1. MRS LOMAX

2. PRINCIPAL PRIVATE SECRETARY

cc: Mr Ilett
Mr Neilson
Mr Board

LEAD REGULATOR : LETTER TO EVELYN DE ROTHSCHILD

see note below

You suggested that today's announcement of the Bank/SIB accord provided the opportunity for the Chancellor to reply to de Rothschild's outstanding letter

(bottom of story

2. I think the press release is a rather confusing document. I gather its terms have not been revealed in advance to the AHC and I am not entirely sanguine about the AHC's reaction.

3. Both DTI and the Bank are happy for us to reply on the lines of the attached draft, which can be kept very short. Roger Barnes says that he has had feedback from Denis Child to the effect that the deal is a good one and that he will recommend it as such to the BBA (of which the Accepting Houses are members). He also thinks the AHC ought to be pleased with the deal; but cannot guarantee that they will be.

I agree RL

4. The Chancellor's letter may clinch the matter, although there is a risk that the AHC will simply come straight back with their problems. I gather from DTI that the AHC have demanded and been given an interview with Lord Young - no date yet fixed. Roger Barnes would expect them to proceed with the meeting notwithstanding today's announcement. That would show the extent to which we are not yet out of the woods.

5. This may be as good a time to reply as we are likely to get, before it all comes unstitched again.

DJ

DEREK JONES

CONFIDENTIAL

FROM: B T GILMORE

DATE: 16 July

CHANCELLOR

Thanks. I agree.

cc Chief Secretary
Sir P Middleton
mr F E R Butler
Mr Anson
Mr Turnbull
Mr Hawtin
Mr Potter
Mr Kelly
Mr Tyrie

GILMORE TO CH/EX 16/7

EDUCATION LEGISLATION: FINANCIAL DELEGATION TO SCHOOLS

In your letter of 13 July, about the draft consultative document on FInancial Delegation to Schools, you pointed out that it was important that information on expenditure per pupil should be accompanied by information on schools' output and performance. You suggested an additional sentence on the following lines:

> "Both the budgetary and the outturn information will need to be accompanied by suitable measures of performance, to show what schools have achieved with the resources available."

2. In the draft consultation paper circulated by his Private Secretary on 16 July, Mr Baker has included the sentence, "This information together with that required of governors relating to the achievement of the national curriculum would provide the basis on which parents could evaluate whether best use had been made of the resources available to the governors."

3. We think your sentence was better. There is more to performance measurement in schools than the information to be required of governors about the national curriculum. But the underlying point has been taken, and we can now continue the pressure on the Department to give high priority to work on performance measures for which your

letter asked.

4. Mr Baker's Private Secretary says that the consultation paper is now with the printers for publication on Monday 20 July. I do not think that any further comment from you is needed at this stage.

B T GILMORE

1670/33

CONFIDENTIAL

FROM: T J BURR
10 July 1987

CHANCELLOR

cc Chief Secretary
Sir P Middleton
Mr F E R Butler
Mr Anson
Mr Gilmore
Mr Scholar
Mr Turnbull
Mr Hawtin
Mr Potter
Mr Kelly o.r
Mr Tyrie

C/ Letter to issue?

CE 10/7

A good pt. Letter OK

BURR TO CH/CX 10/7

EDUCATION LEGISLATION: FINANCIAL DELEGATION TO SCHOOLS

Mr Baker's minute of 8 July to the Prime Minister attaches a draft consultative document on financial delegation to schools. It is in line with agreed policy, and raises no new issues which you need to consider.

2. There is however one point which we suggest you should make on the draft. As Mr Baker says in his covering minute, financial delegation entails fixing budgets for individual schools. If the size of those budgets is left to the discretion of LEAs, they have an obvious lever with which to influence the management of schools. To avoid that, there has to be a formula for allocating resources between schools.

3. A side effect of such a formula is that it gives prominence to the level of expenditure per pupil (as can be seen from paragraph 11 of the consultation paper). We have been concerned that this might be a setback for efforts to shift attention away from inputs (like the pupil teacher ratio) towards the results which schools achieve. It would be unfortunate if public debate about education were to become a matter of constructing league tables of expenditure per pupil.

4. It is therefore very important that information on expenditure per pupil should be accompanied by information on output and results. This is not mentioned in the draft consultative document. We know that some work on performance indicators

for schools is being done in DES, but it has not yet progressed very far.

5. We suggest, therefore, that you write to Mr Baker asking that a reference to output and performance information should be included in the draft, and emphasising the need for work on developing such performance measures to be given high priority.

6. I attach a draft.

T J Burr

T J BURR

CONFIDENTIAL

DRAFT ~~MINUTE~~ letter

FROM: CHANCELLOR

TO : SECRETARY OF STATE FOR EDUCATION

cc : as indicated

EDUCATION LEGISLATION: FINANCIAL DELEGATION TO SCHOOLS

I have seen your minute of 8 July to the Prime Minister on this subject.

2. I am in general content with the draft consultative document. However, I am concerned~~, however,~~ that the prominence ~~which it is intended to~~ given to expenditure per pupil could get in the way of our efforts to shift attention ~~from the expenditure input~~ to the results achieved by schools. It is ~~therefore~~ important that information on expenditure per pupil should be accompanied by information on schools' output and performance. I therefore suggest that you might add, at the end of paragraph 11, a sentence on the following lines:

> "Both the budgetary and the outturn information will need to be accompanied by suitable measures of performance, to show what schools have achieved with the resources available."

3. This will of course mean little in practice unless suitable performance measures are developed. I know that your Department has work in hand on this, and I hope that it will be given high priority.

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

NL.

Alex says b/f with advice.

CONFIDENTIAL

SECRETARY OF STATE FOR EDUCATION AND SCIENCE

CH/EXCHEQUER
REC. 08 JUL 1987
ACTION MR GILMORE
COPIES TO CST
SIR P MIDDLETON
MR F E R BUTLER
MR ANSON
MR TURNBULL
MR HAWTIN
MR BURR
MR POTTER MR TYRIE

8/7

PRIME MINISTER

EDUCATION LEGISLATION: FINANCIAL DELEGATION TO SCHOOLS

As we have agreed, I shall be issuing a series of consultative papers about the main aspects of the Education Bill to be introduced in the autumn. I now attach a draft consultative paper on our proposals for financial delegation to schools. Subject to your views, and to any comments by colleagues, I intend to issue this on Monday 20 July. I should be grateful to have reactions from colleagues by close of business on Tuesday 14 July.

The paper reflects the policy agreed by H Committee on 29 April, and now further developed. It is deliberately framed in fairly general terms but takes account of comments registered by colleagues in H Committee by emphasising the duty of LEAs to give appropriate training to governors and to heads, and by explaining more fully the proposed allocation of responsibilities for staff appointments and dismissals.

Our proposals will be controversial. Although they take account of the developing experience of some LEAs with local financial management schemes, they go further and faster than even the most committed authorities - who are mostly our own supporters - have so far contemplated. We can expect considerable opposition to at least two aspects of our proposal.

BAKER TO PM 8/7

First, on the appointment and dismissal of staff, the 1986 Education Act has only recently shifted the balance of responsibility so as to give greater influence to governing bodies of county and controlled schools, whilst leaving the final say to the LEA. The attached draft reflects our intention to give the final say to governing bodies. That will be attacked by local government, who will see it as effectively

CONFIDENTIAL

removing from them the power to manage the teaching force which they will continue to employ.

Second, there is bound to be comment on the novel proposal to require LEAs to allocate resources to their schools by a formula largely based on pupil numbers. In my view this proposal is an inevitable consequence of extending financial delegation to virtually all schools; but Cambridgeshire, the first LEA to contemplate it, has already found that there are real practical difficulties about constructing a formula which is accepted locally as fair. We may expect local government to call attention to the practical difficulties and to argue that this requirement will unnecessarily restrict their discretion to provide education in accordance with local needs and wishes.

On both these matters, we may need to reflect further in the light of the consultation. I shall report back to colleagues in the Autumn.

I am copying this letter and the paper to the other members of E(EP) and to Sir Robert Armstrong.

K.B.

KB
Department of Education and Science

8 July 1987

DRAFT CONSULTATION PAPER

FINANCIAL DELEGATION TO SCHOOLS

PROPOSAL

1. The Government's proposals for financial delegation to schools have two main objectives:

(a) to ensure that parents and the community know on what basis the available resources are distributed in their area and how much is being spent on each school;

(b) to give the governors of all county and voluntary secondary schools, and of larger primary schools, freedom to take expenditure decisions which match their own priorities, and the guarantee that their own school will benefit if they achieve efficiency savings.

The Government intends to introduce legislation later this year to secure the effective implementation of these objectives during the lifetime of this Parliament. This paper sets out its proposals, on which the comments of all interested parties are now invited.

