PO-CH/NL/0232

PARTE

Chex Lawson

PART E

SECRET

(Circulate under cover and notify REGISTRY of movement)

PO -CH /NL/0232

PART E

CHANCELLOR'S PAPERS ON PUBLIC EXPENDITURE PROGRAMMES AND THE PUBLIC SECTOR BORROWING REQUIREMENT (PSBR)

PO -CH /NL/0232
PART E

Begins: 8/7/88
Ends: 4/7/89

DD: 25 years

20/9/95

NPT.PM

CONFIDENTIAL

FROM: A TURNBULL
DATE: 8 JULY 1988

CHIEF SECRETARY

cc Chancellor
Sir P Middleton
Sir T Burns
Mr Anson
Mr Monck
Mr Phillips
Mr Odling-Smee
Mr Sedgwick
HEGs
Mr Gieve
Mrs Butler
Mr Richardson
Mr MacAuslan
Mr Hurst
Miss Walker
Mr Woolf
Mr Kidman

AA

I have suggested a few amendments to the draft minute to the PM from the CST. I should be grateful if you would have time to cast your eye over the WP itself, which goes out in my name.

NEW PLANNING TOTAL

You minuted the Prime Minister on 23 March putting forward a proposal for redefining the planning total so that it included only those elements of expenditure for which central government is responsible and excluded that expenditure which local authorities finance from their own resources. This change would take place within a framework in which general government expenditure, ie the total expenditure of central and local government, would remain the focus of financial policies, given its links with the burden of taxation and the public sector borrowing requirement.

2. Your minute did not seek a decision on the proposal but suggested that further work be undertaken by officials to examine the implications. A PESC working group has considered a number of issues and has devised solutions. These are embodied in the attached draft of a White Paper which it is proposed should be the vehicle for announcing the change, should it be approved by colleagues. The principle of making the change has been discussed by Permanent Secretaries who were generally in favour, subject to a few points which are discussed below. The way is now clear for you to seek the endorsement of colleagues.

3. Attached is a draft of a minute from yourself to the Prime Minister seeking agreement that the White Paper be published before the end of July. It also highlights a number of issues which have come to light during the course of discussions and

which departments have requested should be explicitly brought to Ministers' attention.

4. One of the most troublesome was the way in which spending by local authorities on individual services should be presented. The Treasury argued that it would be inconsistent with the philosophy of the new planning total to present a service breakdown of total local authority spending, above and below the line, as at the margin this represented what local authorities chose to spend rather than what Government thought they needed to spend. Departments whose policies were implemented at the local government level argued, however, that they needed to be able to demonstrate that the resources likely to be available were consistent with the Government's policy objectives. The solution reached was to show spending on individual services for the past but only service GREs for the future.

5. The issue of how far ahead GREs should be shown has been left open. In principle there is a good case for extending them for all three years as will be done with grant. The White Paper stops short of committing Ministers publicly to this by referring (paragraph 44) to "at least" a year ahead.

6. Departments have used the discussions on the new planning total to press the case for GREs to be set at realistic levels. In fact, this is an issue which arises from the new grant arrangements rather than from the new planning total itself, though the latter brings it more into the open. Equally, it cannot be resolved in the context of the new planning total. There will inevitably be a conflict between individual departments' desire for service GREs to be set at a realistic level, and the wish of the Government as a whole to demonstrate that if councils spend no more than is needed on individual services the resulting community charges can be at acceptable levels. This is a conflict which cannot be resolved a priori but a balance will be struck during the course of future negotiations on the level of RSG.

7. The final issue of importance which is unresolved is the timing of an announcement on RSG. At present, the Government is statutorily required to consult local authorities but is not

formally or statutorily committed to do so in July other than for the councils selected for rate-capping. In principle it is undesirable that a major part of the Survey should be settled ahead of the rest, thereby pre-empting the room for manoeuvre on other programmes. In theory this is a defect of the present arrangements too, but since provision is rarely set at the level local authorities are likely to spend at the damage done is less than it would be under the new system where grant would compete directly with central government spending within the planning total. There are, however, operational arguments for both local authorities and central government in completing this part of the Survey early.

8. Under the new arrangements the arguments of principle for delaying an announcement are greater. First, with grant being projected forward three years and less subject to changes in its distribution, local authorities will have a clearer indication of the resources likely to be available and hence less need of an early announcement. Secondly, it is desirable that decisions on RSG should not be divorced so much from those on specific grants and departmental programmes, against which it will be competing in the planning total. Early decisions on RSG would reduce the scope for seeking trade-offs. Thirdly, it will be difficult to assess the implications of decision on RSG on the community charge without knowing the uprating of the NNDR (which is based on the September RPI) and whether the option to override is being exercised.

9. Desirable though it would be in principle, we do not believe it will be possible operationally to delay an announcement until the Survey is completed in November. In Scotland, for example, decisions will be needed by mid-October at the latest to meet the statutory requirement for authorities to fix their budgets by 29 January. One option would be an announcement of RSG and intentions on NNDR in early October as soon as the uprating figure was known. A number of departments would be prepared to go along with this but DOE and Welsh Office who deal with the local authority associations still prefer July.

10. In practice, it seems likely that we will need an announcement in July 1989 when there will be no forward baseline

for grant or the NNDR. We have agreed with departments that we should not allow the announcement of the new planning total to commit Ministers to a particular timetable. It is suggested that we tell the local authority associations, who will undoubtedly ask whether the new planning total implies any change to the timetable, that no changes are currently envisaged for 1989 but this will need to be reviewed in the light of operating the new arrangements.

11. If the agreement of colleagues is secured we would like to publish the White Paper in the week beginning 25 July. We will submit proposals for briefing of the Press and TCSC nearer the time. In order to meet this timetable your minute and the draft White Paper should go round to colleagues no later than Wednesday 13 July, with responses sought by Wednesday 20 July. It is hoped that, in the light of the extensive discussion that has taken place at official level, it will be possible to clear this in correspondence.

AT

A TURNBULL

3008/1

CONFIDENTIAL

DRAFT MINUTE FOR THE CHIEF SECRETARY TO

PRIME MINISTER

NEW PLANNING TOTAL

I proposed in my minute of 23rd March that we should ask officials to examine the implications of a redefinition of the public expenditure planning total, to coincide with the introduction of the Community Charge in E & Wales. This has now been done, and I attach a draft White Paper which I propose that we should publish later this month.

2. The general principle behind the new definition is that it should include those elements for which central government has direct responsibility, and exclude expenditure which local authorities decide for themselves. Thus it includes, for example, the grants to local authorities, but exclude the expenditure which they finance from the community charge. The precise definition now proposed, including the treatment of local authority capital, is summarised in paragraph 19 of the draft White Paper, and explained in more detail in paragraphs 27-36.

3. As I said in my previous minute, the change which I am proposing ~~is not meant to~~ will not dilute in any way our determination to restrain total public spending, or

the size of the public sector. We shall need to maintain all our efforts on that if we are to achieve our aims for reducing the burden of taxation ~~(of all kinds)~~ and ~~restraining~~ avoiding public sector borrowing. The purpose is to make the planning total a more effective instrument for controlling spending. This will be better achieved by focussing it in the way now proposed.

4. The reform of local government finance provides ~~a good~~ the obvious opportunity to do this. A key element in that reform is to clarify local accountability, so that community charge payers will be better able to see the impact of their own council's spending on the charge which they pay. Changing the planning total so that it includes the contribution made by the Government, but not any additional expenditure financed by authorities through the community charge, will help to reinforce this transparency.

5. The examination by officials has highlighted a number of particular issues which are addressed in the White Paper. The first is whether, and if so how, a service breakdown of local authority spending should be provided for future years. The present arrangements are an uneasy and unsatisfactory halfway house between forecasting and prescription. The solution proposed in the White Paper is that we should give no service breakdown of projected local authority current spending but rather provide at the time of the Autumn Statement at least one year's forward figures for GRE for the

main services. These correspond to what Government considers local authorities need to spend. Focusing on GREs also has the merit of underlining the fact that if all authorities spend at GRE, their community charges would be identical after the transition ends in 1994.

6. The White Paper proposes that GREs should be shown for "at least" one year ahead. There is a good case for providing figures for all three years as will be done with grants and credit approvals and I would be happy for figures to be provided on that basis if the technical and procedural problems can be overcome. I think, however, that we should avoid committing ourselves publicly to doing so, though would be happy to start from the presumption that it should be for three years ahead.

7. GREs will play a much more prominent role than at present, being not only an expression of what Government believes local authorities need to spend, but also providing the factual assessment against which the Government will determine the quantum of grant, the role currently played by provision. Service departments are naturally anxious that GREs be set at levels which are realistic so that they can demonstrate that the resources likely to be available are consistent with stated policy objectives. There will inevitably be a tension between this and the Government's wish to demonstrate that if local

authorities spend no more than is needed on each service, the resulting community charge will be reasonable. While the new planning total would make this tension more transparent, it is a problem which in fact arises in any case with the new system for grant and the community charge. To some degree similar tensions arise in the existing system in determining the level of provision. It is, therefore, not strictly material to the decision on whether to adopt a new planning total and it is a problem which can only be resolved year by year in the discussions on RSG.

8. Adoption of the new planning total will give rise to changes in the coverage of the territorial blocks. Agreement has been reached on the approach to be taken in determining both the coverage and on how the block should be affected in each Survey - see paragraphs 46 and 47 of the White Paper.

9. The new definition of the planning total incorporates the concepts in the new system for controlling local authority borrowing which was announced yesterday. Included ~~In~~ the planning total will be the sum of credit approvals issued to local authorities. The departmental programmes will show the annual capital guidelines (the successor to allocations in the present system) while the receipts taken into account in setting the credit approvals will be shown as a single line under a DOE programme (see paragraph 32).

10. One particular issue remains outstanding. Our recent practice has been to announce AEG, provision and the selection of councils for rate capping in July, though only for the latter ~~in~~ is the timing determined by Statute. ~~In a sense it~~ It is clearly ~~is~~ detrimental for the rest of the Survey, for local authority current expenditure, to be decided in advance of the rest, thereby pre-empting what is available for other programmes, but we ~~This is an inconsistency which exists at present but Ministers~~ have hitherto taken the view that the need to provide early information to local authorities should prevail.

11. Under the new system of local government finance and new planning total, ~~Ministers~~ we will need to reassess where the balance between provision of early information and conduct of the Survey should be struck. If RSG becomes part of the planning total, the ~~inconsistency~~ anomaly will become even more apparent, particularly as specific grants and credit approvals will be settled along with the rest of departmental programmes. If RSG is settled in advance it will be difficult to ~~bring about trade-offs with other~~ assess priorities between the various elements of the planning total. ~~Also~~ It will also be difficult to assess the implications of decisions on RSG on the community charge independently of the NNDR which is indexed to movements in the RPI from September to September.

12. While officials recognised that it would be difficult to delay announcements on RSG until the Autumn Statement in Novembr, differing views remained on the

merits of July versus September/October. It was agreed, however, that for 1989 a July announcement would be unavoidable ~~needed~~ as there would be no baseline for grant or NNDR to work from; but ~~and~~ that we ~~the introduction of a new planning total~~ should not close off our options for future years. I suggest, therefore, that the local authority associations be told that no change in the timing of announcements is envisaged for 1989, but that this will need to be reviewed as experience of operating the new arrangements develops.

13. I seek the agreement of my colleagues to the publication of the attached White Paper. I propose that it should be published during the week beginning 25 July, and I should be grateful therefore if colleagues could confirm that they are content by Wednesday 20 July.

14. I am copying this minute to other members of ~~the~~ Cabinet and to Richard Luce, Chris Patten, Patrick Mayhew and Kenny Cameron, and to Sir Robin Butler.

[JM]

cm/psbr/mthminch **CONFIDENTIAL AND PERSONAL**

FROM: COLIN MOWL
DATE: 11 July 1988

1. **MR SCHOLAR** Not seen

2. **CHANCELLOR OF THE EXCHEQUER**

Thanks -

cc Sir P Middleton
Sir T Burns
Mr Peretz
Mr Sedgwick
Mr Ritchie
Mr Vernon
Mrs Todd
Miss Chapman

PSBR IN JUNE

The first provisional outturn for the PSBR in June is borrowing of £0.2 billion. It is subject to revision before publication on Monday 18 July.

2. The provisional outturn is £0.5 billion lower (borrowing) than last month's forecast. The CGBR(O) was overforecast by £0.6 billion.

3. Central government own account borrowing in June is provisionally £0.5 billion as reported in Mrs Todd's minute of 4 July 1988. Mrs Todd's minute (copy attached) gives details of the difference between forecast and outturn.

4. The LABR in June is provisionally a net repayment of £0.3 billion and the PCBR provisionally zero borrowing.

5. The PSBR in the first three months of 1988-89 is a net repayment of £1.5 billion, a £1.8 billion higher repayment than forecast in the Budget profile. A higher net repayment of £2.0 billion on the CGBR(O) is partially offset by higher local authority borrowing of £0.2 billion. The PCBR is much the same as profile.

6. The monthly note, presenting updated estimates for June and forecasts for July to September, will be circulated next Monday.

Colin Mowl

COLIN MOWL

cm/psbr/mthtab

CONFIDENTIAL AND PERSONAL

	June 1988			April - June 1988			April - June 1987
	Provisional outturn	Last month's forecast	Difference	Provisional outturn	Budget profile	Difference	Outturn
CGBR(O)	0.5	1.1	- 0.6	- 1.5	0.5	- 2.0	1.7
LABR	- 0.3	- 0.4	+ 0.2	0.5	0.3	+ 0.2	0.2
PCBR	-	0.1	- 0.1	- 0.4	- 0.4	-	- 0.5
PSBR	0.2	0.7	- 0.5	- 1.5	0.3	- 1.8	1.5
PSBR excluding privatisation proceeds	0.2	0.7	- 0.5	1.3	3.2	- 1.9	3.8

ptodd/cgbr(o)/mthnote

CONFIDENTIAL AND PERSONAL

FROM: MRS P TODD
DATE: 4 July 1988

P.N.J
4.vii

1. MR SEDGWICK

2. CHANCELLOR OF THE EXCHEQUER

cc Sir P Middleton
Sir T Burns
Mr Anson
Mr Scholar
Mr Peretz
Mr Mowl o.r.
Mr Watts
Mr Ritchie

CGBR(O) AND CGBR IN JUNE

The provisional outturn for the CGBR(O) in June is borrowing of £0.5 billion, £0.6 billion lower borrowing than forecast last month. The estimate of the CGBR(O) outturn is subject to revision before publication on Monday 18 July.

2. The lower borrowing than forecast was largely due to higher receipts. Inland Revenue receipts were £0.4 billion higher than forecast, mainly due to higher income tax receipts, and Customs and Excise receipts and National Insurance Contributions were both up by £0.1 billion.

3. In the first three months of 1988-89, the CGBR(O) is a net repayment of £1.6 billion, compared with the Budget profile forecast of borrowing of £0.5 billion. The main factors underlying the difference are:

(a) Higher Inland Revenue receipts (by £0.8 billion), mainly due to higher Income Tax.

(b) Higher Customs and Excise receipts (by £0.2 billion).

(c) Higher National Insurance Contributions (by £0.2 billion).

(d) Lower departmental expenditure (by £0.7 billion).

4. On-lending to local authorities in June totalled £0.6 billion. There was a minimal net repayment by public corporations. The provisional CGBR in June is therefore £1.0 billion. The cumulative CGBR to June is £0.1 billion.

5. Further analysis of the CGBR(O) outturn in June will be given in the next Ministerial note on the PSBR in two weeks' time.