BACKGROUND

2. School governors and heads have for many years been able to exercise some discretion over the use of "capitation" grant for certain items of expenditure. Many local education authorities (LEAs) have now expressed their view that such discretion should be extended to encompass a larger proportion of school budgets. A number of them have launched experimental projects and have developed appropriate management systems to underpin them. The Government has been encouraged by

the progress made, and impressed by the many examples of benefits gained by individual schools. It wants to enable all schools and local authorities to learn from that experience. The 1986 Education (No 2) Act took the first steps towards extending best practice by formalising the arrangements for capitation and requiring LEAs, from September 1987, to give governing bodies discretion over a sum of money for books, equipment and stationery.

MANAGEMENT BY LOCAL EDUCATION AUTHORITIES AND GOVERNORS

3. The Government believes that it will be essential in the development of wider financial delegation to schools that full account is taken of the experience and expertise already developed by local government, reflecting local needs and circumstances. Its proposals for legislation will provide a national framework for action within which it will be for LEAs in the first instance to propose, after consultation with the governing bodies of the schools they maintain, how school budgets might best be delegated. Once the legislative framework is in place, the Secretary of State will want to draw on the views of LEAs before issuing general guidance on more detailed aspects of the introduction and management of financial delegation.

BROAD OUTLINES OF THE LEGISLATIVE PROPOSALS

4. LEAs would be placed under a new duty to devise schemes of financial delegation which would explain the basis for the allocation of funds to their schools. They would be required to submit these schemes to the Secretary of State. The Secretary of State would be empowered to approve schemes, to reject them, or to approve them with modifications after consultation with the LEA. In the light of experience with the operation of schemes, LEAs might wish to propose variations, and these also would need to be submitted for the Secretary of State's approval. The Secretary of State would want to

see proposals from all LEAs by September 1989. All schemes would need to include a proposed timetable for phased implementation.

5. All schemes would include certain key features, which will be reflected in the legislation and are set out below:

(a) each year, each LEA would be required to identify the total resources to be spent at all of its maintained primary and secondary schools. From that total it would deduct certain items to be treated as centrally-determined expenditure, which the Secretary of State suggests would be:

(i) capital spending and associated debt charges; insurance

(ii) administration currently carried out by the LEA, including pay, tax and superannuation matters; accounts

(iii) provision of advisory and inspection services

(iv) provision of an education welfare service, education psychology service, school library service, and financial, legal and medical advice

(v) supply cover for long term staff absences, and redundancy payments where the need for redundancies is agreed between the LEA and the schools.

(vi) expenditure supported by central government grants

(vii) home to school transport and pupil support.

School meals might also be treated as a centrally-determined item, but the legislation would give school governors the right to make their own meals provision, provided they could offer a service comparable to that offered by the LEA, and at an equivalent or lower cost.

(b) the LEA would then be required to allocate the total remaining sum between schools in accordance with a formula to be agreed with the Secretary of State. The development of an appropriate formula for its area would be a matter for the LEA, in consultation with the governing bodies of its schools. Legislation, and subsequent regulations, would set out a broad framework within which a formula should be constructed, and would require, in particular, that it should take account of the number and ages of registered pupils at each school. Factors such as differential social need, and different types and sizes of school, would also require consideration.

(c) once an LEA's scheme was fully operational, responsibility for the allocated budget would be delegated to the governors of all secondary schools, and to the governors of primary schools with 200 or more registered pupils of statutory school age. Governors would be free to spend the delegated budget at their discretion, provided that their own, and the LEA's, statutory duties were met. LEAs would have discretion to include within their schemes proposals to extend delegation to smaller primary schools. The Secretary of State would be empowered to extend the provisions of the legislation so as to include primary schools with fewer than 200 registered pupils if in the light of experience that seemed desirable.

6. The Secretary of State recognises that considerable changes in local authority practices might be required in order to accommodate the new developments. He is also aware that a number of substantive issues will arise for local resolution, for example:

(a) the definition of capital and recurrent expenditure - would it be appropriate for the LEA to retain responsibility for maintaining the structure of the building, whilst governors were given responsibility for internal repairs, the decoration and maintenance of buildings and grounds maintenance?

(b) whether schools with community facilities should be given responsibility for the budget relating to youth and adult activities on their premises.

(c) the extent to which schools with delegated budgets should be permitted or expected to carry forward an underspend or overspend from one year to the next.

(d) the need for additional guidance to schools on health and safety aspects of their delegated responsibilities.

(e) the extent to which any allocation formula should allow the LEA to retain a degree of discretion so that marginal adjustments to budgets might be made during the year. The Secretary of State has it in mind, for example, that LEAs might want to operate delegation schemes on a financial year basis but would need to allow for the likelihood that pupil numbers at each school could vary considerably from one year to the next. Or pupils with statements of special educational need might be admitted to a particular school at very short notice and require an additional input of resources. Alternatively, all schools might be affected by an unanticipated mid-year pay increase for a particular group of staff for which their delegated budgets have made no allowance. All of these contingencies might point to the need for a proportion of total funds to be held in reserve.

7. The Secretary of State would particularly welcome views about these and other similar practical issues which will arise in the development of schemes of financial delegation. To assist his consideration, he has commissioned management consultants to devise a model or models of a financial management information system which would enable an LEA to introduce the maximum possible delegation to schools. He intends to publish the conclusions of their study.

8. The Secretary of State will look to LEAs to consult widely and to develop schemes of financial delegation for his early approval. If a particular LEA were to fail to make appropriate plans, the legislation would give the Secretary of State the power to introduce a statutory scheme for the area on that authority's behalf.

ACCOUNTABILITY

9. As from September 1987, LEAs will be required under the Education (No 2) Act 1986 to provide each governing body with an annual statement of recurrent expenditure at the school and, as they consider appropriate, capital expenditure. This may relate to past or budgeted expenditure, as seems best in local circumstances.

10. The legislation would build on this requirement for public accountability, by placing LEAs under an additional duty to provide information on the total amount spent on central educational services in the authority, and the notional

share of that total which might be attributed to each school. The Secretary of State would expect that the determination of notional shares would take account of the number and ages of pupils at each school.

11. Once a scheme of financial delegation was operating in an LEA, it would be required to publish budgetary information in a different form. The Secretary of State envisages that this might include:

(a) the total resources available to be spent at primary and secondary schools in the coming year, and the amount within that total to be included in the allocation formula.

(b) a description of the allocation formula and the resulting planned expenditure per pupil for each school maintained by the authority, including the smaller primary schools without delegated budgets.

(c) expenditure per pupil at each school on services not included in the allocation formula.

At the end of each year the LEA would be required to publish information on actual expenditure at each school, which could be compared to the original plans.

STAFF

12. The LEA would continue to be the employer of teaching (and non-teaching) staff at county and controlled schools and would retain its existing power to set complements for the staff at aided and special agreement schools. Subject to that, the Government believes that the benefits of financial delegation would only be fully realised if governing bodies were given discretion in respect of how many, and which, staff they should employ. It notes the degree of autonomy

in staffing matters already enjoyed by aided schools. The Secretary of State therefore proposes that, under schemes of financial delegation, the total number of teaching staff within a school would have to lie within a range determined by the LEA. This complement would be expressed in full-time equivalent terms. Decisions on staff within this range would give governing bodies opportunity to vary the mix between expenditure on teaching staff on the one hand and on the other aspects of school activities on the other hand, including non-teaching staff, books and materials.

13. Certain changes to the staffing provisions of the Education (No 2) Act 1986 would be required. The Secretary of State envisages that the selection of headteachers, teachers and other staff would be a matter to be delegated to the governing bodies. In the case of teachers an LEA would need to be satisfied, before an appointment could be made, that the person chosen by a governing body had satisfied the Teachers' Regulations and had appropriate qualifications, and that his or her appointment would not be inconsistent with the delivery in the school of the national curriculum. These arrangements would be very similar to the arrangements for staff appointments currently operating in most aided schools under their articles of Government.

14. LEAs would continue to have the main responsibility for the professional development of their teachers, including appraisal, statutory probation and in-service training. They would rely on the advice of their Inspectorates who would report on the performance and achievement of the schools and the teachers both to the governing body and the LEA. It would be the responsibility of the local Inspectorates to ensure that a common approach to teacher appraisal was followed and common standards applied throughout an LEA's schools, in accordance with an agreed national framework. Funds received under specific grant for in-service training would be allocated by LEAs in accordance with the specific needs of individual schools and the teachers serving in them.

15. Governing bodies would need to provide from within their budget for the costs of cover for short term absences. But exceptional staff costs, for example, where a teacher has unavoidably to be replaced for more than 1 month due to maternity or sick leave, would need to be met by the LEA.

16. It is proposed that any reductions in staffing should be the responsibility of governing bodies within the scheme of delegation. Where the need to reduce staff resulted from a reduction in the approved complement any compensation costs would have to be met by the LEA. Where the requirement for a premature retirement or dismissal in a particular case did not result from a reduction in the complement but represented the agreed outcome of consultation between the governing body and the LEA, the Secretary of State proposes that the LEA would similarly be expected to meet any costs of compensation. Premature retirements or dismissals at the instigation of the governing body with which the LEA did not concur would fall to be financed by the governing body out of its own funds.