Pliver Todd

P TODD

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CENTRAL GOVERNMENT TRANSACTIONS

	June 1988			April-June 1988			April-June 1987
	Provisional outturn	Last months forecast	Difference	Provisional outturn	Budget profile	Difference	Outturn
Receipts							
Inland Revenue	4.6	4.2	0.4	14.1	13.3	0.8	12.5
Customs and Excise	3.4	3.3	0.1	11.4	11.2	0.2	10.4
National Insurance Contributions	2.7	2.6	0.1	7.4	7.2	0.2	6.4
Privatisation proceeds	-	-	-	2.8	2.8	-0.1	2.4
Interest & dividends	0.8	0.8	-	2.2	1.9	0.2	2.1
Other receipts	-0.1	-0.2	-	0.5	0.5	-	0.7
Total receipts	11.4	10.8	0.6	38.3	36.9	1.4	34.5
Expenditure							
Interest payments	0.7	0.7	-	3.5	3.4	0.1	3.4
Departmental expenditure (a)	11.1	11.2	-	33.3	34.0	-0.7	32.8
Total expenditure	11.8	11.8	-	36.8	37.4	-0.6	36.2
CGBR(O)	0.5	1.1	-0.6	-1.6	0.5	-2.0	1.7
CGBR(O) excluding privatisation proceeds	0.5	1.1	-0.6	1.2	3.3	-2.1	4.1
On-lending to LAs	0.6	0.2	0.4	1.8	1.2	0.6	3.0
On-lending to PCs	-	0.3	-0.3	-0.1	0.1	-0.2	-0.7
CGBR	1.0	1.5	-0.5	0.1	1.8	-1.7	4.0

(a) on a cash basis, net of certain receipts

\+ = higher receipts, and higher borrowing, higher expenditure

\- = lower receipts, and lower borrowing, lower expenditure kv/psbr/001 CONFIDENTIAL AND PERSONAL

FROM: KEITH VERNON
DATE: 14 July 1988

CHANCELLOR OF THE EXCHEQUER

cc Economic Secretary
Sir P Middleton
Sir T Burns
Mr Scholar
Mr Sedgwick
Mr Odling-Smee
Mr Mowl o.r.
Mr Gieve
Mr Bush
Mr Ritchie
Miss Chapman

OK -

DRAFT PRESS BRIEFING ON PSBR IN JUNE

I attach the draft Treasury Reuters pages and press briefing on the PSBR in June.

2. The estimate of the PSBR in June to be published on Monday 18 July is a borrowing requirement of £0.2 billion - as reported in Mr Mowl's minute to you on 11 July.

3. The average of 10 City forecasts for the PSBR is £0.5 billion - close to outcome. The June figure is therefore unlikely to cause much surprise. The figure again suggests that the PSBR outturn for 1988-89 will be above that of last year and, accordingly, the FSBR forecast. Interest could focus on reasons why the PSBR is expected to "overshoot". We have, therefore, cautiously suggested that Government receipts will be higher in 1988-89 as a result of slightly higher growth this year than that forecast at Budget time.

4. We have added a line on the likely shortfall of oil revenues due to the Piper Alpha disaster. It reflects the press briefing cleared by the Minister for Energy.

5. Otherwise there is little to say about this month's figures and page 2 of the Reuter's pages is very short.

6. We should be grateful for comments on the Reuters pages and press briefing during the course of Friday morning.

7. We expect there to be some minor change to the PSBR figure for June as a result of a late revision to the PCBR - of the order £0.1 billion. We will reflect this in the final press briefing K. Vernon

KEITH VERNON

TREASURY REUTERS' PAGES

UK TREASURY, PARLIAMENT STREET, SW1 01-270-5238
PSBR IN JUNE 1988 = SUMMARY

THE PUBLIC SECTOR BORROWING REQUIREMENT - PSBR - IS PROVISIONALLY ESTIMATED TO HAVE BEEN STG 0.2 BILLION. THIS GIVES A CUMULATIVE PSBR OF MINUS STG 1.5 BILLION IE. A NET REPAYMENT FOR THE FIRST THREE MONTHS OF 1988-89 COMPARED WITH BORROWING OF STG 1.5 BILLION IN THE SAME PERIOD LAST YEAR. THE PSBR EXCLUDING PRIVATISATION PROCEEDS IS PROVISIONALLY ESTIMATED TO HAVE BEEN STG 1.3 BILLION IN THE FIRST THREE MONTHS OF 1988-89 COMPARED WITH STG 3.8 BILLION IN THE SAME PERIOD OF LAST YEAR.

UK TREASURY, PARLIAMENT STREET, SW1 01-270-5238
PSBR IN JUNE 1988 = 2

THE PSBR FOR JUNE 1988 IS PROVISIONALLY ESTIMATED AT STG 0.2 BILLION. PRIVATISATION PROCEEDS IN JUNE WERE CLOSE TO ZERO.

04:16 pm 14 Jul, 1988

1 2 3

PERSONAL AND CONFIDENTIAL UNTIL PUBLICATION
TREASURY REUTERS PAGE 2

UK TREASURY, PARLIAMENT STREET, SW1 01-270 5238
LATEST PSBR FIGURES STG MILLION

	LATEST MONTH	88-89 CUM	87-88 CUM
CONSOL FUND TOTAL REV	8899	28872	26492
OF WHICH INLAND REV	4578	14088	12478
CUSTOMS AND EXCISE	3410	11360	10413
OTHER	911	3424	3601
CF TOTAL EXPENDITURE	8340	28722	29068
OF WHICH SUPPLY SERVICES	7836	25164	25691
STANDING SERVICES	504	3558	3377
CF SURPLUS+/DEFICIT-	559	150	-2576
SUPPLY EXPENDITURE	8760	25820	25570

04:16 pm 14 Jul, 1988

1 2 3

PERSONAL AND CONFIDENTIAL UNTIL PUBLICATION

TREASURY REUTERS PAGE 1

UK TREASURY, PARLIAMENT STREET, SW1 01-270 5238

LATEST PSBR FIGURES STG MILLION

	LATEST MONTH	88-89 CUM	87-88 CUM
CGBR	1031	140	4044
CGBR OWN A/C	507	-1495	1725
LABR	-368	402	194
FROM CG	552	1771	3010
OTHER	-920	-1369	-2816
PCBR	32	-415	-468
FROM CG	-28	-136	-691
OTHER	60	-279	223
PSBR	171	-1508	1451

04:16 pm 14 Jul, 1988

1 2 3

PERSONAL AND CONFIDENTIAL UNTIL PUBLICATION

TREASURY REUTERS PAGE 3

UK TREASURY, PARLIAMENT STREET, SW1 01-270 5238

LATEST PSBR FIGURES STG MILLION

	LATEST MONTH	88-89 CUM	87-88 CUM
NATIONAL LOANS FUND			
RECEIPTS	688	3620	3377
PAYMENTS	1025	5166	5747
BORROWING	-222	1396	4946
OTHER CGFA	-1253	1256	902

	88-89	87-88
PRIVATISATION PROCEEDS STG BN		
CURRENT MONTH	.0	1.7
CUMULATIVE	2.8	2.4

From: KEITH VERNON
18 July 1988

MR J. GIEVE - IDT

MR LANG - CSO Press Office

cc List A

Chancellor
Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Anson
Mr Monck
Mr Scholar
Mr Peretz
Mr Sedgwick
Mrs Butler
Mr Grice

Mr Mowl
Miss O'Mara
Mr Pickford
Mr Bush
Mr Franklin
Mr Hudson
Mrs Todd
Mr R Evans
Miss Chapman
Mr Mansell - CSO
Mr Richardson - CSO
Mr Wright B/E
Mr Gray - No 10

List B
(distributed at 11.30am, 18 July)

Mr C.M. Kelly
Mr Cropper
Mr Tyrie
Mr Call
Mr Ko - IR
Mr Balley - C and E

BRIEFING FOR 18 JULY PSBR PRESS NOTICE

The PSBR figures for June will be published at 11.30am on 18 July. The provisional outturns, together with figures for 1987-88 are shown in Table 1. Cumulative figures for the PSBR and its components for 1986-87,1987-88 and 1988-89 are shown in Table 2 overleaf. Table 3 shows outturns excluding privatisation proceeds.

Table 1: Borrowing requirement outturns

£ billion

	April-June 1987	April-June 1988	June 1988
Central government on own account	1.7	-1.5	**0.5**
Local authorities	0.2	0.4	**-0.4**
Public corporations	-0.5	-0.4	**-**
PSBR	1.5	-1.5	**0.2**
Memo: PSBR (excluding privatisation proceeds)	3.8	1.3	0.2

Note: Figures may not sum precisely because of rounding.

CONFIDENTIAL AND PERSONAL

Table 2: PUBLIC SECTOR BORROWING REQUIREMENT - Comparison with the last two years

Cumulative £ billion

	Central government on own account			Local authorities borrowing requirement			Public corporations borrowing requirement			Public sector borrowing requirement		
	1986-87	1987-88	1988-89	1986-87	1987-88	1988-89	1986-87	1987-88	1988-89	1986-87	1987-88	1988-89
Apr	0.2	1.9	**-1.5**	0.7	0.5	**0.8**	0.0	-0.4	**-0.4**	0.9	2.0	**-1.1**
May	1.9	2.2	**-2.0**	0.4	0.1	**0.8**	-0.3	-0.5	**-0.4**	2.0	1.9	**-1.7**
Jun	3.1	1.7	**-1.5**	-0.1	0.2	**0.4**	-0.5	-0.5	**-0.4**	2.4	1.5	**-1.5**
Jul	3.1	1.4		-0.1	0.4		-0.8	-0.7		2.2	1.0	
Aug	4.2	2.3		0.2	0.2		-0.6	-0.9		3.8	1.7	
Sep	6.7	2.1		0.0	0.5		-0.8	-0.7		6.0	1.9	
Oct	6.5	1.5		-0.3	0.1		-0.3	-0.7		5.8	0.9	
Nov	7.3	0.6		-0.7	-0.5		-0.7	-0.8		5.8	-0.7	
Dec	5.7	0.1		-0.6	0.2		-0.7	-0.8		4.3	-0.5	
Jan	2.2	-5.9		-0.6	0.1		-1.0	-1.0		0.6	-6.8	
Feb	2.3	-6.2		-0.7	0.3		-1.4	-1.4		0.3	-7.3	
Mar	4.5	-3.4		0.2	1.5		-1.3	-1.6		3.4	-3.5	

Note: Figures may not sum precisely because of rounding.

CONFIDENTIAL AND PERSONAL

(DRAFT)

Table 3: PUBLIC SECTOR BORROWING REQUIREMENT EXCLUDING PRIVATISATION PROCEEDS

Cumulative £ billion

	Central government on own account			Local authorities borrowing requirement			Public corporations borrowing requirement			Public sector borrowing requirement		
	1986-87	1987-88	1988-89	1986-87	1987-88	1988-89	1986-87	1987-88	1988-89	1986-87	1987-88	1988-89
Apr	1.3	2.1	**0.3**	0.7	0.5	**0.8**	0.0	-0.4	**-0.4**	2.0	2.2	**0.7**
May	3.0	2.9	**0.7**	0.4	0.1	**0.8**	-0.3	-0.5	**-0.4**	3.0	2.5	**1.1**
Jun	4.2	4.1	**1.3**	-0.1	0.2	**0.4**	-0.5	-0.5	**-0.4**	3.5	3.8	**1.3**
Jul	4.2	4.3		-0.1	0.4		-0.8	-0.7		3.3	4.0	
Aug	5.3	5.7		0.2	0.2		-0.6	-0.9		4.9	5.0	
Sep	7.8	6.0		0.0	0.5		-0.8	-0.7		7.1	5.9	
Oct	7.5	4.9		-0.3	0.1		-0.3	-0.7		6.9	4.3	
Nov	8.6	5.5		-0.7	-0.5		-0.7	-0.8		7.1	4.2	
Dec	8.9	5.2		-0.6	0.2		-0.7	-0.8		7.6	4.6	
Jan	5.5	-0.8		-0.6	0.1		-1.0	-1.0		3.9	-1.7	
Feb	6.0	-1.1		-0.7	0.3		-1.4	-1.4		4.0	-2.2	
Mar	9.0	1.7		0.2	1.5		-1.3	-1.6		7.9	1.6	

Note: Figures may not sum precisely because of rounding.

CONFIDENTIAL AND PERSONAL

CONFIDENTIAL AND PERSONAL
DRAFT

SUMMARY (PAGES 1 AND 2 OF TREASURY REUTERS PAGES)

Page One

THE PUBLIC SECTOR BORROWING REQUIREMENT - PSBR - IS PROVISIONALLY ESTIMATED TO HAVE BEEN STG 0.2 BILLION. THIS GIVES A CUMULATIVE PSBR OF MINUS STG 1.5 BILLION I.E. A NET REPAYMENT FOR THE FIRST THREE MONTHS OF 1988-89 COMPARED WITH BORROWING OF STG 1.5 BILLION IN THE SAME PERIOD OF LAST YEAR. THE PSBR EXCLUDING PRIVATISATION PROCEEDS IS PROVISIONALLY ESTIMATED TO HAVE BEEN STG 1.3 BILLION IN THE FIRST THREE MONTHS OF 1988-89 COMPARED WITH STG 3.8 BILLION IN THE SAME PERIOD OF LAST YEAR.

Page Two

THE PSBR FOR JUNE 1988 IS PROVISIONALLY ESTIMATED AT STG 0.2 BILLION. PRIVATISATION PROCEEDS IN JUNE WERE CLOSE TO ZERO.

1. June PSBR

Background

Average of City forecasts for the PSBR in June was £0.5 billion. Range is from £1.1 billion borrowing to £0.5 billion net repayment. PSBR in June £0.6 billion higher than in June 1987. Excluding privatisation proceeds PSBR in June was £1.1 billion lower than in June 1987.

Line to take

PSBR in June was £0.2 billion. Privatisation proceeds were close to zero.

2. PSBR, April- June

Background

PSBR in first 3 months of 1988-89 net repayment of £1.5 billion, compared with borrowing of £1.5 billion for same period last year. Excluding privatisation proceeds, PSBR for April-June was £1.3 billion, as compared with £3.8 billion in same period last year.

Line to take

Excluding privatisation proceeds, PSBR for April-June was £1.3 billion.

3. Budget surplus so far implies FSBR forecast for 1988-89 PSBR too high?

Background

FSBR forecast 1988-89 PSBR of -£3.2 billion, a similar figure to 1987-88 outturn. But PSBR for April-June this year well below level in same period of last year. Chancellor said in a speech at the Cities of London and Westminster Annual Luncheon that "while I do not propose to make a new forecast, all the signs are that this years budget surplus is likely to be, if anything, greater than I projected at the time of the Budget". [See Q5]

Line to take

Signs are that budget surplus likely to be, if anything, greater than that projected at time of Budget.

4. Privatisation proceeds

Background

Privatisation proceeds in June were close to zero.

For April-June they were £2.8 billion (April-June 1987 £2.4 billion).

Line to take

Net privatisation proceeds in June were close to zero. April-June proceeds £0.4 billion higher than last year.

5. Consolidated Fund Revenues

Background

Consolidated Fund Revenues in April-June

	% change FSBR Forecast 1988-89 on 1987-88	% change April-June 1988 on 1987
Total	+ 4	+ 9
of which:		
Inland Revenue	+ 5	+ 13
Customs & Excise	+ 7	+ 9
Other	- 11	- 5

'Other' revenues include privatisation proceeds when they are transferred into Consolidated Fund - these amounts may differ from total privatisation proceeds given in table 5 of press notice, as proceeds received are usually transferred to Consolidated Fund with a lag. Increase in revenues of 9 per cent in first 3 months compares with FSBR forecast of 4 per cent for year as a whole. Inland Revenue Receipts at 13 per cent up are particularly buoyant (Q6). Three months figures, in general, no indicator for outturn for year as a whole especially as effects of Budget income tax cuts have yet to come through. Chancellor has indicated (Oral Questions June 16) that growth this year could be slightly higher than the 3 per cent forecast at Budget time. This suggests that consolidated revenue could be higher than the £128.2 billion - 4 per cent growth - forecast at Budget - a reason for expecting larger PSDR than projected at Budget time [Q3].