17. The Government's expectation is that these arrangements would in practice lead to most changes in staff in schools with financial delegation being made by agreement between the LEAs and the schools concerned, with the initiative resting in most cases with the governors. It would remain open to LEAs, where they considered that some redeployment of teachers would be desirable and drawing on the advice of their Inspectorates, to take the initiative in proposing the movement of individual teachers. But any such moves could only take place with the approval of the governors concerned.

GOVERNORS' DISCHARGE OF RESPONSIBILITIES

18. LEA schemes would need to include arrangements for financial information and monitoring. Delegated budgets would be subject to audit by the LEA's internal auditors. Where the LEA was satisfied that the governing body was

failing to manage its budget effectively or was otherwise failing to discharge its duties it would be able to withdraw governors' discretion over both finance and staffing. The legislation would permit governors to appeal to the Secretary of State against such withdrawal. Where the LEA had withdrawn delegation it would be obliged to review the position at the beginning of every financial year and to restore delegation as soon as it judged this possible.

MAINTAINED SPECIAL SCHOOLS

19. The Government recognises that LEAs could find it difficult to devise a resource allocation formula to include appropriate weightings for the full range of special needs pupils. It is not therefore proposed that the legislation should require that special schools be included within schemes of delegation. However, the Government would welcome any initiatives by LEAs to give the governors of special schools responsibility for the resources attributed to them. It is proposed that the legislation should empower the Secretary of State to extend delegation to all special schools at a later date.

TRAINING

20. The Secretary of State proposes that LEAs should be required, in accordance with the provision of the 1986 Act, to give appropriate training to governors and headteachers. The Department will discuss with interested parties how this training might best encompass training on financial management. The Department would be ready to give detailed advice to LEAs, governors and headteachers on schemes of financial delegation, including appropriate management and financial information systems, in the light of a study now being undertaken for it by management consultants.

CONSULTATION

21. Comments on these proposals are now invited, and should be forwarded by 16 September 1987 to Mrs R Turp, Room 3/54, Elizabeth House, York Road, London SE1 7PH.

RP

SECRETARY OF STATE FOR EDUCATION AND SCIENCE

CH/EXCHEQUER
16 JUL 1987 16/7
CST

2

PRIME MINISTER

EDUCATION REFORM

1. There is a wide expectation in Parliament and within the education service that we will set out our proposals for the reform of schools in a series of consultation documents this month. We must move quickly, not least to give ourselves adequate time to consider comments before the legislation is finalised in the autumn. There is also advantage in publishing our proposals before Parliament rises for the Recess.

2. Subject to any necessary further discussion - and I recognise the pressures on your time - I am aiming to publish consultation documents before the Recess on the following timetable:

> <u>Monday, 20 July</u>: Financial Delegation to Schools: the draft circulated with my minute of 8 July has the general assent of colleagues and I have taken on board a number of helpful suggestions.
>
> <u>Tuesday, 21 July</u>: Charges for School Activities: I circulated a draft on 10 July inviting the views of my colleagues.
>
> <u>Wednesday, 22 July</u>: Grant Maintained Schools: in the light of the discussion at E(EP) yesterday, I am revising my proposals and propose to circulate before the weekend a draft consultation document, which will be as near complete as possible. It will be based upon and develop the framework set out in the annex to my paper. I hope that we shall be able to resolve all outstanding questions including the mechanism for ensuring financial neutrality as early as possible next week.

Thursday, 23 July: National Curriculum: I am circulating today a draft consultation document.

3. On non-advanced further education, we have so far given no public indication of our intentions. It will take longer to prepare a consultation document but I hope to circulate a draft taking account of yesterday's discussion early in the week of 27 July. Meanwhile, I propose to announce our intentions in broad terms by way of a written Parliamentary Answer next week paving the way for publication of detailed proposals in early August.

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

K.B.

KB 16 July 1987

Department of Education and Science

564/5/SC

CONFIDENTIAL

FROM: M A WALLER

DATE: 16 July 1987

CHIEF SECRETARY

cc. Chancellor
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Mr F E R Butler
Mr Anson
Mr Monck
Mr Burgner
Mr Hawtin
Mr P R C Gray
Mr Instone
Mrs Holmans
Mr G White
Mr Cropper
Mr Tyrie
Mr N Williams

A The report is clearly premature at this stage. But I am v. doubtful of the wisdom of some of this - eg 4(i), dragging in the problems of remote rural & coastal areas etc. This will water down the impact of concentrating on the inner cities. And there are many [illegible] problem cities [illegible] & [illegible]

REPORT TO E(UP) ON INNER CITIES

Following the first meeting of E(UP) a senior DOE official seconded to the Cabinet Office is preparing a report for the sub-committee on the problems of disadvantaged urban areas and possible solutions. The report will include an analysis of those current regional and urban-based expenditure programmes designed to deliver the Government's urban policy; will propose ways of improving the co-ordination and presentation of such programmes; and will identify 7/8 target areas which offer the prospect of success for joint Departmental action. An interim report will be ready by the end of July with the final report completed by mid-September. The report will have implication for DTI and D Emp spending as well as for the main block of direct inner city spending by DOE and local authorities. Lord Young is reviewing how he can target existing regional measures on the inner cities in the most cost-effective way.

2. The areas covered by the report involve major issues of expenditure policy and programme effectiveness and management, particularly in view of the DOE and DTI expenditure bids made this year. We think there would be benefit to the Treasury from talking

to the official concerned to explain our thinking on key regional and urban issues. Because of the expenditure implications this submission seeks your urgent approval for the line we would propose to take in discussions.

Treasury Objectives

3. There are two key objectives here:

(i) to ensure, as far as possible, that proposals emerging from the report do not in aggregate add to public expenditure pressures thereby reducing your room for manoeuvre in the Survey. (The draft of your Cabinet paper on the 1987 Survey suggests a reduction in regional assistance to release resources for inner city initiatives.)

(ii) to encourage the identification and adoption of the most efficient and cost-effective solutions to the problems of the inner cities, though this is difficult because little evaluation has been done and because the problems of different areas of urban disadvantage vary so much.

In order to achieve these objectives it will be necessary for the report to concentrate on those initiatives which do not add to public expenditure in this area. This will involve both reordering priorities and better targetting of existing expenditure e.g. as between regional assistance generally and expenditure on inner cities and (as indicated in the Chancellor's comments recorded in Ms Ryding's minute of 10 July) greater involvement by the private sector in inner city initiatives.

Proposed points to raise

4. In the light of these objectives we would propose to emphasise the following points to the Cabinet Office:

(i) the need for the report to define clearly the nature and extent of disadvantage in urban areas and the way in which the mix of characteristics varies from place to place. This is a basic precondition to specifying efficient and cost-effective solutions. We would draw attention to recent in-house work done in the Treasury on the labour market for urban residents. This indicates that areas of disadvantage occur in a variety of locations and circumstances within urban areas (e.g. peripheral housing estates as well as inner cities) and, indeed, in certain rural and coastal locations. The problems are not just lack of employment or the right type of employment, but also the mix of economic and social characteristics of those who live in the areas which adversely affects their ability to seek and obtain work. It is thus as much, if not more, a people problem as an area problem. Therefore measures to improve employability i.e. the ability to compete for jobs outside as well as inside inner cities are at least as important as creating jobs in the disadvantaged areas. We would also point to the need to identify the distribution population affected as between assisted and non-assisted areas. (In-house work suggests a significant percentage of the population of disadvantaged areas lies outside the assisted areas thus strengthening the argument for a shift from regional assistance.)

(ii) the need to define more clearly the objectives and target groups for <u>existing</u> spending programmes and to monitor and evaluate what these programmes have achieved. We would point to the ad hoc way in which the existing pattern of activity has developed resulting in overlap/duplication and ineffective targetting, management and evaluation. The report should, as far as possible, indicate what the existing programmes have achieved in terms of dealing with the main problems originally identified <u>and</u> how far they have addressed the underlying pattern of economic and social disadvantage.

(iii) for any <u>new</u> programme proposed, the need to establish how far they are directed at needs which could be effectively addressed through existing programmes; to specify measurable objectives and targets; to ensure that the programmes are relevant to the problems identified and that they are monitored in order to assess whether they are delivering value for money. Since the problems of disadvantaged areas are caused in part by the employability of its residents, activities may well need to be targetted more on people than at creating jobs in areas. (This should improve cost-effectiveness by concentrating on the disadvantaged and avoid a wholly area-based approach which is more likely to increase pressure for additional public expenditure on expensive infrastructure work which has only a limited impact on local residents' employment prospects and attitudes to work).

(iv) the need to identify the total amount of public expenditure aimed at regional/urban disparities and the proportion which reaches disadvantaged urban areas as a basis for reaching a view on the distribution and cost-effectiveness of existing programmes and the scope for reallocation. We have had a first stab at this (Annex A to this minute) and would propose to pass the table to the Cabinet Office with the warning that the figures require careful cross-checking with spending departments.

(v) the scope for increasing the share of existing expenditure programmes going to 'inner cities' in a cost effective way (e.g. employment and training and regional assistance) and targetting those programmes which already cover 'inner cities' more on people than on areas (the DOE programmes). The attached table shows what might be done.

(vi) the need not only to maximise the opportunities for private sector enterprise and finance but also, where possible, for the private sector to take the <u>lead</u> in inner city revival plans. In this context we would point to the example of Birmingham quoted by the Chancellor and the opportunity offered by Sir T Holdsworth's appointment in the CBI to get them involved in inner city initiatives.

(vii) the need to identify the possible preconditions for success of inner city initiatives as a basis for selecting the appropriate mix of target areas.

Conclusion

5. We think that a Treasury input to the Cabinet Office report on the above lines would reduce the likelihood of this becoming a further vehicle for expenditure bids and thus avoid adding to spending pressures in this year's Survey. Cabinet Office are working to a very tight timetable and if we are to influence their thinking we shall need to talk to them early next week. We would, therefore, be grateful for your early agreement to our speaking to the Cabinet Office on these lines.

6. This submission has been agreed with LG2 and IAE3.

MAW

M A WALLER

Regional and Inner City Concentration of Government Programmes on Employment and Enterprise

Programme Area	1986-87 Total Spend-£m	Proportion of total spend within assisted areas-% (£m)	Proportion of total spend within disadvantaged urban areas-% (£m)	Proportion of total spend within disadvantaged urban areas within assisted areas % (£m)
1. Regional Assistance:				
- Regional Development Grant	204*	100 (204)	75 (153)	75 (153)
- Regional Selective Assistance	214*	100 (214)	60 (128)	60 (128)
- Regional Development Agencies (SDA, WDA and EIEC)	216	69 (149)	25 (54)	25 (54)
2. Urban Initiatives:				
- Urban Programme	324	70 (227)	100 (324)	70 (227)
- Urban Development Corporations	90	74 (67)	100 (90)	67 (60)
- Inner City Iniatives, Task Forces, and City Action Teams	20*	57 (11)	100 (20)	57 (11)
- Derelict Land Clearance	81	92 (75)	30 (24)	30 (24)
3. Employment and training programmes ≠	3,100	40-50 (1,395)	10-15 (388)	3-7 (155)
4. Others:				
- Enterprize Zones	117x	65 (76)	71 (83)	61 (71)
- Nationalised industry enterprise schemes; coal, steel and shipbuilding.	15	82 (12)	89 (13)	72 (11)
- Small firms assistance and enterprise programmes	19*	25-30 (5)	10-15 (2)	3-7 (1)
- Tourism	60*	N/A	N/A	N/A
TOTALS	**4,460**	**55 (2,435)**	**29 (1,279)**	**20 (895)**

*1987-88 Provision

x1985-86 total public expenditure costs including revenue foregone.

≠Expenditure under this heading is divided approximately 1/3 Community Programme, 1/3 Youth Programme, 1/6 Adult Training and 1/6 miscellaneous. However no regional analysis by programme within the £3.1 billion total is available.

Note: All figures in the last two columns are subject to a +/- 20% uncertainty.

C/See also letter from No 10 at X below CR 17/7

CH/EXCHEQUER 17/6 4
REC. 17 JUL 1987
ACTION CST
COPIES TO

SS/DES to PM 16/7

PRIME MINISTER

GRANT MAINTAINED SCHOOLS

1. I attach the draft of a consultation document setting out our detailed proposals for Grant Maintained (GM) schools. It is an extended version of the annex to E(EP)(87)5 which we discussed last Wednesday and the proposals have been modified as necessary to take account of our discussion.

The Levy/Grant Question

2. The Chief Secretary is looking further at the financing mechanism. On this point the draft is subject to further consideration. I continue to believe however that a levy on local authorities is the right solution. We are all agreed on the principle that the establishment of a GM school should leave the LEA and its local taxpayers in the same financial position as they would have been if the school had remained with the LEA. To achieve that objective we have a choice: either to recover the sum directly through a levy or to deduct the same sum from the grant the LEA would otherwise receive. There are real difficulties about the latter course:

(i) under the present RSG system some LEAs may go out of grant before 1990. ILEA, where we hope many schools will opt out, already gets no block grant. A levy power would therefore be needed in any case to recover the cost of GM schools from these authorities in 1989-90. The legislation would need to provide for both grant deduction and a levy under the existing RSG system, and for grant deduction under the new system, adding considerably to its complexity.

CONFIDENTIAL

(ii) there is a strong possibility that, as the number of GM schools increases, authorities' grant under the new system will be insufficient to cover the sums to be recovered. A levy would again be needed.

(iii) even with grant deduction, it will be very clear that the Government is recovering the full costs of GM schools from the LEA. The difference in presentational terms between the options is therefore not as great as might appear at first sight.

Employment of Teachers in Grant Maintained Schools

3. I have looked further at the teacher aspects of my proposals, and I think I am able to resolve the three issues that were raised at the meeting on Wednesday:

(i) I entirely agree that GM schools should be able to employ teachers who have not taken the PGCE or BEd courses that are normally required for teachers in LEA maintained schools. But it would be difficult publicly to defend Teachers Regulations which require qualified teacher status in LEA maintained schools, where we provide only part of the finance, while exercising no such control over the teachers in schools wholly maintained by Government. My proposal therefore is that where GM schools wish to appoint teachers who do not have PGCE or BEd qualifications they should be able to assure me that their qualifications, experience and personal qualities are such that I can nevertheless agree to recognise them as being suitably qualified. This is a power that I have now in relation to LEA schools which is relatively rarely used, but which I intend to make a positive virtue of in relation to GM schools. Teachers so recognised could subsequently be employed in an LEA maintained school should they so wish.

(ii) There is also the question of the transfer of existing teachers to GM schools. Again I entirely agree that GM schools must be free not to continue to employ unsatisfactory teachers or troublemakers. But if we do not provide for the transfer of all teachers initially when schools acquire GM status, I fear we may get very few applications. My concern is that without security of employment many teachers, including some who would be sympathetic to the principle of opting out and who the school might want to keep, would be strongly opposed and would work to persuade parents and governors against making an application for GM status. I believe that your suggestion that we should meet the costs of compensation for dismissal provides the answer. It should be for the GM school governors to decide if they need to dismiss any of their inherited teachers, in the knowledge that if I agree then their grant will be increased to meet the cost. Grants for this special initial shake out would be limited to proceedings starting within a year of the school operating under new management. This is dealt with within paragraph 13. We agreed that the teaching staff in GM schools should be subject to the same pay scales and conditions of service as those in LEA maintained schools, but they must have discretion within their budgets to pay more through the use of incentive allowances. This is also covered by paragraph 13. We cannot in any case say their conditions of service will be identical to those in LEA maintained schools because some of their non-statutory conditions are expressed in terms of LEA arrangements.

(iii) I have as you requested dropped the LEA representative on GM school governing bodies and amended my proposals for teaching staff representation. I suggest that we should retain one teacher representative, and allow the governing body of the GM school discretion to increase representation to 2. Teachers will already be members of all governing bodies of maintained county and voluntary schools as the result of the changes introduced in successive Acts. An absolute bar on teacher representation would encourage hostility to the change to GM status, and it is by no means certain that Governing Bodies would want to exclude teacher representatives altogether.

Admissions Policy

4. You were also concerned about admission arrangements. I do not believe that I could defend the position that admissions policy should be decided wholly by the governors subject only to their duty to maintain the character of the school, unless the legislation enabled me to satisfy myself that that admissions policy was indeed consistent with the schools character. In so doing I would underpin the authority of the governors and simplify my task in relation to complaints on admission matters. I quite agree that I should not concern myself with detailed admissions arrangements and accordingly paragraph 11 (i) confines my role to approval of policy.

5. Subject to your views and those of my colleagues, my aim is to publish this consultation document on 22 July. I therefore hope that we can clear any outstanding issues very early next week. If I am to keep to the timetable I would need clearance by noon on Tuesday 21 July.

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

K.B.

KB
Department of Education and Science

16 July 1987

5

MOO 16.7.87

DRAFT CONSULTATION PAPER

DRAFT CONSULTATION PAPER

GRANT MAINTAINED SCHOOLS

INTRODUCTION

1. The Government is taking action to increase the autonomy of schools and their responsiveness to parental wishes. The influence of parents on the governing bodies of schools, and the powers of governors, are being enhanced by the provisions of the Education (No 2) Act 1986, and will be further strengthened by the Government's proposals on financial delegation which are the subject of separate consultation.