Line to take

Consolidated Fund revenues in April-June 9 per cent up on same period last year. On basis of 3 months figures cannot draw any conclusion for 1988-89 outturn. However while no new forecast announced, economic growth this year could be slightly higher than that forecast at budget time. Consolidated fund revenues could therefore be greater in 1988-89 than £128.2 billion projected at time of budget.

6. Inland Revenue Receipts

Background

1988 FSBR forecast 6 per cent increase in IR revenues in 1988-89. Takes into account Budget tax cuts. For PAYE, tax cuts will operate from first pay-day after 14 June. But there is always a delay between tax deductions from pay packets and salary cheques and the payment of tax by employers to IR. Means that main impact of income tax cuts on IR receipts will come in July. Tax deducted in respect of June pay for monthly paid staff and, for 5 weeks from week beginning 30 May to week beginning 27 June for weekly paid staff, is due for payment to IR on 19 July. Detailed estimates of composition of June receipts will be published in August Financial Statistics (table 3.13). Receipts in April-June some 13 per cent up on same period in 1987-88. Cannot draw any conclusions for outturn for 1988-89 from three months figures especially as main impact of tax cuts in 1988-89 yet to come.

[NOTE FOR USE: Possible reasons for 13 per cent increase in Inland Revenue statistics in year to date are

- Economic activity in year to date possibly higher than projected at time of budget.

- Changed profile of monthly receipts. May and June are traditionally low PAYE months with relatively high proportion of employees not up to date with payments. Volatility between years may have brought forward payments in 1988-89.

- but since payments in May and June of 1987-88 and 1988-89 were both based on 1987-88 tax codes, little of the 13 per cent increase between years can be explained by changed tax regimes.]

Line to take

Receipts for April-June £14.1 billion - 13 per cent up on last year. Cannot draw any conclusions for outturn for 1988-89 from three months figures especially as main impacts of tax cuts in 1988-89 yet to come.

7. **Effect of Piper Alpha disaster on North Sea Government Revenues**

Background

Production from Piper Alpha unlikely to resume this year. Production from the 5 other fields whose output affected by damage to pipeline expected to resume shortly. Best estimate of loss to Government revenues is £0.17 billion in 1988-89.

Line to Take

Government receipts from North Sea oil production expected to be £0.1-0.2 billion lower this year.

8. **Customs and Excise Receipts**

Background

1988 FSBR forecast 7 per cent rise in Customs and Excise receipts in 1988-89. Detailed estimates of composition of June receipts will be published in August. Financial Statistics (table 3.14).

Line to take

Receipts for April-June £11.4 billion, 9% up on same period last year.

9. **Consolidated Fund Expenditure**

Background

Consolidated Fund expenditure of £28.7 billion in April-June 1½ per cent down on same period last year. Supply expenditure measures actual expenditure from Department's accounts and is a clearer measure of government expenditure. In any case 3 months figures are no useful guide to outturn for year as a whole.

Line to take

Supply expenditure clearer measure than consolidated fund expenditure of government expenditure.

10. Supply Expenditure

Background

1988 FSBR gives a figure for provision for supply in 1988-89 but not a forecast of outturn because public expenditure Reserve is not allocated to individual components of expenditure (public expenditure total used in PSBR forecast assumes that the Reserve was fully spent).

Supply expenditure in April-June at £25.8 billion some 1 per cent up on same period last year.

Line to take

Provisional outturn for supply expenditure in April-June £25.8 billion, up 1 per cent on same period last year. Three months figures no useful guide to outturn for year. Substantial claims - agreed and potential - on public expenditure Reserve have not yet had full impact on figures-NHS pay settlement (£¾ billion) and Rover.

11. Central Government Borrowing

Background

Net repayment of £1.5 billion for CGBR(O) in April-June compares with borrowing of £1.7 billion for April-June, 1987. Privatisation proceeds were £2.8 billion (April-May, 1987 £2.4 billion). Excluding privatisation proceeds, CGBR(O) in April-June around £3 billion lower than in previous year.

Line to take

CGBR(O) in April-June a net repayment of £1.5 billion.

12. Local Authorities

Background

LABR for April-June £0.3 billion higher than in previous year.

Line to take

LABR (provisionally) borrowing of £½ billion for April-June.

13. Public Corporations

Background

PCBR for April-June little different from previous year.

Line to take

PCBR (provisionally) a net repayment of £0.4 billion for April-June.

14. Revisions to April and May's estimates

Line to take

Small revisions to CGBR(O) LABR and PCBR increased borrowing by £0.1 billion in April-May.

KEITH VERNON (270-5029)
PSF Division, HM Treasury

MP

From: KEITH VERNON
15 July 1988

CHANCELLOR

Copy with PPS letter, attached, for:

Mr Gray - No. 10

cc List A

Economic Secretary
Sir P Middleton
Sir T Burns
Mr Scholar
Mr Sedgwick
Mr Peretz
Mr Odling-Smee
Mr Mowl
Mr Watts
Mrs Todd
Miss Chapman

List B (distributed at 11.30am, 18 July)

Chief Secretary
Financial Secretary
Paymaster General
Mr J Anson
Mr Moore
Mr Culpin
Mr Turnbull
Mrs Brown
Mrs Butler
Mr J Gieve
Mr Grice
Miss O'Mara
Mr Richardson
Mr Franklin
Mrs Ryding
Mr Cropper
Mr Tyrie
Mr Call
Mr Calder - IR
Mr Allen - C and E

MONTHLY NOTE ON THE PSBR

I attach a report on the PSBR outturn for June together with the forecast for the period July - September The June outturn will be published by press notice at 11.30am on Monday 18 July.

Ch /

NB revision brings it to zero

mpw 15/7

KVern

KEITH VERNON

PUBLIC SECTOR BORROWING

Summary

- The PSBR in June is provisionally close to zero borrowing, compared to borrowing of £0.7 billion forecast last month. The CGBR(O) was overforecast by about £0.6 billion, mainly due to higher than expected Inland Revenue receipts, but this was partially offset by an under-forecast on the LABR.

- The PSBR for the first three months of 1988-89 is a net repayment of £1.6 billion compared with forecast borrowing of £0.3 billion forecast in the Budget profile. The CGBR(O) is £2.0 billion below profile, and the LABR and PCBR are close to profile.

- The forecast of the PSBR for 1988-89 was revised during the internal summer forecast to a net repayment of about £7½ billion.

- In light of new information the PSBR over the next three months is forecast to be a net repayment of £1.0 billion, compared to borrowing of £0.9 billion forecast in the Budget profile.

- The PSBR during the first six months of 1988-89 is forecast to be a net repayment of £2.6 billion, compared to a Budget forecast of borrowing of £1.2 billion and to borrowing of £1.9 billion in the first six months of 1987-88.

Figures in this report are not seasonally adjusted and also may not sum precisely because of rounding.

Chart 1 : 1988-89: Comparisons with Budget profiles

£ billion cumulative

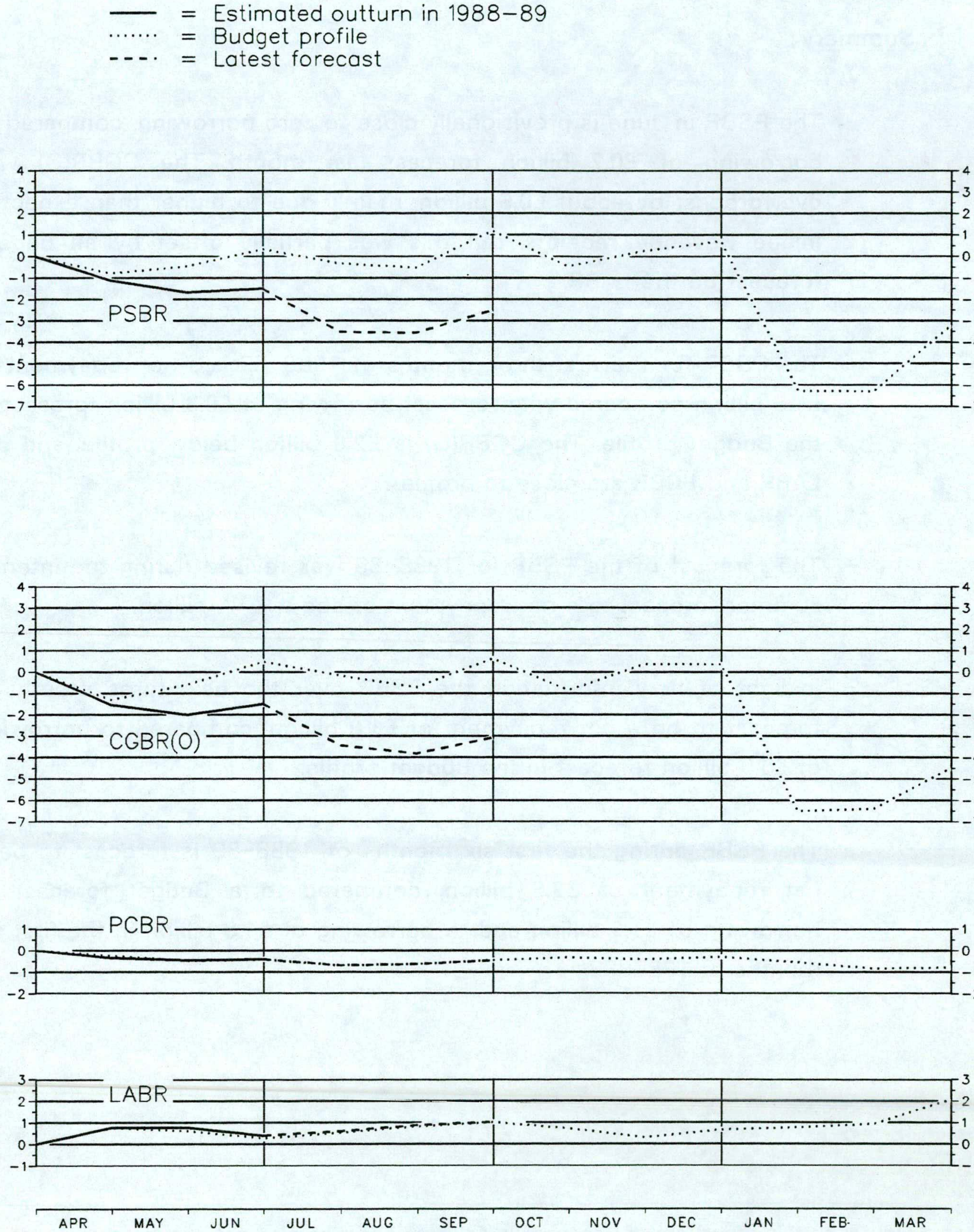

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Chart 2: 1988-89: Comparisons with outturns for 1987-88