2. The Government considers that it should also respond to the numerous indications it has received that groups of parents want the responsibility of running their schools as individual institutions. It proposes to provide an additional route to autonomy by introducing legislation later this year to enable the governors of county and voluntary maintained schools, with the support of the parents, to apply to the Secretary of State for maintenance by grant from Central Government instead of maintenance by LEAs. The Government believes that this proposal, which is outlined in greater detail in this paper, will add a new and powerful dimension to the ability of parents to exercise choice within the publicly provided sector of education. The greater diversity of provision which will result should enhance the prospect of improving education standards in all schools. Parents and local communities would have new opportunities to secure the development of their schools in ways appropriate to the needs of their children and in accordance with their wishes, within the legal framework of a national curriculum.

3. It would be open to the governors of all secondary

schools, and of primary schools with more than 300 registered pupils to apply for grant maintained status. Eligibility could be extended to smaller primary schools at a later date. Grant maintained schools would form a new category of maintained schools. They would provide free education to their pupils. They would not charge fees but like LEA schools they would be able to accept voluntary donations from parents and others in the community. If governors' applications were successful, the first grant maintained schools could come into existence in September 1989.

CHARACTER OF GRANT MAINTAINED SCHOOLS

4. The legislation would provide that schools would not be able to undergo a change of character or any significant change in their size or age range at the same time as the change to grant maintained status. It is the Secretary of State's intention that schools should retain their previous character as LEA schools so that, for example, a comprehensive school would remain comprehensive and a grammar school would remain a grammar school. Where the governing body of a grant maintained school subsequently wished to change its character or size, it would be required to publish statutory proposals and allow others to comment, in the same way as voluntary school governors and LEAs are now required to publish proposals in respect of their schools. The Secretary of State would expect that most grant maintained schools would require a period to establish themselves in their new role, before contemplating any major changes.

PROCEDURES

5. The Government proposes to introduce a statutory procedure by means of which the governors of LEA-maintained schools would submit applications for grant maintained status for the Secretary of State's consideration. It envisages that the essential constituents of this procedure would be:

a. schools' governing bodies, would be able to resolve at a meeting by means of a simple majority that they wished to apply to the Secretary of State for grant-maintained status. They would be required to inform the LEA if such a resolution was passed;

b. this proposal would need to be referred to the parents of registered pupils at the school who could, by means of a simple majority of those voting, resolve whether to agree that an application should be made. The parents would be consulted on the basis of certain information about the school to be provided by the LEA, and proposals for its future management to be made by the governors. Voting would be by secret postal ballot;

c. the governing body would publish a proposal applying for grant maintained status, within a timescale which would enable all interested parties, including the teachers and parents at the school, the LEA and the governors of other schools in the area, to comment to the Secretary of State on the proposal if they so wished;

d. the Secretary of State would have a duty to approve an application, to approve it with modification, after consultation with the governors, or to reject it. He would consider each application on its merits, taking account of all the comments and information available to him.

e. if the application for grant maintained status came from a school affected by statutory proposals under the Education Act 1980 to close it, amalgamate it with another, or change its character, the Secretary of State would consider the application in conjunction with the other proposal, with a view to making a decision on the application first. Applications made after a closure or change of character proposal had been published would need to be made within the two months period allowed in the 1980 Act for the registering of objections to a proposal. The legislation would amend Section 12 of the 1980 Act so as to require the LEA to give the governors prior warning of any intention to publish statutory proposals in respect of their school.

f. the governors of schools which were the subject of statutory proposals at the time the new legislation was enacted, or in the period immediately afterwards, would be given the opportunity to make applications for grant-maintained status, before the Secretary of State made any decisions on the proposals.

6. If governing bodies did not themselves take the initiative in proposing to the parents that they should seek grant maintained status, it is considered important that parents should have the opportunity to express <u>their</u> view. They could do this by circulating a proposal which, if it secured the support of a number of parents at least equal to a fifth of registered pupils at the school, would oblige the governors to hold a secret postal ballot on the issue. If there were a simple majority of voters in that ballot who were in favour of an application, the governors would be under a duty promptly to activate the procedures outlined in paragraph 5 above.

GUIDANCE FOR PARENTS AND GOVERNORS

7. In deciding whether to initiate an application for grant-maintained status, the parents and governors of a school would need to take a considered view of its future viability and prospects. The Secretary of State would give

careful consideration to the information supplied to him by the governing body. This would include information about those willing to stand as governors on the establishment of the new school or to continue in their role as elected governors. To aid parents and governing bodies to formulate applications and to enable their proper, but timely, consideration by all those with an interest, the Secretary of State would propose, after consultation, to issue detailed guidance about the procedures to be followed.

STATUS AND COMPOSITION OF GOVERNING BODIES

8. The legislation would provide for grant maintained schools to become corporate bodies. The governors of these schools would have very considerable responsibilities and powers. The Secretary of State considers it important that a majority amongst them should have a long term commitment to the school. In the case of former voluntary schools the foundation governors would provide the necessary element of stability. In the case of former county schools there would be a new category of "first" governors. Parents would also be fully represented on the schools' governing bodies.

9. It is envisaged that the composition of governing bodies, as set out in the Annex to this paper, would be incorporated in the Instruments and Articles of Government for the new schools to be made by the Secretary of State. The initial foundation, or first, governors would be named in a proposal for the new status, the foundation of a voluntary school being able to nominate from amongst its existing foundation governors for the purpose. The Secretary of State would have a reserve power to appoint his own representatives to governing bodies on the basis indicated in the note in the Annex.

FUNCTIONS OF GOVERNING BODIES

10. The Articles of Government of the school would determine

the way in which it was managed, and define the powers of the governing body. It is envisaged that the Articles would reflect the particular ethos of the school and include any provisions particularly appropriate to it which the Secretary of State had agreed should be so included, when considering an application for grant-maintained status. The Government would propose to issue model Articles, after consultation with interested parties, to act as a general guide.

11. Governors would be required, under the legislation and their Articles:

i. to set out their admissions policy for approval by the Secretary of State; and

ii. to comply with the national curriculum.

The Articles would also specify a complaints procedure which the governors would be obliged to observe in respect of admissions, the curriculum, and the conduct of the school, including suspensions and expulsions. Subject to these procedures, the governors' discharge of their responsibilities would be subject to the Secretary of State's powers under Sections 68 and 99 of the Education Act 1944, these provisions being extended in order to encompass grant-maintained schools.

12. The parents of pupils at a grant-maintained school would expect its governors to run it efficiently and, with the headteacher, to secure a high standard of provision. Parents and the community would have a strong voice on governing bodies and the Government believes that they would use it to ensure an effective oversight of performance. It is likely that on occasion the governors and staff would obtain advice from outside consultants and higher education institutions, for example in relation to the curriculum, and the grant for recurrent expenditure (see paragraphs 20 to 22 below) would provide for the costs of this. The schools would be subject to inspection by HMI.

[STAFF

Teachers

13. Dedicated and effective teachers will be as crucial to the success of grant maintained schools as to that of all other schools. The Secretary of State expects that the governors of grant maintained schools will see as one of their main priorities the recruitment and retention of good teaching and non-teaching staff. He considers that the transfer of a school from LEA to grant-maintained status should include the transfer of its staff with pay and conditions of service equivalent to those they already enjoy. Thereafter it would be for the school's governing body to decide staffing levels, to make judgements about the best mix of staff, and to determine their own recruitment and appointment policies. [Governing bodies would, under the 1987-88 pay structure, have the same discretion as LEAs to decide how many incentive allowances at each level to pay over and above the main salary scale, and to pay heads and deputies the salaries appropriate for schools in higher groups.] In general the governors would be required to meet all staff costs from within their grant. Exceptionally, however, governors would be able to seek special grant support to cover costs arising from premature retirements or dismissals of teaching staff initiated during the first twelve months of the life of a grant maintained school.

14. It is further envisaged that:

a. the appraisal of staff performance and the provision of in-service training would be the responsibility of the governors;

b. the governors would be able to employ teachers who had not taken normal initial teacher training courses, provided they had relevant qualifications and experience. The governors would apply to the Department of Education and Science for such teachers to be afforded qualified teacher status;

c. grant maintained schools would be required to have arrangements for the induction of new teachers such as lighter timetables and support from senior colleagues, but would not be subject to the statutory probation arrangements which apply to teachers in LEA-maintained schools.

15. If a teacher did not wish, at the time of transfer to grant maintained status, to transfer to the new school and the LEA was unable to redeploy him elsewhere, he would be deemed to have resigned, and would not, as a consequence, be eligible for compensation.

Non-teaching staff

16. It is envisaged that arrangements similar to those for teachers should apply in respect of the transfer of non-teaching staff. Such staff, including new recruits, would continue to be members of the Local Authority pension scheme, by amendment to Regulations made under Section 7 of the Superannuation Act 1972.]