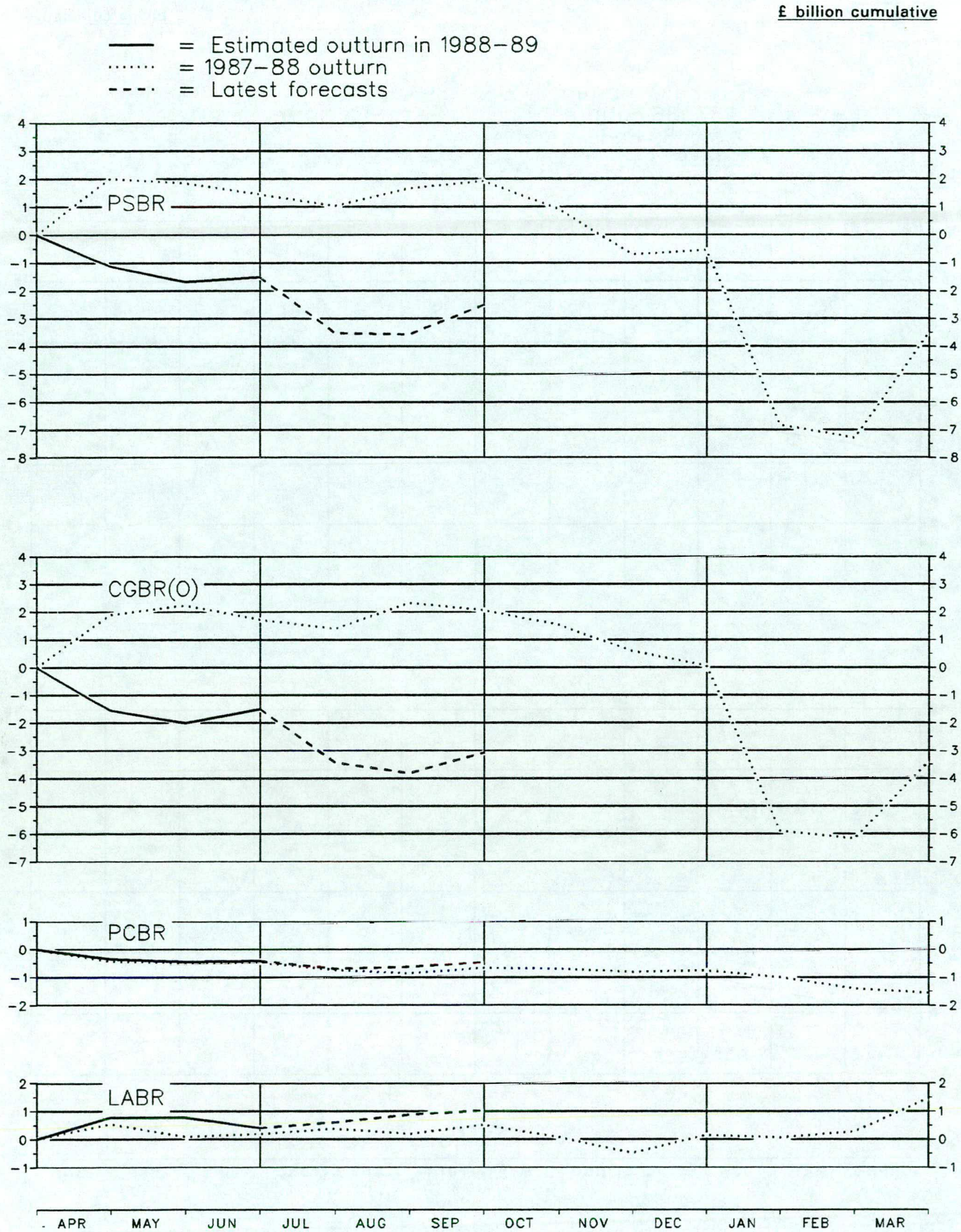

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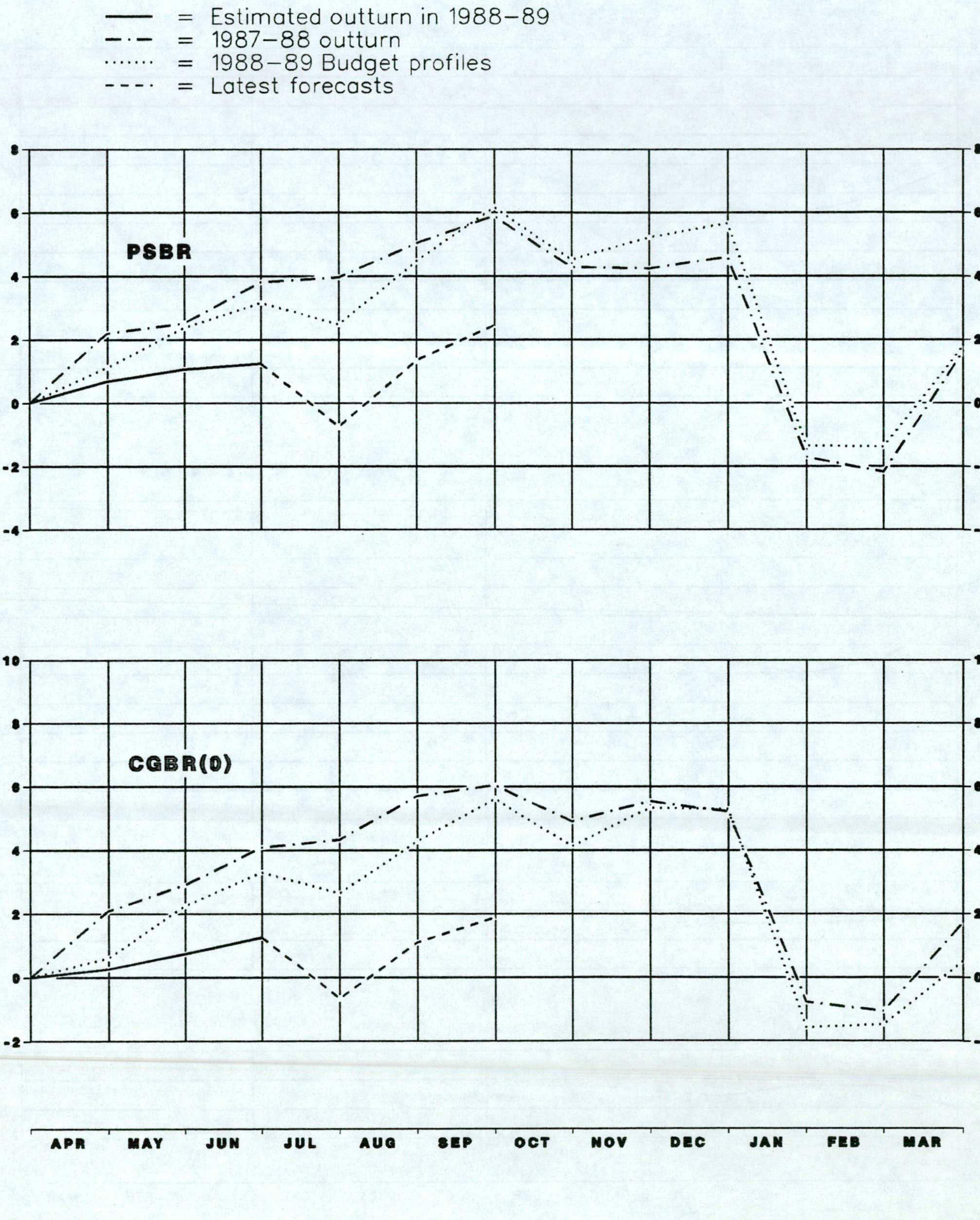
Chart 3: Comparisons excluding privatisation proceeds

£ billion cumulative



Borrowing in June

(Outturn compared with last month's forecast)

1. The provisional estimate of the PSBR in June is close to zero borrowing, compared with last month's forecast of borrowing of £0.7 billion. The overforecasts on the CGBR(O) and PCBR are partially offset by an underforecast on the LABR as shown in the table below:

Table 1: **June 1988 borrowing requirements**

£ billion

	PSBR	Comprising		
		CGBR(O)	LABR	PCBR
Forecast*	0.7	1.1	-0.4	0.1
Outturn	–	0.5	-0.4	-0.1
Difference	-0.6	-0.6	0.1	-0.2

*made on 16 June

2. The outturn on central government's own account was borrowing of £0.5 billion, compared with the forecast made last month for borrowing of £1.1 billion. The main differences were higher Inland Revenue receipts (by £0.4 billion) - mainly higher Income Tax - and higher national insurance contributions and Customs and Excise receipts (both up by £0.1 billion).

3. Privatisation proceeds in June were close to zero.

4. The local authorities' borrowing requirement (LABR) in June is provisionally a net repayment of £0.4 billion, close to the forecast made last month. The outturn reflects a return to the more normal pattern of a net repayment in June following last June's small positive borrowing.

5. The Public corporations borrowing requirement in June was provisionally a net repayment of £0.1 billion compared to the forecast made last month of borrowing of £0.1 billion.

April to June

(outturn compared with Budget forecast)

Table 2: April to June 1988 borrowing requirements

£ billion

	PSBR	Comprising		
		CGBR(O)	LABR	PCBR
Budget forecast	0.3	0.5	0.3	-0.4
Outturn	-1.6	-1.5	0.4	-0.5
Difference	-2.0	-2.0	0.1	-0.1

6. The PSBR for the first three months of 1988-89 is a net repayment of £1.6 billion compared to forecast borrowing of £0.3 billion in the Budget profile and borrowing of £1.5 billion in the first three months of 1987-88. Excluding privatisation proceeds the PSBR in April to June of 1988 is borrowing of £1.1 billion, compared to borrowing of £3.8 billion in April to June of 1987.

7. In April to June the central government's own account showed cumulatively a net repayment of £1.5 billion, compared with the Budget profile forecast of borrowing of £0.5 billion. Table 3 shows where differences on individual components have occurred.

Table 3:CGBR(O) April to June: Differences from Budget profile

	£ billion	percentage difference
Receipts		
Inland Revenue	+0.8	+5.8
Customs and Excise	+0.2	+1.8
NICs	+0.2	+3.4
Privatisation proceeds	-0.1	-2.4
Interest and dividends	+0.2	+11.4
Other receipts	--	-2.6
Total receipts	**+1.4**	**+3.7**
Expenditure		
Interest payments	+0.1	+2.2
Departmental expenditure [1]	-0.7	-2.1
Total expenditure	**-0.6**	**-1.7**
Net effect on CGBR(O)	**-2.0**	

[1] on a cash basis, net of certain receipts and on-lending

8. The main factors reducing borrowing are:

- higher Inland Revenue receipts (by £0.8 billion) mainly due to higher Income Tax receipts. Some of this may reflect errors in profiling the monthly pattern of PAYE receipts, which is always difficult at the start of year, when tax is still being paid on the basis of last year's rates and codes. However, the higher receipts may also reflect higher wages and salaries growth than assumed at the time of the Budget.

- higher Customs and Excise receipts (by £0.2 billion) partly due to higher VAT on imports (by £0.1 billion).

- a shortfall on departmental expenditure (measured on a cash basis) of £0.7 billion. This is accounted for by lower expenditure on social security benefits from the National Insurance Fund (by £0.2 billion) and, within Supply expenditure, lower expenditure by MOD and Home Office, higher receipts for ECGD and Teacher's superannuation.

9. The LABR is running a little above profile and last year's level. It was borrowing about £0.4 billion in April to June 1988, £0.1 billion more than in the Budget profile and £0.2 billion more than in April to June of 1987.

10. The cumulative PCBR for the first three months of 1988/89 was a net repayment of £0.5 billion, compared to a net repayment of £0.4 billion forecast in the Budget profile. Table 4 shows the cumulative borrowing to June for the PCBR and selected public corporations. Borrowing estimates for individual corporations are derived from their own returns, and are not fully consistent with the aggregate estimates. However, British Coal and Electricity have both borrowed significantly less than was forecast at Budget time and less than they had this time last year.

Table 4: Public Corporations' borrowing April to June

£million (– indicates lower borrowing)

	Difference from 1987-88	Difference from Budget profile⁺
Coal	-60	-180
Electricity	-60*	-110*
British Steel	-30⁺	-30⁺
Post Office	+60*	-10*
Water	+30⁺	-- ⁺
Other NIs	+140***⁺	+30***⁺
Other PCs	+30**	-30**
PCBR	+70**	-20**

** Adjusted for privatisation and reclassification

⁺ Figures for April only

* Figures for April and May only

July to September

11. The PSBR over the next three months is forecast to be a net repayment of £1.0 billion, compared to a Budget profile of borrowing of £0.9 billion. This difference is largely explained by higher central government receipts.

12. The CGBR(O) is forecast to give £1.7 billion lower borrowing over the next three months compared with the Budget profile. The difference is mainly on central government receipts which are forecast to be £1.5 billion above profile over this period. The main increases are on Inland Revenue receipts (up by £0.5 billion, mainly on Income Tax and Stamp Duties), on Customs and Excise receipts (up by £0.5 billion, mainly on VAT) and on National Insurance contributions (up by £0.2 billion).

13. The monthly path of the CGBR(O) is as follows:

- In July the CGBR(O) is forecast to be a net repayment of £1.9 billion. Inland Revenue receipts are relatively high because July is the largest month for Schedule D Income Tax and because receipts of Advanced Corporation Tax are forecast to exceed £1¼ billion. These effects more than offset the reduction in Income Tax from the Budget tax cuts, which reduce Inland Revenue receipts from July. The forecast assumes that the UK is a net beneficiary from the EC in July because of the £0.3 billion refund of VAT, received on 1 July, following the agreement of the 1988 Budget on 1 June. The forecast now excludes any payment to Rover which was placed in July in last month's PSBR note but which is not expected now to occur before August.

- In August the CGBR(O) is forecast to be a net repayment of £0.4 billion. Although Inland Revenue receipts are seasonally low, VAT receipts will be high (as in February,May and November). Proceeds from the second call on BP will yield £2.1 billion, with small amounts slipping into September. The forecast also assumes a net payment to Rover of £550 million, in connection with the sale of the company to British Aerospace. However, this sale is still subject to approval by British Aerospace shareholders.

- In September the CGBR(O) is forecast to be £0.7 billion (borrowing). Inland Revenue receipts include a forecast PRT correction repayment of £0.3 billion to bring the total tax paid in respect of the first six months of 1987-88 in line with oil prices and production in that period. Customs and Excise receipts are relatively low. (There may be some effect on PRT receipts in the short term resulting from concessions due to the Piper Alpha disaster. This would be subject to Ministerial consideration.)

14. The LABR over the next three months is forecast to be borrowing of £0.6 billion, compared to forecast borrowing of £0.7 billion in the Budget profile and borrowing of £0.3 billion in July to September of 1987. Local authorities are forecast to borrow in all of the next three months.

15. Public Corporations are forecast to make a net repayment in July but to be net borrowers in August and September. The Post Office and Electricity are expected to make large repayments in July. Coal is forecast to borrow £0.1 billion in September.

April to September

16. The PSBR in the first six months of 1988-89 is forecast to be a net repayment of £2.6 billion, £3.8 billion lower than forecast in the Budget profile and £4.6 billion lower than in the first six months of 1987-88 (£3.6 billion lower than last year excluding privatisation proceeds).

1988-89

17. The forecast of the PSBR for 1988-89 was revised during the internal summer forecast to a net repayment of about £7½ billion. The more buoyant forecast for economic activity increases tax receipts and reduces some items of expenditure.

Table 5:CGBR(O) April to September: Differences from Budget profile

	£ billion	percentage difference
Receipts		
Inland Revenue	+1.3	+4.7
Customs and Excise	+0.7	+3.3
NICs	+0.4	+2.8
Privatisation proceeds	--	-0.4
Interest and dividends	+0.4	+8.5
Other receipts	--	+3.9
Total receipts	**+2.9**	**+3.8**
Expenditure		
Interest payments	+0.1	+1.1
Departmental expenditure [1]	-0.9	-1.4
Total expenditure	**-0.9**	**-1.1**
Net effect on CGBR(O)	**-3.7**	

[1] on a cash basis, net of certain receipts and on-lending

Chart 4: Components of central government receipts and expenditure

£ billion

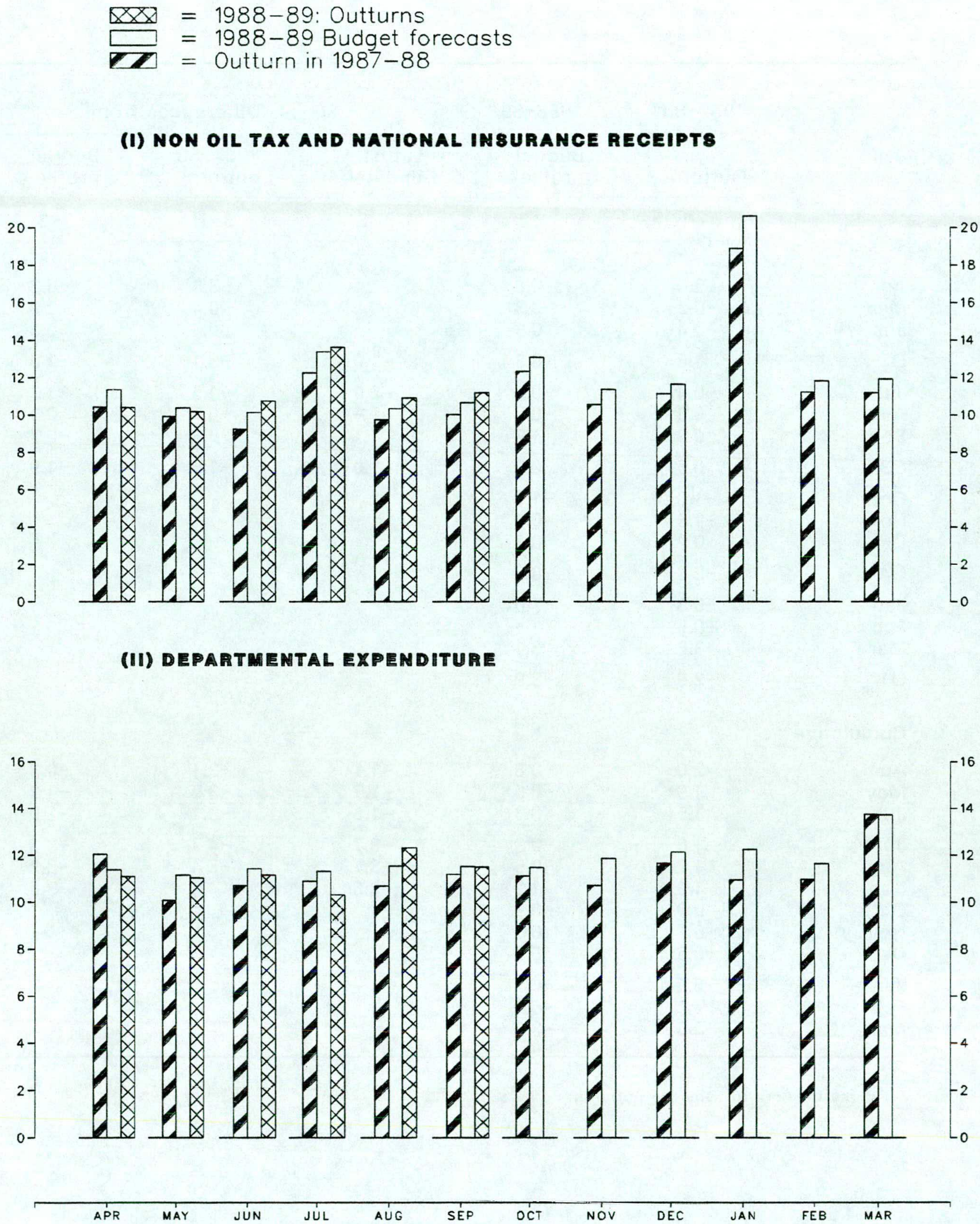


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Table 6: PSBR for 1988-89 – comparisons with 1987-88 and 1988 Budget profile

£ billion

	1987-88	1988-89		Differences from	
	Outturn	Budget profile	Latest update[1]	1987-88 outturn	Budget profile
	1	2	3	3-1	3-2
Apr	2.0	-0.8	**-1.1**	-3.1	-0.3
May	-0.2	0.3	**-0.6**	-0.4	-0.9
Jun	-0.4	0.8	**-**	0.4	-0.8
Q2	1.5	0.3	**-1.6**	-3.1	-2.0
Jul	-0.4	-0.7	**-2.0**	-1.6	-1.3
Aug	0.6	-0.2	**-**	-0.7	0.1
Sep	0.3	1.7	**1.1**	0.8	-0.7
Q3	0.5	0.9	**-1.0**	-1.5	-1.9
Oct	-1.0	-1.6			
Nov	-1.6	0.7			
Dec	0.2	0.5			
Q4	-2.5	-0.5			
Jan	-6.3	-7.0			
Feb	-0.5	-			
Mar	3.8	3.1			
Q1	-2.9	-3.9			
Cumulative					
Apr	2.0	-0.8	**-1.1**	-3.1	-0.3
May	1.9	-0.5	**-1.7**	-3.5	-1.2
Jun	1.5	0.3	**-1.6**	-3.1	-2.0
Jul	1.0	-0.3	**-3.7**	-4.7	-3.3
Aug	1.7	-0.5	**-3.7**	-5.4	-3.2
Sep	1.9	1.2	**-2.6**	-4.6	-3.8
Oct	0.9	-0.5			
Nov	-0.7	0.3			
Dec	-0.5	0.7			
Jan	-6.8	-6.3			
Feb	-7.3	-6.3			
Mar	-3.5	-3.2			

[1]Figures for April to June are outturns

Table 7: **Borrowing requirement in 1988-89**
(Budget profiles in italics for comparisons)

	PSBR		Comprising					
			CGBR(O)		LABR		PCBR	
Apr	**-1.1**	*-0.8*	**-1.5**	*-1.3*	**0.8**	*0.8*	**-0.4**	*-0.2*
May	**-0.6**	*0.3*	**-0.5**	*0.7*	**-**	*-0.2*	**-0.1**	*-0.2*
Jun	**-**	*0.8*	**0.5**	*1.1*	**-0.4**	*-0.3*	**-0.1**	*0.1*
Jul	**-2.0**	*-0.7*	**-1.9**	*-0.7*	**0.2**	*0.3*	**-0.3**	*-0.3*
Aug	**-**	*-0.2*	**-0.4**	*-0.5*	**0.3**	*0.3*	**0.1**	*0.1*
Sep	**1.1**	*1.7*	**0.7**	*1.3*	**0.2**	*0.2*	**0.2**	*0.2*
Cumulative								
Apr	**-1.1**	*-0.8*	**-1.5**	*-1.3*	**0.8**	*0.8*	**-0.4**	*-0.2*
May	**-1.7**	*-0.5*	**-2.0**	*-0.6*	**0.8**	*0.6*	**-0.4**	*-0.5*
Jun	**-1.6**	*0.3*	**-1.5**	*0.5*	**0.4**	*0.3*	**-0.5**	*-0.4*
Jul	**-3.7**	*-0.3*	**-3.4**	*-0.2*	**0.6**	*0.5*	**-0.8**	*-0.7*
Aug	**-3.7**	*-0.5*	**-3.8**	*-0.7*	**0.9**	*0.8*	**-0.7**	*-0.6*
Sep	**-2.6**	*1.2*	**-3.1**	*0.6*	**1.0**	*1.0*	**-0.6**	*-0.4*

	Excluding privatisation proceeds				**Memo item:**	
	PSBR		**CGBR(O)**		**privatisation proceeds**	
Apr	**0.7**	*1.1*	**0.3**	*0.6*	**1.8**	*1.9*
May	**0.4**	*1.3*	**0.5**	*1.6*	**0.9**	*0.9*
Jun	**-**	*0.8*	**0.5**	*1.1*	**-**	*-*
Jul	**-2.0**	*-0.7*	**-1.9**	*-0.7*	**-**	*-*
Aug	**2.1**	*2.0*	**1.8**	*1.6*	**2.1**	*2.2*
Sep	**1.1**	*1.7*	**0.8**	*1.3*	**0.1**	*-*
Cumulative						
Apr	**0.7**	*1.1*	**0.3**	*0.6*	**1.8**	*1.9*
May	**1.1**	*2.4*	**0.7**	*2.3*	**2.7**	*2.8*
Jun	**1.1**	*3.2*	**1.3**	*3.3*	**2.8**	*2.8*
Jul	**-0.9**	*2.5*	**-0.7**	*2.6*	**2.8**	*2.8*
Aug	**1.2**	*4.5*	**1.1**	*4.3*	**4.9**	*5.0*
Sep	**2.3**	*6.2*	**1.9**	*5.6*	**5.0**	*5.0*

FROM: A TURNBULL
DATE: 21 JULY 1988

CHIEF SECRETARY

cc Chancellor
Sir P Middleton
Sir T Burns
Mr Anson
Mr Phillips
Mr Odling-Smee
Mrs Case
Mr Edwards
Miss Peirson
Mr Potter o/r
Mr MacAuslan
Mrs Butler
Mr Fellgett
Miss Walker
Mr Woolf
Mr Kidman

* Amazing: how [illegible] [illegible] ... Ask [illegible] [illegible] [illegible] Strike! [illegible] communities. [illegible]

NEW PLANNING TOTAL: PUBLICITY ARRANGEMENTS

We have now received endorsement of the planning total from the Prime Minister and colleagues and, subject to the resolution of one point of dispute on which I am minuting you separately, we are now putting in hand arrangements for publication on Tuesday 26 July. It is intended to issue CFRs early on Tuesday to journalists, financial and local government, attending the briefing. Copies will also be made available by DOE on Tuesday morning to representatives of the local government associations who will be briefed slightly ahead of the journalists.

2. I attach:

i. a draft Press Notice;

ii. a revised version of the PQ;

iii. revised briefing;

iv. a draft letter to Mr Terence Higgins.

3. On the latter, I am assuming that you will want to write on Friday, again subject to resolution of the outstanding point. By then we will not have a clean printed proof with all the amendments incorporated, including those suggested by the

Chancellor. We can, however, supply an updated version of the typescript that went to the printers. The letter offers Mr Higgins the facility of consulting officials to clarify any queries he may have. We have not in the same letter canvassed his support as we felt this would come better in a personal communication from yourself.

4. We also need to write to the Clerks of the TCSC and PAC. While the former may well want to comment on the proposals, we suggest the letter goes no further than drawing the White Paper to the Committee's attention without formally inviting comments.

AT

A TURNBULL

NEW PLANNING TOTAL

Q AND A BRIEFING

Positive

(i) Framework within which objectives for public spending are set is unchanged. Still look at combined spending of central and local government because the Government is seeking to influence total taxes (central and local) and total public sector borrowing. Thus objective of reducing public spending as a proportion of GDP is still specified in terms of general government expenditure (excluding privatisation proceeds).

(ii) Changes affect the planning total. Purpose is to take account of changes in regime for local government finance and to make the planning total a more effective instrument for controlling expenditure and delivering the objective above.

(iii) Planning total is based on expenditure control totals (which at present include local authorities' current and net capital expenditure). With change in local authority financing regime, nature of controls will change. Central government will determine grant and credit approvals and non-domestic rates will be set nationally but central government will not determine spending from community charge. Changes in planning total reflect these developments.

(iv) Planning total sharpened by limiting it to those elements of expenditure for which central government is responsible and excluding that expenditure which local authorities determine and finance from their own resources.

(v) In future the planning total will include central government's own spending, the grants it pays to local authorities, the credit approvals it gives for capital expenditure, the payments for local authorities from the proceeds of the national non-domestic rate, and the external financing limits it sets for public corporations.

(vi) The reform of local government finances provides an opportunity for change since it too is trying to improve local accountability so that community charge payers will be able to see the impact of the decisions of their own councils on the charge which they pay.

(vii) Under proposals plans for grant and credit approvals will be set for three years ahead rather than one, helping local authorities to plan their spending more efficiently.

(viii) In no sense is this a proposal to cut local authorities free. Government's determination to restrain total public spending and the size of the public sector remains. In fact it will reinforce the pressures on local authorities coming from reforms of local government finance.

Defensive

(i) Giving up on controlling local authority expenditure?

Not at all. Need to see change in context of changes in local government finance. Taken together, proposals increase restraint on local authority spending through:

- community charge which increases local accountability;

- national non-domestic rate set centrally;

- inclusion of grants in the planning total alongside other departmental spending.

Over the medium term the Government is still seeking to restrain public spending whether from central or local government.

(ii) A device for reducing the planning total and disguising the trends in public spending?

The change is to the planning total which is an instrument of policy. The objectives of policy are specified, as before, in terms of GGE. Thus the ratio of GGE to GDP is entirely unaffected.

(iii) If planning total is sum of those things Government controls, why include EFLs of nationalised industries or local authority borrowing?

The criterion is not so much control as responsibility. Are large areas of expenditure where the Government's ability to control in the short-term is limited, eg export credit, agricultural support, social security. But ultimately Government is responsible since it sets terms and conditions for these policies. The Government sets the EFLs of nationalised industries and, under the new capital control regime, will set the credit approvals. Thus the planning total reflects the various control mechanisms in force.

(iv) How does narrowing scope of planning total improve control of wider measure of total government expenditure?

Need to consider combined impact of new financial regime for local authorities and the new planning total. The former will create powerful incentives for economy in expenditure financed by the community charge. Including grants in the planning total alongside central government's own expenditure will sharpen discipline on local authority expenditure financed by central government. The planning total will be a more effective instrument of planning and control because it will be much clearer where, if the outturn deviates from plans, responsibility lies.

(v) You used to argue that policies, eg transport and education, were formulated nationally; therefore necessary to show combined spending with central and local government.

We will continue to show historical figures for spending on local authority services. But we do not plan or control local authority spending on particular services precisely. At the margin actual spending is decided by local authorities themselves. The new planning total reflects more accurately the way planning and control is implemented.

(vi) What happens if local authorities' self-financed expenditure grows faster than the Government wants?

In first instance this is for local residents to judge but pressures of accountability through the community charge will act as a restraint. Government will also have to consider implications for expenditure under its influence, eg whether to cut back on its own expenditure, restrict grant or reduce credit approvals. But the difference is that these decisions will be taken in the Survey, ie in a medium-term context.

(vii) Will projection of local authorities' self-financed expenditure be more realistic than were the figures for provision?

That is the intention - unlike provision, the projection will in no way be a Government plan and should not be viewed (as provision has been) as a government norm. Government's view on what needs to be spent on individual services will be set out in GREs.

(viii) Is this a consultation document?

Not formally. The White Paper is primarily about the way expenditure planning and control is conducted within Government, and it sets out how the Government proposes to do this in public expenditure Surveys after this year. But it also affects how the results of these Surveys are published. The Government will therefore welcome any comments by the Treasury and Civil Service Committee, or from other interested parties.

(ix) Does proposal stand or fall on the community charge?

In principle an arrangement like this could have been introduced with rates, but the greater clarity in new regime between effects of Government decisions and effects of local authority decisions strengthens the case for making the change.

(x) <u>Why have you included credit approvals in the planning total</u>?

As the recent consultation document on local government capital expenditure and finance makes clear, controls on borrowing and capital expenditure by local authorities have been exercised by central government ever since local authorities in their modern form were constituted in the last century. The reasons for these controls include the need to manage the national economy; to ensure that investment by local authorities responds to national priorities; to maintain accountability since the financial effect of expenditure financed by borrowing is felt only to a very limited extent when it is incurred; to safeguard the interests of future local taxpayers; and to maintain the high credit standing which local authorities generally still enjoy.

(xi) <u>What if the capital control system is modified in the course of the consultation</u>?

That depends on whether there are any changes to the aggregates which will be subject to control. The intention is that the new planning total should reflect the system of control as it will be operated. Since it is proposed that the Government should control credit approvals they have been included in the planning total.

(xii) <u>Why is debt interest still outside planning total</u>?

Interest rates are a separate policy instrument. Would be wrong to subordinate them by setting a limit on debt interest payments within the planning total. But debt interest is undoubtedly part of public expenditure which has to be financed so it is included in GGE.

(xiii) <u>What is role of Reserve</u>?

Reserve is there to ensure that contingencies can be met within the planning total. Variations in local authorities' self-financed expenditure within the year will not be charged to the Reserve.

(xiv) Conduct of Survey

No change to 1988 Survey. 1989 Survey will be on new basis, which will relate to plans from 1990-91 onwards. Grants to local authorities will then be part of departmental programmes. Presumption will be, as for central government's own expenditure, that increases in grant will have to be met within existing provision. Will for the first time be a trade-off between grant and direct government expenditure.

(xv) Timetable for announcement of RSG

Will be an announcement in July 1989 but position thereafter will be reviewed in light of experience of operating new arrangements.

(xvi) Does this mean death of expenditure planning and triumph of control?

It will tighten control but will also provide a more certain and stable basis for planning in the medium-term.

DRAFT LETTER TO

The Rt Hon Terence Higgins

A NEW PLANNING TOTAL

The Government has been examining the implications of the reforms of local government finance for the way in which public spending is planned and controlled. A White Paper is to be published on Tuesday 26 July setting out the Government's proposals for a revised definition of the planning total which will focus on those elements of expenditure for which central government is responsible. The main change will be that instead of including total local authority spending, the planning total will include the grants central government pays to local authorities and the credit approvals it issues for capital spending and the payments made to local authorities from the proceeds of the national non-domestic rate. The spending local authorities determine and finance for themselves, eg through the community charge or use of receipts will be excluded.

2. The White Paper will, however, make it clear that the Government's wider spending objectives will continue to be framed in terms of the total spending of central and local government because Government is concerned with the total level of taxation of all kinds, both national and local, and the borrowing which is secured upon it. The medium-term objective of reducing public

spending as a proportion of national income will continue to be expressed in terms of the ratio of general government expenditure (excluding privatisation proceeds) as a proportion of GDP.

3. Taken together, the reform of local government finance and the new planning total will strengthen control of public spending in the following ways:

- there will be greater pressures of accountability on the spending financed through the community charge;

- non-domestic rates will be set nationally rather than by individual local authorities;

- grants will, for the first time, be part of the planning total and will be considered alongside other departmental spending;

- distinguishing expenditure resulting from decisions of central government from that resulting from decisions of local government will reinforce accountability;

- setting out plans for grant and credit approvals for three years ahead rather than one will help local authorities plan their expenditure more effectively.

4. When the White Paper is published a copy will be sent formally to the Treasury and Civil Service Committee who may wish to comment on it. You might, however, like to have advance notice of the proposals as you may well be approached by the Press for comments on it. I enclose a copy of the draft which has been sent to the printers. If there are any points you wish to clarify, please feel free to contact John Anson or Andrew Turnbull in the Treasury.

DRAFT PQ ANNOUNCING PUBLICATION OF THE NEW PLANNING TOTAL WHITE PAPER

To ask Mr Chancellor of the Exchequer whether he proposes to make changes to the definition of the planning total.

DRAFT REPLY

The Government's objective for public spending is that it should decline as a proportion of national income. This objective relates to the total spending of central and local government and is expressed in terms of general government expenditure (excluding privatisation proceeds) as a proportion of gross domestic product. The Government seeks to achieve this objective by controlling expenditure within the targets for the public expenditure planning total, which are set for three years ahead in the Public Expenditure Survey.

2. Hitherto the planning total has included not only Government's spending on its own programmes but also the total spending of local authorities. In a White Paper published today, "A New Public Expenditure Planning Total" Cm XXX, the Government proposes that when the new arrangements for local government finance come into operation in England and Wales the coverage of the planning total should be changed. In future, it will include spending on its own programmes, grants paid to local authorities, the credit approvals it issues for local authority borrowing for capital expenditure, the payments to local authorities from the proceeds of the national non-domestic rate, and the external financing

limits of public corporations. Thus the new planning total will include those elements for which central government is responsible and exclude spending which local authorities determine and finance themselves.

3. Redefining the planning total to include only the expenditure for which central government is responsible will make it a more effective instrument for planning and control of central government's operations. In combination with the disciplines on local authority spending introduced by the reform of local government finance, it will help to achieve the Government's wider spending objective, which will continue to be directed towards total government expenditure. Distinguishing the spending for which central government is responsible from that which results from local authorities' decisions, will also enhance local accountability, thereby reinforcing the changes brought about by the introduction of the community charge.

4. One feature of the proposals is that plans for grants and credit approvals will be set out for three years ahead rather than one at present. This will assist local authorities in their expenditure planning.

5. It is proposed to bring the new planning total into operation from 1 April 1990, the date of introduction of the community charge in England and Wales. This means that the 1989 Public Expenditure Survey, the results of which will be announced in the 1989 Autumn Statement, will be conducted on the new basis.