ASSETS

17. It is envisaged that the foundations of aided and special agreement schools and of those controlled schools not owned by the LEA would retain the ownership of their premises on their schools becoming grant maintained. The ownership of other controlled and county schools which became grant maintained would transfer to their governors. It is proposed that at the time at which the governing body of an LEA-maintained school informed the LEA that it intended to apply for grant-maintained

status, the school's assets should be frozen until the application had been decided.

18. In the event of the closure of a grant-maintained school, the premises would remain the property of the foundation where it had previously owned them or revert to the ownership of the LEA. In either case, in the event of the sale of the premises it is envisaged that the Secretary of State would be able to secure compensation for capital work undertaken at the school for which he had paid grant, and that there should also be a charge on any sale to meet any redundancy costs or other debts which the school might have.

19. It is recognised that a number of complicated issues could arise in connection with the ownership of premises and arrangements for the joint use of buildings, land and equipment which any school becoming grant-maintained shared with other schools or institutions. The Secretary of State therefore proposes to establish a statutory Assets Board to advise him about:

a. ownership in cases of doubt;

b. the transfer to grant-maintained schools of assets previously owned by the LEA;

c. claims upon assets in the event of a grant-maintained school closing.

RECURRENT GRANT

20. From September of this year, under the provisions of Section 29 of the Education (No 2) Act 1986, LEAs are required to provide to the governors of each school financial information about the running costs of the schools they maintain. The Secretary of State proposes to extend this requirement so that LEAs would be obliged in respect of all schools to provide, and to publish, information not only on school-based expenditure but also on

the costs of the schools' share of centrally provided services. By this means there should be a clear picture of each school's total running costs. The Secretary of State proposes that each school should be funded at the same level when it becomes grant-maintained.

21. Subject to appropriate provision being made in the planned legislation on financial delegation to schools, it is envisaged that LEAs will in future allocate funds to their schools on a per capita basis. In parallel, grant-maintained school budgets would have three broad elements:

i. annual grant for the school-based costs calculated in accordance with the LEA's formula for a school of that size and type;

ii. annual grant to cover the costs of services which would previously have been provided centrally by the LEA, including

a. the calculation and payment of salaries;

b. advisory services;

c. welfare services; library services; financial, legal and medical advice;

d. supply cover for long-term staff absences;

iii. additional grant, payable for specific purposes, analogous to Education Support Grants and other specific support available to LEAs.

22. It is proposed that, under Regulations to be made under the legislation, schools would account to the Secretary of State for their disbursement of grant and would provide to him such detailed information as he required. Schools would

be required to appoint independent auditors to audit their accounts and report both to governing bodies and to the Secretary of State.

[23. The Government intends that the establishment of a grant maintained school should leave the LEA and its rate or community charge payers in the same financial position as they would have been, had the LEA continued to maintain the school. This will be achieved by

a. treating the school for the purposes of Rate Support Grant as though the LEA continued to maintain it;

b. basing the recurrent grant to the school on the LEA's decisions on funding for its own schools, including its expenditure on overheads;

c. recovering the full amount of the recurrent grant from the LEA by means of a levy paid to the Secretary of State.

Thus the LEA would receive the same Government grant, incur the same expenditure and impose the same community charge as it would have done had the school not opted out. But instead of directly incurring expenditure on the school, the LEA would pay the same amount in the levy to the Secretary of State. The Secretary of State would notify LEAs each year of the sums payable. In the event of non-payment by an LEA, he would be able under the legislation to deduct any sums owed by that authority from other grants payable to or in respect of the authority.]

CAPITAL

24. The Secretary of State considers that grant for capital building projects should be made to grant-maintained schools in the light of the policies by which allocations are made

to LEAs in respect of county and voluntary controlled schools, and projects at aided and special agreement schools are grant-aided by the Secretary of State. It proposes to pay 100% grant to grant-maintained schools, whether ex-county or ex-voluntary, for both capital building projects and capital equipment purchases. The governors of grant-maintained schools would be expected to meet from their recurrent budget the costs of internal and small scale external repairs. The Secretary of State would propose to consult the Local Authority Associations and the voluntary bodies about the precise way in which a capital grant regime would operate but envisages that it should be based on a system of bids and allocations, as already exists in the case of aided schools. The costs of capital projects would be found from the total available for such projects nationally.

DUTIES OF LOCAL EDUCATION AUTHORITIES IN RESPECT OF GRANT-MAINTAINED SCHOOLS

25. LEAs would continue to have the responsibilities and powers provided for in the Education Act 1944 and subsequent education legislation. In particular they would continue to have the duty under Section 8 of the 1944 Act to secure the availability for their area of sufficient schools to provide primary and secondary education. They also have specific duties to ensure that all school age children are able to attend school and that parents cause their children, wherever they are being educated, to receive full-time education. These duties would apply in respect of pupils at grant maintained schools as at others. LEAs would also be required to provide for pupils at grant maintained schools, on the same basis as they would for pupils at LEA-maintained schools, transport or help with the costs of transport; clothing grant; lodging and maintenance allowances etc; and access to careers advice. For this reason the recurrent grants to grant maintained schools would not provide for these costs. The Secretary of State believes that LEAs would fulfil their duties in respect of pupils at grant maintained schools and does not, therefore, propose to take special powers to compel them to do so. If necessary, however,

he would be prepared to use his existing powers under Sections 68 and 99 of the 1944 Act.

SCHOOL MEALS

26. The Secretary of State proposes that grant-maintained schools should receive, as part of their recurrent grant, funding based on the unit cost of the meals service in the schools maintained by the LEA in their area and that they should be obliged, on the same basis as LEAs are for the schools they maintain, to provide free school meals for pupils whose parents are in receipt of income support. The Secretary of State considers that it should be for the governing bodies of grant-maintained schools themselves to decide how best to provide a meals service. It would be open to the governing bodies to enter into a contract with a private firm or to negotiate with the LEA access to the LEA's school meals service, as they judged fit. The Government proposes to legislate to enable LEAs to enter into such contracts with grant-maintained schools should LEAs so wish.

CLOSURE OF GRANT-MAINTAINED SCHOOLS

27. It is envisaged that the governing body of a grant maintained school should be required to publish statutory proposals if it intended to close the school, under similar procedures to those which apply in the LEA sector. In addition the Secretary of State envisages that he should have a power to terminate grant himself, both in his discharge of his general responsibilities and in pursuit of the proper and efficient use of the public funds provided for the school. He might exercise this power if the school was failing to attract a sufficient number of pupils to be viable, in which case it is envisaged that he would be able to close the school after suitable notice had been given to the governing body. However, his concern might be that the school was failing in its duty to secure the delivery of the national curriculum, or that the governing body was no longer capable of effective financial management, in which

case he would be required under a statutory procedure to give the governors sufficient opportunity to remedy the weaknesses he had perceived. The school could then be closed after suitable notice if the governors had failed to restore the situation. The Secretary of State, if he considered that such action might be helpful, would be able to appoint up to two additional governors, as provided for in the Annex. He could also appoint his nominees to vacant positions among the "first" governors of a former county school but not to vacancies among the foundation governorships of former voluntary schools.

28. Such procedures should give the governing bodies of grant-maintained schools an appropriate degree of security as regards their continued existence and closures would arise only when there was a publicly identified need for them. But as an additional guarantee of continuity, it is envisaged that the legislation would require a Secretary of State to give five years notice of closure if his decision to terminate grant was based on general policy considerations, rather than the circumstances identified above.

CONSULTATION

29. The Secretary of State would welcome comments on the proposals discussed above. These should be sent to Mrs R Turp in room 3/54, Department of Education & Science, Elizabeth House, York Road, London SE1 7PH, by 16 September 1987.

ANNEX

COMPOSITION OF GRANT MAINTAINED SCHOOLS GOVERNING BODIES

Up to 600 pupils

Former voluntary schools

4 parents
1 or 2 teachers
1 headteacher
10 Foundation (including 2 parents)

(total 16 or 17)

Former county schools

4 parents
1 or 2 teachers
1 headteacher
10 "first" (including 2 parents)

(total 16 or 17)

More than 600 pupils

Former voluntary schools

5 parents
1 or 2 teachers
1 headteacher
11 Foundation (including 2 parents)

(total 18 or 19)

Former county schools

5 parents
1 or 2 teachers
1 headteacher
11 "first" (including 2 parents)

(total 18 or 19)

Foundation governors of ex-voluntary schools would be named in the statutory proposal to establish a GM school. As with foundation governors of voluntary schools, they would be found from, or appointed by, the foundation.

First governors of ex-county schools would be named in the statutory proposal to establish a GM school. They would be chosen by the county school's governing body from among local people (including the local business community) who were prepared to commit themselves to the governing body of the new school.

The **term of office** for foundation and first governors would be not less than five and not more than seven years. That for elected governors would be four years.