6. These changes are designed to improve planning and control of public spending. They do not represent any dilution in the Government's determination to reduce the size of the public sector or to restrict total public spending, whether by central or local government.

PresN

DRAFT PRESS NOTICE

A NEW PUBLIC EXPENDITURE PLANNING TOTAL

The Government today issued a White Paper "A New Public Expenditure Planning Total" Cm XXX. In answer to a question from [ ], the Chief Secretary to the Treasury, the Rt Hon John Major MP said:

"The Government's objective for public spending is that it should decline as a proportion of national income. This objective relates to the total spending of central and local government and is expressed in terms of general government expenditure (excluding privatisation proceeds) as a proportion of gross domestic product. The Government seeks to achieve this objective by controlling expenditure within the targets for the public expenditure planning total, which are set for three years ahead in the Public Expenditure Survey.

Hitherto the planning total has included not only Government's spending on its own programmes but also the total spending of local authorities. In a White Paper published today, "A New Public Expenditure Planning Total" Cm XXX, the Government proposes that when the new arrangements for local government finance come into operation in England and Wales the coverage of the planning total should be changed. In future, it will include spending on its own programmes, grants paid to local authorities, the credit approvals it issues for local authority borrowing for capital expenditure, the payments to local authorities from the proceeds of the national non-domestic rate, and the external financing limits of public corporations. Thus the new planning total will include those elements for which central government is responsible and exclude spending which local authorities determine and finance themselves.

Redefining the planning total to include only the expenditure for which central government is responsible will make it a more effective instrument for planning and control of central government's operations. In combination with the disciplines on local authority spending introduced by the reform of local government finance, it will help to achieve the Government's wider spending objective, which will continue to be directed towards total government expenditure. Distinguishing the spending for which central government is responsible from that which results from local authorities' decisions, will also enhance local accountability, thereby reinforcing the changes brought about by the introduction of the community charge.

One feature of the proposals is that plans for grants and credit approvals will be set out for three years ahead rather than one at present. This will assist local authorities in their expenditure planning.

It is proposed to bring the new planning total into operation from 1 April 1990, the date of introduction of the community charge in England and Wales. This means that the 1989 Public Expenditure Survey, the results of which will be announced in the 1989 Autumn Statement, will be conducted on the new basis.

These changes are designed to improve planning and control of public spending. They do not represent any dilution in the Government's determination to reduce the size of the public sector or to restrict total public spending, whether by central or local government."

Notes to Editors

2. The Government's objective for public spending is that its rate of growth should be held below that of the economy as a whole so that public spending falls as a proportion of national income. This objective is specified in terms of the ratio general government expenditure (GGE) excluding privatisation proceeds to GDP. GGE represents the total spending of central and local government.

3. For the purposes of planning and control, the Government defines a planning total comprising the

control totals set for individual programmes. By controlling expenditure within the target fixed for the planning total, the Government seeks to achieve a wider medium-term objective specified in terms of the ratio of GGE to GDP. (The relationship between the planning total and GGE is set out in Chapter 6 of Volume I of the 1988 Public Expenditure White Paper, Cm 288.)

4. The proposals in the White Paper relate to the planning total. The wider framework within which expenditure objectives are set remains unchanged. The changes therefore relate to the instruments of policy rather than the objectives.

5. In the future, the planning total will focus on that expenditure for which central government has responsibility and exclude that expenditure which local authorities determine and finance themselves. The main changes are that, instead of including total local authority spending, the planning total will include the grants central government makes to local authorities, the credit approvals it issues authorising capital expenditure by borrowing or other forms of credit, and the payments made to local authorities from the proceeds of non-domestic rates. It will exclude the expenditure local authorities finance through the community charge or the use of receipts. This will, however, be included in GGE.

6. Taken together, the reforms of local government finance and the new planning total will strengthen control of public spending:

- there will be greater pressures of accountability on the spending financed through the community charge;

- non-domestic rates will be set nationally rather than by individual local authorities;

- grants will, for the first time, be part of the planning total and will be considered alongside other departmental spending;

- distinguishing expenditure resulting from decisions of central government from that resulting from decisions of local government will reinforce accountability;

- setting out plans for grant and credit approvals for three years ahead rather than one will help local authorities plan their expenditure more effectively.

7. It is proposed that the change in the planning total should take effect in 1990-91 when the new arrangements for local government finance are to come into effect in England and Wales. The 1989 Survey will be the first on the new basis. The 1988 Survey will be unaffected.

CONFIDENTIAL

~~PPS~~ PS

FROM: A TURNBULL
DATE: 21 JULY 1988

CHIEF SECRETARY

cc Chancellor
Mr Anson
Mr Phillips
Mrs Case
Mr Edwards
Miss Peirson
Mr MacAuslan
Mrs Butler
Mr Fellgett

I have much sympathy with Mr Ridley's

1 ~~ACST~~
2 PMP

NEW PLANNING TOTAL

A late difficulty has arisen from the Ministerial replies on the new planning total. Although all Ministers who have replied have endorsed the proposal, DES are unhappy with the way Mr Ridley's reply has been phrased. All the way through the discussions DES have been anxious to ensure that they are able to demonstrate that the resources likely to be available for any particular service are consistent with the Government's policy objectives. It has been agreed that for at least one year ahead the Government would publish service GREs. Your minute of 11 July recognised that there would inevitably be a tension between setting GREs at a level which is a realistic reflection of need and setting GREs which enable the Government to demonstrate that adequate services can be provided at an acceptable level of community charge.

2. In his reply, Mr Baker emphasised this point and asked that officials should look further at the arrangements for establishing GREs.

3. In his reply, Mr Ridley said that he was prepared to accept that totals for need to spend on each main service would still be necessary in order to distribute grant between authorities, but he hoped "we can avoid a situation where these figures become the subject of annual review and debate, either internally or externally, in the way that current expenditure by service is at present". Mr Baker's officials see in this an attempt by Mr Ridley to down-play the role of GREs. In particular, they are worried that if GREs are not reviewed annually they would have no credibility as an indicator of need to spend.

4. As your minute of 11 July indicated, the tensions involved in setting GREs cannot be resolved a priori and that the balance can be struck only in the course of discussions year by year on RSG.

5. Having spoken to officials in DOE and DES I believe the tensions between the two departments could be eased by a letter from yourself acknowledging that further work needs to be done on setting both the level of GRE in aggregate and its distribution between services, and that GREs play a role both in indicating what the Government believes needs to be spent on particular services (the aspect DES wish to stress), and in the distribution of grant (where DOE are anxious to secure some stability from year to year so that individual authorities' grant entitlements do not move around too much). This would meet suggestions from Mr Moore, Mr Baker and Mr Channon.

AT

A TURNBULL

DRAFT LETTER FOR THE CHIEF SECRETARY TO SEND TO

The Rt Hon Nicholas Ridley AMICE MP

NEW PLANNING TOTAL

I have now received replies to my minute of 11 July endorsing my proposal for a new planning total. I intend to publish the White Paper on Tuesday 26 July.

2. One issue which emerged from a number of replies was that we need to look further at the way in which both the level of GREs in aggregate and their distribution between services are determined as they will play a role both in indicating publicly what Government believes needs to be spent on particular services and in determining the distribution of grant. There is a balance to be struck between reflecting carefully in the English RSG system the changing needs of individual services and our common concern to achieve maximum stability in the distribution of grant to local authorities. I agree with the suggestion that officials should investigate this further and put advice to us in due course.

3. I am copying this letter to the Prime Minister, Douglas Hurd, Kenneth Baker, John Moore, Paul Channon, Malcolm Rifkind, Peter Walker and Sir Robin Butler.

023/3654

PERSONAL AND CONFIDENTIAL

FROM: A G TYRIE

DATE: 26 JULY 1988

CHIEF SECRETARY

cc Chancellor
Sir P Middleton
Mr Anson
Mr Monck
Mr Turnbull
Mr Burr
Mr MacAuslan
Mr Cropper
Mr Call

I have some sympathy with Mr Tyrie's robust approach. N

PES: DEPARTMENT OF EMPLOYMENT

I have seen Tim Burr's notes of 22 July and today, with the attached agenda letter to Mr Fowler.

The case for dismantling Mr Fowler's inheritance from Lord Young is overwhelming. I think we can afford to be significantly tougher in the agenda letter than Mr Burr is proposing. Unemployment is already down to 1981 levels. So I think it is reasonable that our opening position should be to return the programme to its 1981/2 level, in real terms, over the Survey period. (By year 3 unemployment will probably be lower still.) This would mean a cut of £900 million, about £250 million more than Mr Burr is proposing, if we take account of the £200 million gross reduction that Mr Fowler is offering.

The politics also points to being tough now, particularly on ET. We don't want unemployment to have bottomed out and be on a rising trend in 1991. Schemes like ET should be particularly strong candidates for cuts. The best parts of them can be resuscitated in 1990 if necessary. When the going gets tough in negotiations I think it would be plausible for you to mention to him privately that some of these cuts in his programme could be reconsidered in 1990 if the unemployment position warranted it.

Tactically, I think a very tough opening position is also the right way to handle Mr Fowler. His PESC style has been moulded at the DHSS where he often ended up splitting the difference on large bids after a fair amount of brinkmanship.

Specifically, I suggest the following targets:

i. Reduce the numbers on ET to 400,000. Mr Burr's proposal of 500,000 should be our compromise position, kept back for the Star Chamber.

Mr Fowler will claim that he cannot possibly reconcile 500,000, let alone 400,000, with the commitments he has made with the publication of his White Paper 'Training for Employment'. But we can point out that unemployment will probably have fallen by over a third of a million between the publication of his White Paper and the Autumn Statement. That is a good defensive line for him. Mr Fowler can hardly expect massive funding for a programme such as ET, whose rationale is to reduce the unemployment count substantially, when lively economic performance is doing the job for us.

As for his commitment to training, Mr Fowler has got to be told point blank that training is principally a private sector matter. It is not primarily his business. With a bit of luck several major unions may end up opposing ET anyway which will ease presentational problems.

The combination of my proposal plus Mr Burr's might temporarily keep a little over 100,000 on the register. But we should argue that much of this will be crowded out - more jobs through lower taxation, or whatever. So we don't need to take too much notice of his line that less ET will result in higher social security spending.

(How on earth we agreed to this White Paper I don't know, but that's another matter. He's writing another one at the moment. We must sharpen our knives in readiness for it!)

Additional saving: £150 to £200 million.

ii. Mr Burr's note suggests a cut of about a third in the Department's publicity budget. I would suggest a reduction of 75%. There is now no case at all for Lord Young's publicity hypes. This will save an additional £25 million.

iii. Our opening gambit on tourism should be to end funding on it now. Our fall back should be removal over a three year period.

iv. In paragraph 8 of his note of 22 July Tim mentions a number of other more minor targets for reduction. I think we should start to work these up now, possibly broaching them with him at the first bilateral.

Taken together with Mr Burr's proposals my cuts would add up to about £900 million. Of course Mr Fowler will have a coronary, but he'll have palpitations over Mr Burr's proposals anyway!

I have a few minor suggestions to stiffen the agenda letter along the above lines:

Paragraph 3, last two sentences: 'Unemployment is now down to the level of 1981/82 but your programme has risen by x%, £900 million in real terms. I think a sensible target should be to reduce it to that level over the survey period. Further falls in unemployment may well make even this figure a high one. So I am in no doubt that I need substantial net reductions from your base line provision'.

Paragraph 5, second sentence: 'On tourism, I doubt whether any Government support is justified any longer. Neither Job Start nor, on evaluation evidence, the Small Firms Loan Guarantee Scheme justify extension beyond the current year. Publicity expenditure should be substantially reduced'.

AGT.

A G TYRIE

mjd 2/32Jn

PERSONAL AND CONFIDENTIAL

FROM: J M G TAYLOR
DATE: 28 July 1988

PS/CHIEF SECRETARY

cc Sir P Middleton
Mr Anson
Mr Monck
Mr Turnbull
Mr Burr
Mr MacAuslan
Mr Cropper
Mr Tyrie
Mr Call

PES: DEPARTMENT OF EMPLOYMENT

The Chancellor has seen Mr Tyrie's note of 26 July.

2. He is commented that he has some sympathy with this robust approach.

J M G TAYLOR

3824.030

Papes
PSe

CONFIDENTIAL

Mr P will, I am sure, agree to come back to Treasury for £35m, though [illegible] with a difficult [illegible] here: electricity and other matters.

FROM: M L WILLIAMS
DATE: 7 AUGUST 1987

CHIEF SECRETARY

cc Chanellor
Mr F E R Butler
Mr Monck
Mr Luce
Mr Moore
Mr Turnbull
Mr Gieve
Mrs Diggle
Ms Leahy
Ms S Walker
Mr Tyrie

1987 SURVEY : DEn

I am afraid that Mr Parkinson has reacted badly to your agenda letter for your bilateral (his letter of 5 August commenting on yours of 31 July).

2. I understand that Mr Parkinson's letter is very much his own idea; and was not advised by his officials. He seems to have resented what he interprets as the high moral tone of the agenda letter, and the previous material for Cabinet, perhaps not recognising that this is all part of the traditional PES minuet. There seem two points in particular that caused him to write:

i. The annex to your letter of 17 July, summarising bids for colleagues, notes that "further additions may be proposed [to DEn's programmes] following completion of the Secretary of State's review ...." (copy attached). He regards this as an incorrect interpretation of his letter of 2 July. But nowhere in his letter does he make clear that further reductions would be forthcoming. We knew a bid for AEA's EFL was likely, and indeed it has now arrived (although it is for just £2 million in one year).

ii. None of your proposed options for reductions is politically palatable; but in putting them forward you indicated that you were aware of that, but that you thought the political concerns could be met. Mr Parkinson seems to have different political trade-offs, which can properly be discussed at the bilateral (I understand that he is particularly concerned about renewables). It may also be that he feels that it is for him to make the political choices of where to cut his programme; that would be acceptable if we could move to a global deal somewhere much closer to DEn's baseline, but that was never going to be possible without you putting something unpleasant on the table.

3. Mr Parkinson has now left on holiday. But I suggest that it would be worth you writing before the bilateral in order to remove misplaced resentment. I attach a draft, but you may like to hold it back until you come to write to Mr Parkinson about his nationalised industry EFLs where you will have much bigger numbers to negotiate.

M L WILLIAMS

3824.031

CONFIDENTIAL

DRAFT LETTER FROM CHIEF SECRETARY

TO SECRETARY OF STATE FOR ENERGY

PUBLIC EXPENDITURE SURVEY 1987

I was sorry to read your letter of 5 August, reacting to my agenda letter for the Survey.

I also hope that we can reach agreement at our bilateral. In putting forward possible options for expenditure reductions, I was seeking to indicate areas from which savings might be available to offset the increases that you have proposed. I recognised in my letter that some of these increases were of themselves unavoidable; but it is equally clear I must explore the scope for offsets across all departments if I am to meet Cabinet's remit. Many of our decisions will need to politically unpalatable; but we can bring to bear such considerations in our bilateral.

I am not sure that you should read so much into officials' drafting of the background material for Cabinet. It was not entirely clear from your letter that you would be proposing further reductions, and they were no doubt also conscious of a further bid for the AEA EFL which indeed has materialised (albeit for a small sum, once the timing changes are stripped out).

JM

From: KEITH VERNON
15 August 1988

CHANCELLOR

Copy with PPS letter, attached, for:

Mr Gray - No. 10

cc List A

Economic Secretary
Sir P Middleton
Sir T Burns
Mr Scholar
Mr Sedgwick
Mr Peretz
Mr Odling-Smee
Mr Mowl
Mr Watts
Mrs Todd
Miss Chapman

List B (distributed at 11.30am, 16 August)

Chief Secretary
Financial Secretary
Paymaster General
Mr J Anson
Mr Moore
Mr Culpin
Mr Turnbull
Mrs Brown
Mrs Butler
Mr J Gieve
Mr Grice
Miss O'Mara
Mr Richardson
Mr Franklin
Mrs Ryding
Mr Cropper
Mr Tyrie
Mr Call
Mr Calder - IR
Mr Allen - C and E

MONTHLY NOTE ON THE PSBR

I attach a report on the PSBR outturn for July together with the forecast for the period August - October The July outturn will be published by press notice at 11.30am on Tuesday 16 August.

K Vern.

KEITH VERNON

PUBLIC SECTOR BORROWING

Summary

- The PSBR in July is provisionally a net repayment of £1.7 billion compared to a net repayment of £2.0 billion forecast last month. The CGBR(O) was about £0.5 billion higher than forecast last month, mainly due to lower than expected receipts.

- The PSBR for the first four months of 1988-89 is a net repayment of £3.2 billion compared with a forecast net repayment of £0.3 billion in the Budget profile.

- Excluding privatisation proceeds the PSBR outturn for April to July is £4.4 billion lower than in the same period last year.

- The PSBR over the next three months is forecast to be a net repayment of £2.0 billion, compared to a net repayment of £0.1 billion forecast in the Budget profile.

- The PSBR during the first seven months of 1988-89 is forecast to be a net repayment of £5.2 billion, compared to a Budget forecast of a net repayment of £0.5 billion and to borrowing of £0.9 billion in the first seven months of 1987-88.

Figures in this report are not seasonally adjusted and also may not sum precisely because of rounding.

Chart 1 : 1988-89: Comparisons with Budget profiles

£ billion cumulative

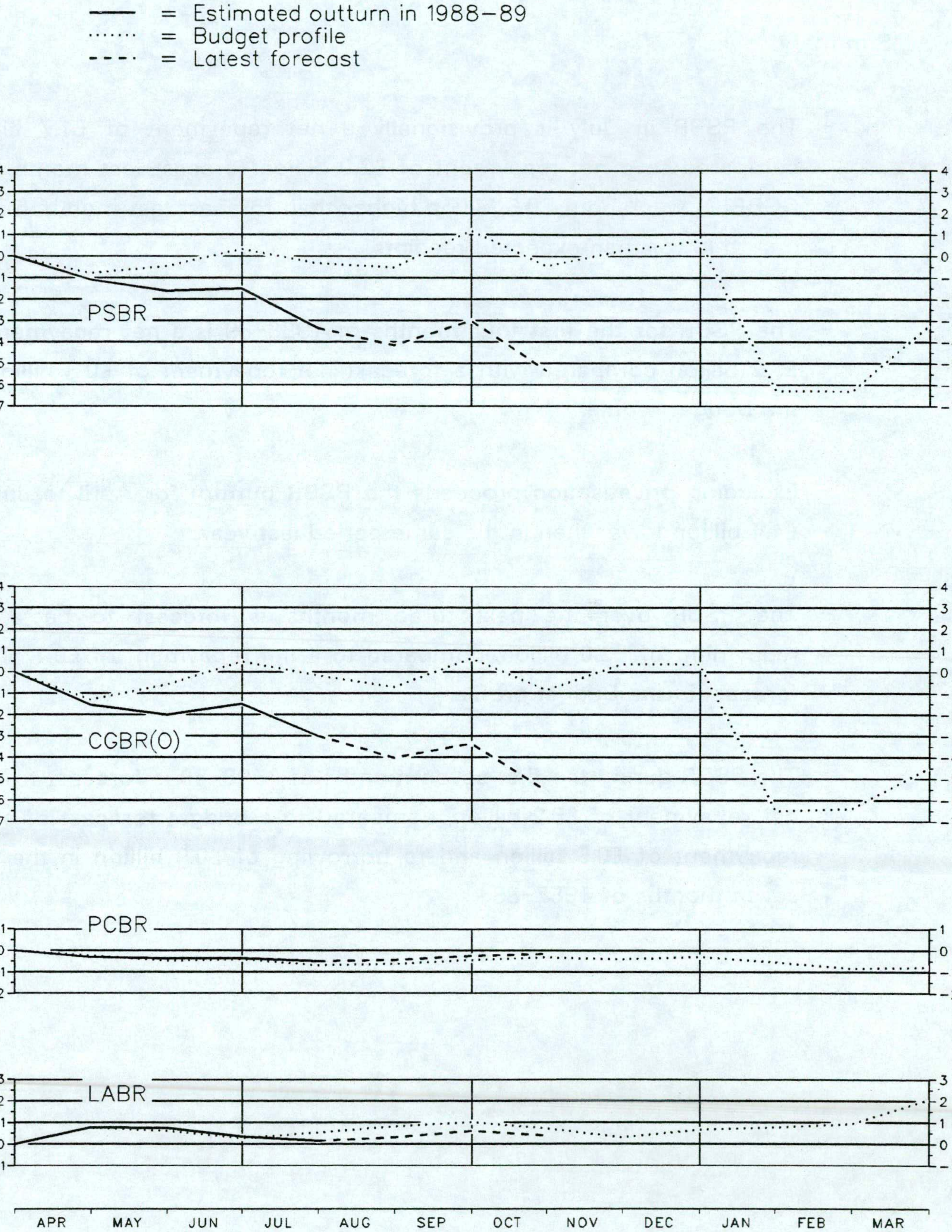


Chart 2: 1988–89: Comparisons with outturns for 1987–88

£ billion cumulative

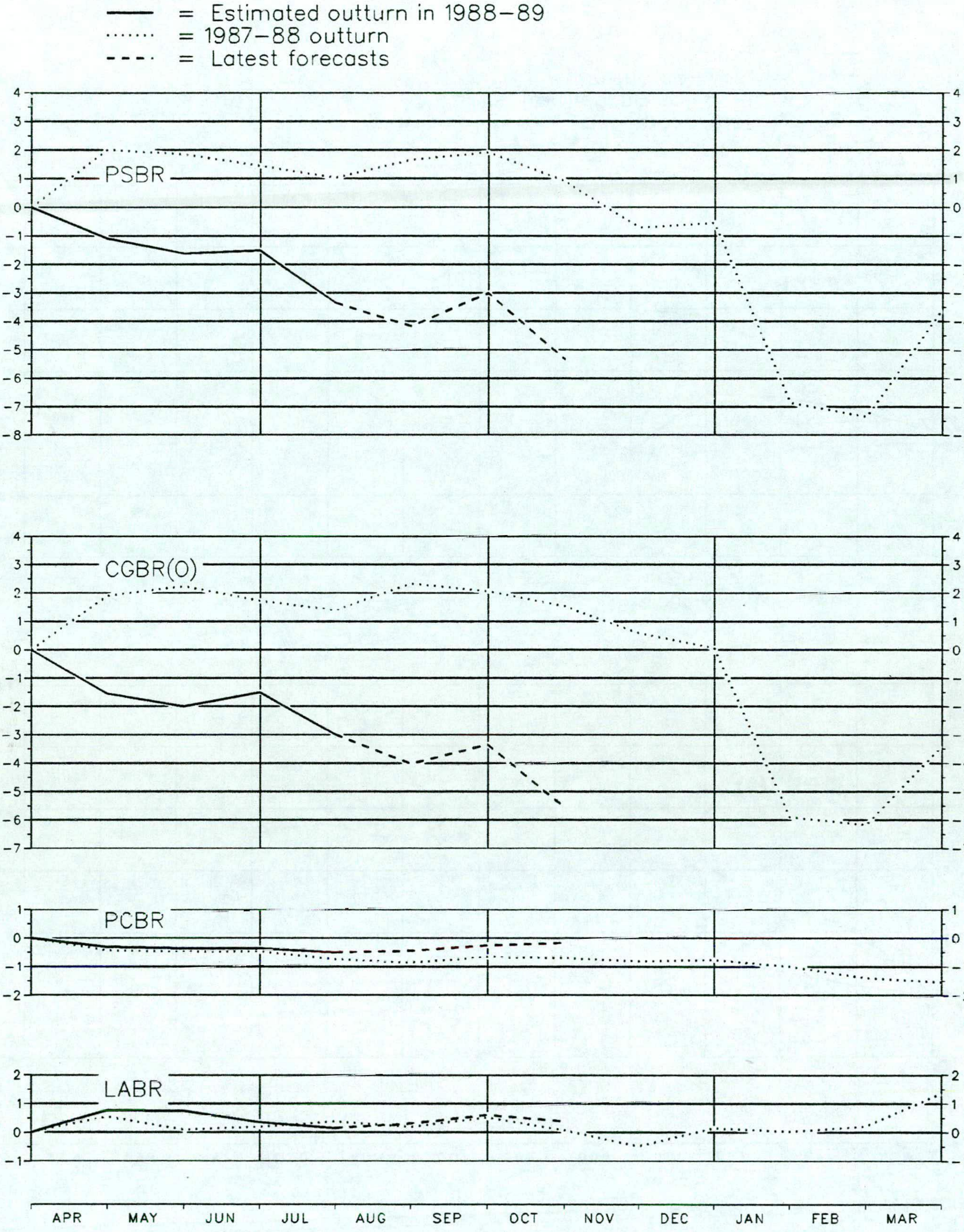
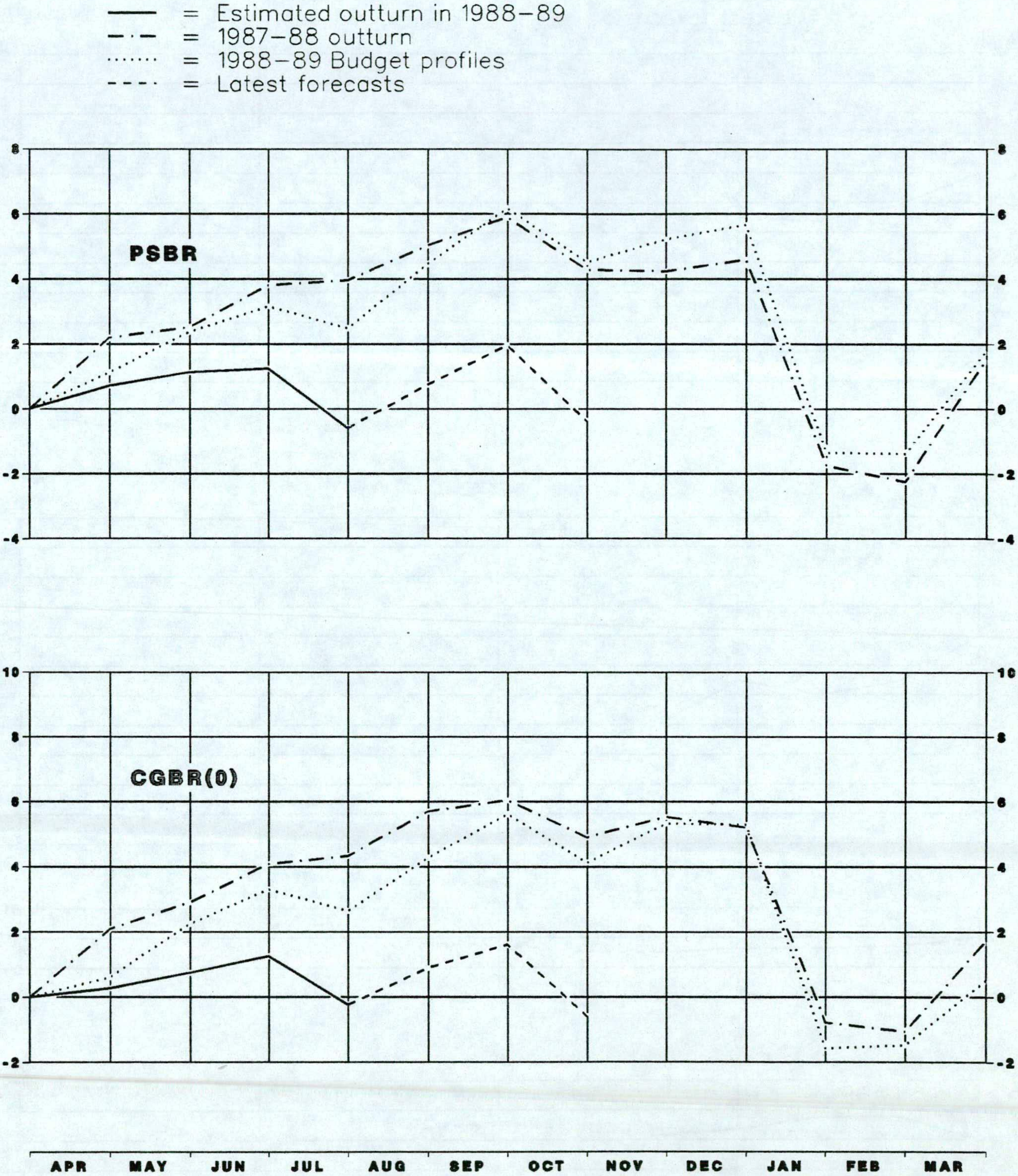


Chart 3: Comparisons excluding privatisation proceeds

£ billion cumulative



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Borrowing in July

(Outturn compared with last month's forecast)

1. The provisional estimate of the PSBR in July is a net repayment of £1.7 billion, compared with last month's forecast of a net repayment of £2.0 billion. The underforecasts on the CGBR(O) and PCBR are partially offset by an overforecast on the LABR as shown in the table below:

Table 1: July 1988 borrowing requirements

£ billion

	PSBR	Comprising		
		CGBR(O)	LABR	PCBR
Forecast*	−2.0	−1.9	0.2	−0.3
Outturn	−1.7	−1.5	−0.2	-
Difference	0.3	0.5	−0.4	0.2

*made on 18 July

2. The outturn on central government's own account was net repayment of £1.5 billion, compared with the forecast made last month of a net repayment of £1.9 billion. The main differences were lower Inland Revenue receipts (by £0.4 billion) - mainly Income Tax - and lower Customs and Excise receipts (by £0.2 billion) - mainly VAT, offset by lower departmental expenditure (by £0.3 billion).

3. Privatisation proceeds in July were zero.

4. The local authorities' borrowing requirement (LABR) in July is provisionally a net repayment of £0.2 billion, compared to last month's forecast borrowing of £0.2 billion. Local authorities borrowed £0.2 billion in July of last year, and had close to zero borrowing

in July of 1986.

5. The Public corporations borrowing requirement in July was provisionally close to zero compared to the forecast made last month of a repayment of £0.3 billion.

April to July

(outturn compared with Budget forecast)

Table 2: April to July 1988 borrowing requirements

£ billion

	PSBR	Comprising		
		CGBR(O)	LABR	PCBR
Budget forecast	-0.3	-0.2	0.5	-0.7
Outturn	-3.2	-3.0	0.2	-0.4
Difference	-2.9	-2.8	-0.4	0.3

6. The PSBR for the first four months of 1988-89 is a net repayment of £3.2 billion compared with a forecast net repayment of £0.3 billion in the Budget profile and borrowing of £1.0 billion in the first four months of 1987-88. Excluding privatisation proceeds the PSBR in April to July of 1988 is a net repayment of £0.4 billion, compared to borrowing of £4.0 billion in April to July of 1987.

7. In April to July the central government's own account showed cumulatively a net repayment of £3.0 billion, compared with the Budget profile forecast of a net repayment of £0.2 billion. Table 3 shows where differences on individual components have occurred.

Table 3:CGBR(O) April to July: Differences from Budget profile

	£ billion	percentage
Receipts		
Inland Revenue	+0.4	+2.1
Customs and Excise	+0.3	+2.1
NICs	+0.1	+1.3
Interest and dividends	+0.3	+10.6
Other receipts	-0.2	-23.0
Total receipts	**+1.0**	**+2.0**
Expenditure		
Privatisation proceeds	+0.1	+2.0
Interest payments	+0.1	+1.5
Departmental expenditure [1]	-2.0	-4.4
Total expenditure	**-1.8**	**-3.8**
Net effect on CGBR(O)	**-2.8**	

[1] on a cash basis, net of certain receipts and on-lending

8. The main factors reducing borrowing below the Budget profile are:

- higher Inland Revenue receipts (by £0.4 billion) mainly due to higher Income Tax receipts.