The Secretary of State would have a **reserve power to appoint** up to two additional members to the governing body of any GM school, and to fill any vacancies among first governors of former county schools which the existing governing body were unable or unwilling to fill.

SOCIAL SECURITY OPTIONS

001/2762

SECRET

BF reset CST Whatever

pup

CST

FROM: JILL RUTTER

DATE: 16 July 1987

MISS PEIRSON

Ch

(CST was surprised that officials reacted negatively to his push for radical options on child benefit) AA

cc:
Chancellor
Sir Peter Middleton
Mr F E R Butler
Mr Anson
Mr Turnbull
Mr McIntyre
Mr MacPherson
Mr Gieve
Mr Gibson
Mr Tyrie

SOCIAL SECURITY: OPTIONS FOR THE SURVEY AND IN THE MEDIUM TERM

The Chief Secretary discussed with you and others the options set out in the Annex to Mr Gieve's minute of 29 June on social security and Mr Gibson's paper of 8 July.

Options for the Survey

1). Offset occupational pension exceeding £35 a week against Uenmployment Benefit.

The Chief Secretary did not regard this as a runner.

2). Income Support and Housing Benefit: increase tapering of entitlement when claimants have more than £3000 capital.

The Chief Secretary said he would not wish to press this.

3). Housing Benefit: increase rates taper from 20% to 25% and rents taper from 60% to 65%.

The Chief Secretary believed there was a case for action on the rent and rates taper, though it would be difficult to achieve something on both. Mr Gibson noted that the costing had been revised and it looked as though this could produce close to £100 million.

4). All benefits: abolish entitlement below £5 minimum:

The Chief Secretary wondered whether this would actually produce savings. Was it not likely that benefits would be recalculated to take them just above the £5 margin? He also recalled that there were problems on the interaction with other benefits. Nonetheless it was agreed that this option should be kept in the shopping list.

5). Attendance Allowance: reduced rate for children of all ages:

The Chief Secretary favoured pursuing this option.

6). Industrial injuries benefits: various changes:

The Chief Secretary did not see this as a saving candidate in this year's Survey.

7). Income Support: no uprating of any limits for ordinary boarders or those in residential homes in April 1988:

The Chief Secretary believed there was a strong case for no uprating for boarders. But it was much more difficult to treat those in residential homes (typically elderly and non-transient) in the same way. We should therefore look for savings on boarders only.

8). Remove supplementary benefit entitlement from 16/17 year olds:

This was already in hand, and the exact level of savings was being worked out.

9). Tighten up availability testing and take other initiatives on DE programmes:

The Chief Secretary said he thought this was worth looking at again.

10). Abolish one parent benefit:

Tax 21/2 plan

The Chief Secretary said this was linked to any action on child benefit and the introductory rate for the family premium. But the possibility should be pursued.

11). <u>£100 earnings rule for Widows Benefit and Retirement Pension:</u>

The Chief Secretary said that this was a justifiable measure which we should go for, but it was likely to run into strong opposition.

12). <u>Fully or partially offset Mobility Allowance, Attendance Allowance and Severe Disablement Allowance against Income Support:</u>

The <u>Chief Secretary</u> said he thought this was a difficult principle given the rationale for these benefits. <u>Mr Gibson</u> recalled that there was now a disability premium incorporated into income support. He though however that the real case for action lay on people in residential homes. It was agreed that this should be pursued.

13). <u>Christmas Bonus: restrict to supplementary pensioners</u>.

Is this the [illegible]? below tax thresholds?

The <u>Chief Secretary</u> thought that this was a highly attractive possibility. It would be possible to double the Christmas bonus for supplementary pensioners, withdraw it from **all other** recipients and still come out with a net yield of £70 to £80 million. This option should definitely be pursued.

14). <u>Child Benefit:</u> it was noted that the Secretary of State for Social Services was now committed to not up rating child benefit in April 1988.

The <u>Chief Secretary</u> said he was attracted to action on child benefit. He thought that means-testing would be perfectly defensible. It would save a lot of money - though decisions would obviously have to be taken on how to withdraw the benefit to avoid creating perverse incentives at the threshold income level. He also thought the options for differential rates of benefit, with lower rates for second and subsequent children should be explored. He thought that making big savings on child benefit - which was politically defensible since it was so badly targetted - might enable Mr Moore to meet many long-standing and much more compelling cases. <u>Mr Turnbull</u> pointed out that there was an interaction with

history

family credit which was paid to families at the lower end of the incomes scale. This needed to be looked at. Mr Tyrie remained attracted to taxing child benefit. But this was an issue for the Chancellor. It was agreed that further work should be done on means-testing and differential rates.

15). Offset occupational pensions exceeding £35 a week against Sickness/Invalidity Benefit.

The Chief Secretary said he was not attracted to this option but would resurrect it if necessary.

16). Introduce income support, family credit and housing benefit at 50p less than illustrative rates

The Chief Secretary noted that the expectation was that the benefits would be introduced at higher levels than the illustrative rates revalued. But the option of lower rates should be retained, although not necessarily 50p lower.

17). Move to biennial upratings:

Mr F E R Butler thought this option should be retained for a time when rates of inflation meant that benefit increases would be criticised as being derisory.

Medium Term Options

2 Most of the optionsin particular those - on child benefit, the Chistmas bonus and income support rates had already been discussed since they offered the possibility of savings in the 1987 Survey.

Retirement age

3 It was noted that the US and Japanese had recently raised the retirement age - the Chief Secretary asked for details of this. At present women could retire at 60 on full national insurance pensions and men at 65. The Chief Secretary asked if women received higher pensions than the basic state pension if they retire over 60. You agreed to provide a note on this.

SECRET

4 You noted that flexible retirement was potentially very costly because of front-end loading. There were two variables: the age and the abatement rate. The cost problem would be reduced the higher the age was pitched and the greater the abatement rate. The Chief Secretary asked what the impact of flexibility with a common retirement age of 63 would be. Mr Macpherson said that this would prove very costly.

no. 65

5 The Chief Secretary asked what work DHSS were doing. Mr Gibson reported that they were aiming to put options to their Ministers by Christmas with a view to issuing a consultative document. The Chief Secretary asked that ST should keep in close touch with the work that DHSS were doing. He would look at the issue again in the light of the notes on the present position of women aged 60 - 65 and the US/Japanese experience.

Pensioner credits

6 The Chief Secretary said he thought action on pensioner credits should be resisted in the early years of a Parliament at least. Mr F E R Butler suggested that they needed to be looked at in the context of flexible retirement.

Survey tactics

7 You suggested that one possible approach in the Survey might be to present Mr Moore with the option of either major action on e.g. means-testing child benefit or a long shopping list of unpleasant measures.

will want to phase [illegible]

JILL RUTTER
Private Secretary

SECRET AND PERSONAL until release of press notice at 11.30 am on 22 July 1987 and thereafter unclassified

To: MINISTER FOR TRADE

Copy No. (3) 28

From: P J STIBBARD
US/S2
V/260 Ext. 4872

16 July 1987

OVERSEAS TRADE FIGURES FOR MAY 1987

THE CURRENT ACCOUNT

In May, exports were valued at £6.3 billion and imports at £7.4 billion so that visible trade, seasonally adjusted on a balance of payments basis, showed a deficit of £1.2 billion in May compared with a deficit of £0.5 billion in April.

The deterioration in the visible balance between April and May reflects a fall in exports and a sharp increase in imports. In view of the delayed publication of these figures there is likely to be speculation about whether the factors causing the delay have also distorted the figures themselves. The view of Customs and Excise, who are best placed to consider this, is that industrial action at the ports and at their computer centre has had minimal effect on the figures for May.

The Central Statistical Office project a surplus on invisibles of £0.6 billion for May so that the current account is provisionally estimated to have been in deficit by £0.6 billion in May compared with a surplus of £0.1 billion in April. This is the largest deficit since August 1986 (when it was a record £0.7 billion); there were also deficits of £0.4 billion in March 1986 and £0.3 billion in November 1986, yet the deficit for the whole of 1986 stands at only £0.1 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	+3450	-2178	+8104	+10282	+5628
1986	- 120	-8253	+4153	-12407	+8133
Dec-Feb '87	+ 268	-1605	+ 977	- 2582	+1873
Mar-May '87	- 280	-2081	+1234	- 3315	+1801
1987 Mar	+ 184	- 417	+ 454	- 870	+ 601
Apr	+ 96A	- 504	+ 419	- 923	+ 600A
May	- 561A	-1161	+ 361	- 1522	+ 600A

A = Projection

999-80

SECRET AND PERSONAL until release of press notice at 11.30 am on 22 July 1987 and thereafter unclassified

The three months ended May, showed a deficit on visible trade of £2.1 billion - a surplus on trade in oil of £1.2 billion offset by a deficit on non-oil trade of £3.3 billion. Between the three months ended February and the latest three months, the visible trade balance deteriorated by £0.5 billion - the surplus on oil increased by £0.3 billion while the deficit on non-oil trade rose by around £0.7 billion.

EXPORTS

The value of exports in May was £282 million (4½ per cent) lower than in April. Lower exports of oil accounted for most of the fall and excluding oil and the erratic items exports were down by just £66 million (1 per cent) in May. We were mis-informed about the timing of the temporary closure of the BP Leith terminal to which the fall in oil exports was attributed in my note of 13 July. In fact this occurred in June and does not affect the May figures.

Total export volume fell by 3½ per cent between the three months ended February and the latest three months but was 6 per cent higher than in the same period a year ago. Excluding oil and the erratic items, export volume decreased by 4 per cent in the latest three months. In recent months this underlying level of non-oil exports has fallen back from the high levels at the turn of the 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
Dec-Feb '87	19684	16042	131.5	126.4
Mar-May '87	19291	15646	126.7	121.1
1987 Mar	6429	5168	126.9	120.5
Apr	6572	5272	130.8	122.7
May	6290	5207	122.5	120.1

By value, exports fell by 2 per cent between the three months ended February and the latest three months. Exports to the developed countries as a whole fell by 2 per cent while exports to the developing countries rose by 8½ per cent. Within the total for the developed countries, exports to Western Europe grew by 3 per cent while exports to North America were down by 16 per cent.

IMPORTS

The value of imports in May was £374 million (5½ per cent) higher than in April. Imports of oil fell by £145 million in May and imports of the erratic items fell by £55 million. Excluding oil and the erratic items, imports rose by 9 per cent between April and May. Imports of manufactures excluding the erratic items rose by 9½ per cent between the two months.

Total import volume fell by ½ per cent between the three months ended February and the latest three months to be 7 per cent higher than a year earlier. Excluding oil and the erratic items the volume of imports was unchanged between the two three-month periods and 7½ per cent up on a year earlier. The figures up to April indicated a decline in the underlying level of non-oil import volumes compared with the high levels at the end of last year. It is too early to assess whether the sharp increase in May is indicative of a change in the underlying level or a random fluctuation about the trend.

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	81096	73460	133.9	151.1
Dec-Feb '87	21290	19341	137.8	155.5
Mar-May '87	21372	19301	137.0	155.6
1987 Mar	6846	6172	130.2	148.3
Apr	7076	6277	137.1	151.7
May	7450	6852	143.6	166.8

SECRET AND PERSONAL until release of press notice at 11.30 am on 22 July 1987 and thereafter unclassified

By value, imports rose by ½ per cent in the latest three months. Arrivals from the developed countries were up by 2 per cent while those from the developing countries fell by 8½ per cent. Imports from the European Community countries rose by 3 per cent and imports from North America were up by 2½ per cent. Arrivals from the 'other' developed countries (including Japan) fell by 12 per cent.

TRADE IN MANUFACTURES

Figures showing trade in manufactures on a balance of payments basis will be published after the press notice in the Monthly Review of External Trade Statistics. On present estimates, there was a deficit on trade in manufactures in the latest three months of £1.7 billion compared with a deficit of £0.9 billion in the three months ended February and a deficit of £1.0 billion in the three months ended May 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	59883	-5397
Dec-Feb '87	14675	15620	- 944
Mar-May '87	14547	16228	-1681
1987 Mar	4894	5215	- 321
Apr	4876	5294	- 418
May	4777	5719	- 942

PUBLICATION

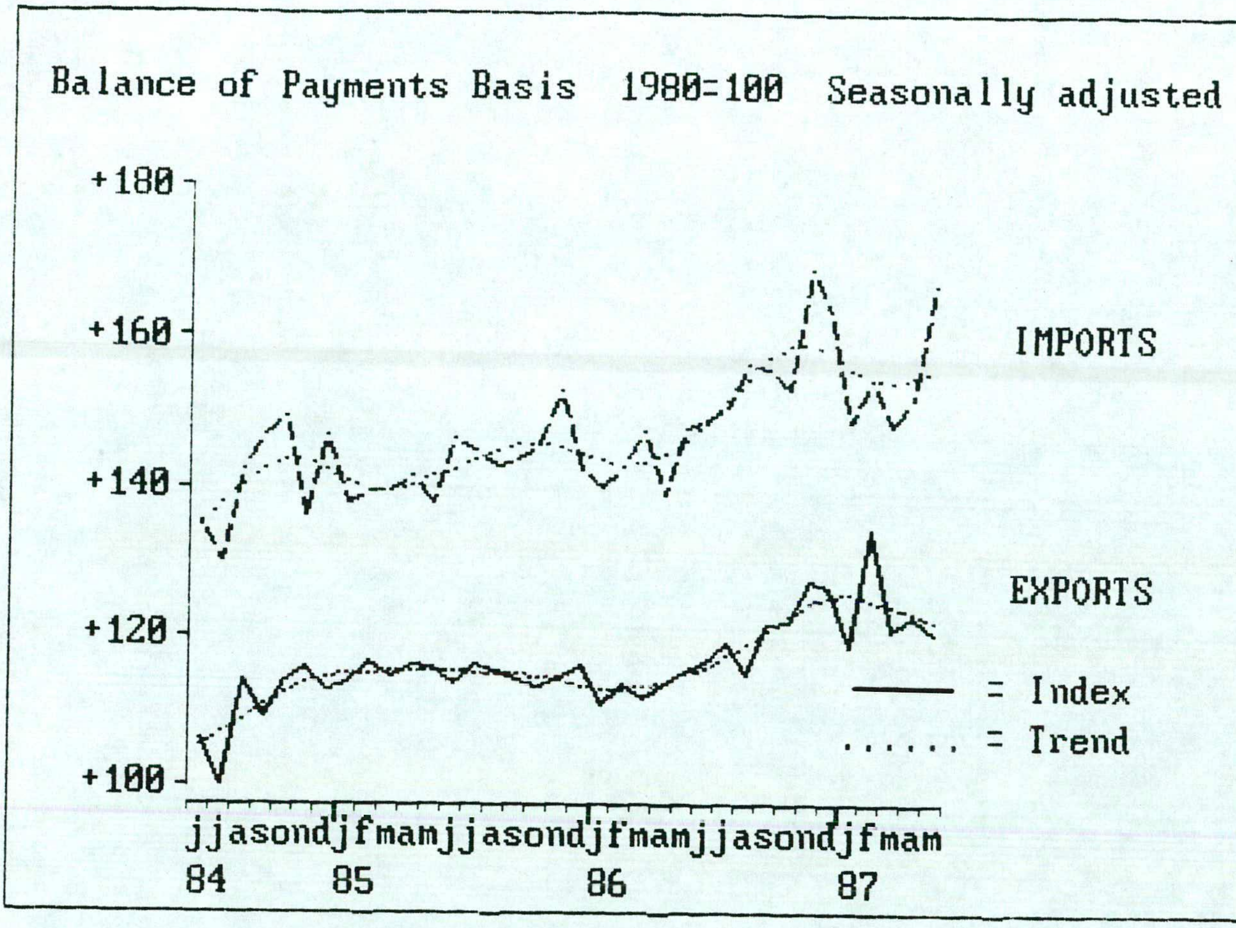
The press notice containing the May figures is scheduled for release at 11.30 am on Wednesday 22 July. An announcement about the release date for the June figures will be made in that press notice. Our provisional schedule is for publication of the June figures on Tuesday 11 August.

PJS

P J STIBBARD

999-80

VOLUME INDICES EXCLUDING OIL AND THE ERRATIC ITEMS



SECRET & PERSONAL UNTIL RELEASE OF PRESS NOTICE ON 22.7.87

CIRCULATION LIST

Copy No 1	Minister for Trade	
2	Prime Minister	
3	Chancellor of the Exchequer	
4	Secretary of State for Trade and Industry	
5	Chancellor of the Duchy of Lancaster	
6	Sir Robert Armstrong (Cabinet Office)	
7	Sir Brian Hayes (Dept of Trade and Industry)	
8	Sir Peter Middleton (H M Treasury)	
9	Govenor of the Bank of England	
10	Chairman of the Board of H M Customs and Excise	
11	Mr J Hibbert (CSO)	
12	Mr Finlinson (H M Customs and Excise)	
13	Mr B Buckingham (CSO)	
14	Mr Davies (H M Treasury)	
15	Mr Barrell (H M Treasury)	
16	Mr P Sedgwick (H M Treasury)	
17	Mr D Owen (H M Treasury)	
18	Mr A McIntyre (CSO)	
19	Dr P Rice (Dept of Energy)	
20	Mr Bottrill (H M Treasury)	
21	Mr H H Liesner)	
22	Mr P J Stibbard)	
23	Mr W E Boyd)	
24	Mr E J Wright)	Dept of Trade and
25	Mr A R Hewer)	Industry
26	Miss C Siddell)	
27	Miss H Chapman)	
28	Mr D Packer)	