- higher Customs and Excise receipts (by £0.3 billion) mainly due to higher VAT on imports. (VAT on imports collected in one month is paid over on the 15th of the following month, therefore includes imports up to end - June).

- a shortfall on departmental expenditure (measured on a cash basis) of £2.0 billion. This is accounted for by lower expenditure on social security benefits from the National Insurance Fund (£0.5 billion) lower net payments to the EEC (£0.3 billion) and, within Supply expenditure, lower expenditure by MOD - predominantly procurement (£0.4 billion), Home Office - police (£0.1 billion), ECGD (£0.1 billion), Teacher's superannuation (£0.1 billion), and Regional Industrial Support (£0.3 billion, of which £0.2 billion was assistance for Rover, and is now included in the £0.55 billion payment to British Aerospace in August).

9. The LABR in April to July is borrowing of £0.2 billion, £0.4 billion below the Budget profile and £0.2 billion below April to July of last year.

10. As compared with last month there has been an upward revision of £0.2 billion to public corporations borrowing in the first three months of 1988-89. The cumulative PCBR for the first four months of 1988/89 was a net repayment of £0.4 billion, compared to a net repayment of £0.7 billion forecast in the Budget profile. Table 3 shows cumulative differences for the PCBR and borrowing by selected corporations from 1987/88 outturns and Budget profiles. Borrowing estimates for individual corporations are derived from their own returns, and are not fully consistent with the aggregate estimates.

Table 4: Public Corporations' borrowing April to July

£million (- indicates lower borrowing)

	Difference from 1987-88	Difference from Budget profile+
Coal	-60*	-180*
Electricity	40	-70
British Steel	-10*	-50*
Post Office	-40*	-110*
Water	-80*	-110 *
Other NIs	+80*+	-70*+
Other PCs	+20+	-40+
PCBR	+240+	+170+

+ Adjusted for privatisation and reclassification

* Figures for April to June only

August to October

11. The PSBR over the next three months is forecast to be a net repayment of £2.0 billion, compared to a Budget profile of a net repayment of £0.1 billion. This difference is largely explained by higher central government receipts.

12. The CGBR(O) is forecast to give £1.9 billion lower borrowing over the next three months compared with the Budget profile. The difference is mainly on central government receipts which are forecast to be £1.5 billion above profile over this period. The main increases are Inland Revenue receipts (up by £0.4 billion, mainly on Income Tax and Stamp Duties), on Customs and Excise receipts (up by £0.5 billion, mainly on VAT) and on National Insurance contributions (up by £0.5 billion).

13. The monthly path of the CGBR(O) is as follows:

- In August the CGBR(O) is forecast to be a net repayment of £1 billion. Although Inland Revenue receipts are seasonally low, VAT receipts will be high (as in February, May and November). Proceeds from the second call on BP will yield £2.1 billion, with small amounts slipping into September. The forecast also takes account of a payment to Rover of £0.55 billion, made on 12 August in connection with the sale of the company to British Aerospace

- In September the CGBR(O) is forecast to be £0.7 billion (borrowing). Inland Revenue receipts include a forecast PRT correction repayment of £0.3 billion to bring the total tax paid in respect of the first six months of 1987-88 in line with oil prices and production in that period. Customs and Excise receipts are relatively low. (There will be some small effect on PRT receipts in the short term resulting from concessions due to the Piper Alpha disaster.).

- In October the CGBR(O) is forecast to be a net repayment of £2.2 billion. Inland Revenue receipts are high because receipts of Corporation Tax are forecast to be £3.2 billion.

14. The LABR over the next three months is forecast to be borrowing of £0.2 billion as forecast in the Budget profile, and compared to a net repayment of £0.3 billion in August to October of 1987. Local authorities are forecast to borrow in August and September but are forecast to make a net repayment in October.

15. Public corporations' borrowing is expected to be around £0.1 billion in August, followed by net borrowing of £0.2 billion in September and £0.1 billion in October. Coal, Electricity and the Post Office are the main borrowers while the Water Authorities are expected to repay £0.1 billion in October.

April to October

16. The PSBR in the first seven months of 1988-89 is forecast to be a net repayment of £5.2 billion, £4.7 billion lower than forecast in the Budget profile and £6.1 billion lower than in the first seven months of 1987-88 (£4.5 billion lower than last year excluding privatisation proceeds).

Table 5:CGBR(O) April to October: Differences from Budget profile

	£ billion	percentage
Receipts		
Inland Revenue	+0.9	+2.5
Customs and Excise	+0.8	+2.9
NICs	+0.6	+3.6
Interest and dividends	+0.4	+8.1
Other receipts	+0.1	+7.8
Total receipts	**+2.8**	**+3.2**
Expenditure		
Interest payments	+0.1	+1.0
Departmental expenditure [1]	-2.0	-2.5
Privatisation proceeds	--	+0.3
Total expenditure	**-1.9**	**-2.3**
Net effect on CGBR(O)	**-4.7**	

[1] on a cash basis, net of certain receipts and on-lending

Chart 4: Components of central government receipts and expenditure

£ billion

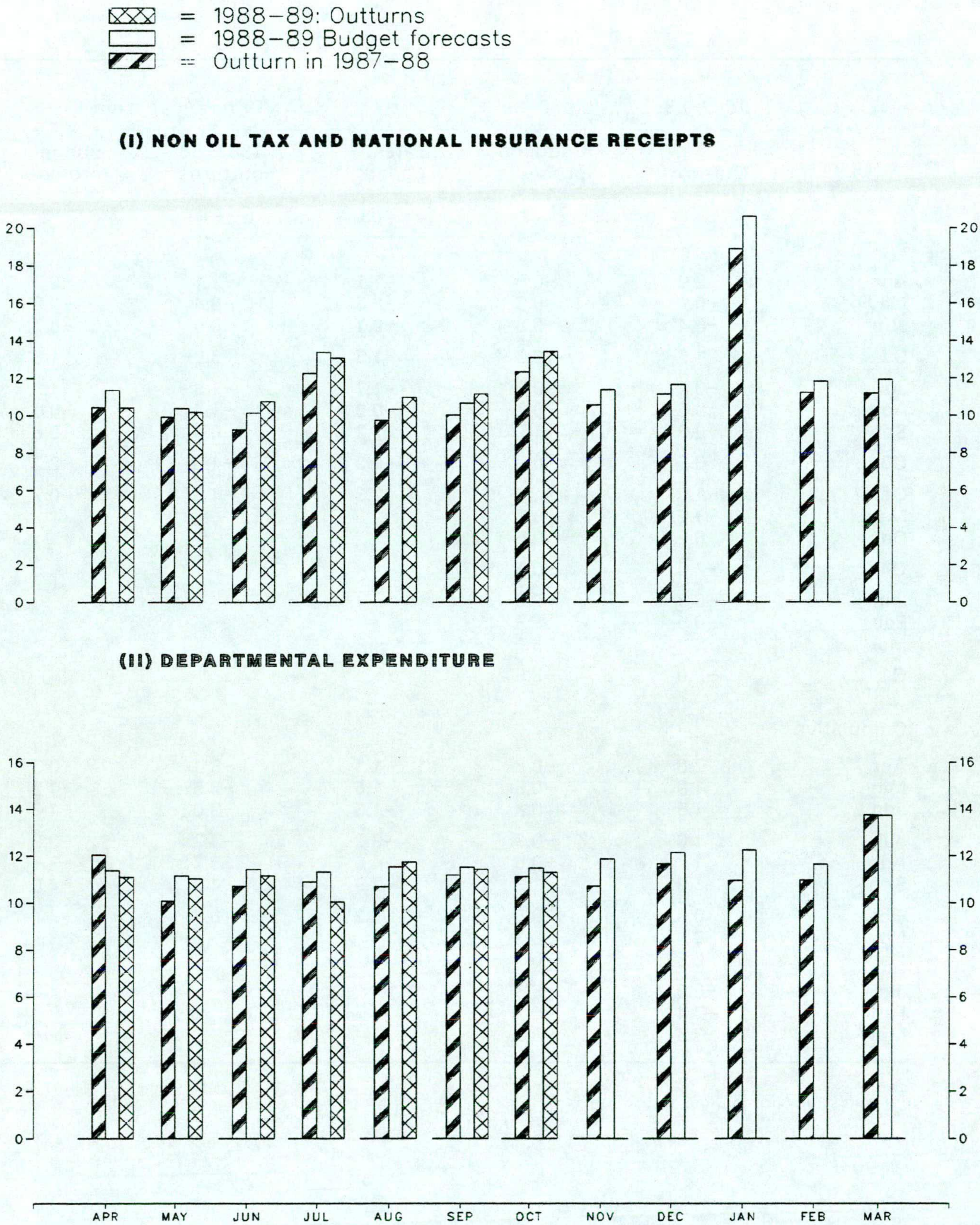

Table 6: PSBR for 1988-89 – comparisons with 1987-88 and 1988 Budget profile

£ billion

	1987-88	1988-89		Differences from	
	Outturn	Budget profile	Latest update[1]	1987-88 outturn	Budget profile
	1	2	3	3-1	3-2
Apr	2.0	-0.8	**-1.1**	-3.1	-0.3
May	-0.2	0.3	**-0.5**	-0.4	-0.9
Jun	-0.4	0.8	**0.1**	0.5	-0.7
Q2	1.5	0.3	**-1.5**	-3.0	-1.8
Jul	-0.4	-0.7	**-1.7**	-1.3	-1.0
Aug	0.6	-0.2	**-0.8**	-1.4	-0.6
Sep	0.3	1.7	**1.2**	0.9	-0.6
Q3	0.5	0.9	**-1.3**	-1.8	-2.2
Oct	-1.0	-1.6	**-2.3**	-1.3	-0.7
Nov	-1.6	0.7			
Dec	0.2	0.5			
Q4	-2.5	-0.5			
Jan	-6.3	-7.0			
Feb	-0.5	-			
Mar	3.8	3.1			
Q1	-3.0	-3.9			
Cumulative					
Apr	2.0	-0.8	**-1.1**	-3.1	-0.3
May	1.9	-0.5	**-1.6**	-3.5	-1.2
Jun	1.5	0.3	**-1.5**	-3.0	-1.8
Jul	1.0	-0.3	**-3.2**	-4.2	-2.9
Aug	1.7	-0.5	**-4.0**	-5.7	-3.5
Sep	1.9	1.2	**-2.9**	-4.8	-4.0
Oct	0.9	-0.5	**-5.2**	-6.1	-4.7
Nov	-0.7	0.3			
Dec	-0.5	0.7			
Jan	-6.9	-6.3			
Feb	-7.4	-6.3			
Mar	-3.6	-3.2			

[1]Figures for April to June are outturns

Table 7: **Borrowing requirement in 1988–89**
(Budget profiles in italics for comparisons)

	PSBR		Comprising					
			CGBR(O)		LABR		PCBR	
Apr	**-1.1**	*-0.8*	**-1.5**	*-1.3*	**0.8**	*0.8*	**-0.3**	*-0.2*
May	**-0.5**	*0.3*	**-0.5**	*0.7*	**–**	*-0.2*	**-0.1**	*-0.2*
Jun	**0.1**	*0.8*	**0.5**	*1.1*	**-0.4**	*-0.3*	**–**	*0.1*
Jul	**-1.7**	*-0.7*	**-1.5**	*-0.7*	**-0.2**	*0.3*	**–**	*-0.3*
Aug	**-0.8**	*-0.2*	**-1.0**	*-0.5*	**0.2**	*0.3*	**0.1**	*0.1*
Sep	**1.2**	*1.7*	**0.7**	*1.3*	**0.3**	*0.2*	**0.2**	*0.2*
Oct	**-2.3**	*-1.6*	**-2.2**	*-1.5*	**-0.2**	*-0.3*	**0.1**	*0.1*
Cumulative								
Apr	**-1.1**	*-0.8*	**-1.5**	*-1.3*	**0.8**	*0.8*	**-0.3**	*-0.2*
May	**-1.6**	*-0.5*	**-2.0**	*-0.6*	**0.7**	*0.6*	**-0.4**	*-0.5*
Jun	**-1.5**	*0.3*	**-1.5**	*0.5*	**0.4**	*0.3*	**-0.4**	*-0.4*
Jul	**-3.2**	*-0.3*	**-3.0**	*-0.2*	**0.2**	*0.5*	**-0.4**	*-0.7*
Aug	**-4.0**	*-0.5*	**-4.0**	*-0.7*	**0.3**	*0.8*	**-0.4**	*-0.6*
Sep	**-2.9**	*1.2*	**-3.3**	*0.6*	**0.6**	*1.0*	**-0.2**	*-0.4*
Oct	**-5.2**	*-0.5*	**-5.5**	*-0.8*	**0.4**	*0.7*	**-0.1**	*-0.3*

	Excluding privatisation proceeds				**Memo item:**	
	PSBR		**CGBR(O)**		**privatisation proceeds**	
Apr	**0.7**	*1.1*	**0.3**	*0.6*	**1.8**	*1.9*
May	**0.4**	*1.3*	**0.5**	*1.6*	**0.9**	*0.9*
Jun	**0.1**	*0.8*	**0.5**	*1.1*	**–**	*-*
Jul	**-1.7**	*-0.7*	**-1.5**	*-0.7*	**–**	*-*
Aug	**1.3**	*2.0*	**1.1**	*1.6*	**2.2**	*2.2*
Sep	**1.2**	*1.7*	**0.7**	*1.3*	**0.1**	*-*
Oct	**-2.3**	*-1.7*	**-2.2**	*-1.5*	**–**	*-*
Cumulative						
Apr	**0.7**	*1.1*	**0.3**	*0.6*	**1.8**	*1.9*
May	**1.1**	*2.4*	**0.8**	*2.3*	**2.7**	*2.8*
Jun	**1.3**	*3.2*	**1.3**	*3.3*	**2.8**	*2.8*
Jul	**-0.4**	*2.5*	**-0.2**	*2.6*	**2.8**	*2.8*
Aug	**0.9**	*4.5*	**0.9**	*4.3*	**4.9**	*5.0*
Sep	**2.1**	*6.2*	**1.6**	*5.6*	**5.0**	*5.0*
Oct	**-0.2**	*4.5*	**-0.6**	*4.1*	**5.0**	*5.0*

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COVERING SECRET

FROM: J MACAUSLAN
DATE: 2 September 1988

1 MR ANSON

2 CHIEF SECRETARY

This is useful general briefing for the bilaterals. I suspect that this year spending Ministers will be more inclined to bring up this kind of general argument than they did last year.

A
2/9

Essential to delete X & Y in the speaking note. Fiscal policy is clearly tight, but to speak of further tax reductions at this stage would be counterproductive. N.

cc: Chancellor
Sir P Middleton
Sir T Burns
Mr Monck
Mr Phillips
Mr Luce
Mr Sedgwick
Mr Turnbull
HEGs
Mr Gieve
Mr Hansford
Mr Mowl
Mr Richardson
HEDs
Miss Walker
Mr Call
Mr Tyrie

PUBLIC EXPENDITURE SURVEY 1988: BRIEFING FOR BILATERALS

Carys Evans' note of 24 August asked for a speaking note on the general public expenditure position for use selectively in bilaterals. I attach a draft.

2. I also attach some general briefing which you can use if necessary to counter any suggestions that there is plenty of room for extra public expenditure. Mr Baker's letter to you of 31 August suggests that he, for one, might put this argument.

3. Finally, I attach a short brief on construction which may be relevant to a number of different bilaterals.

JM

J MACAUSLAN

950

gep1.ip/docs/spk note

SPEAKING NOTE FOR BILATERALS

We agreed at Cabinet in July to stick as close as possible to the published planning totals so that the share of public spending in national income should continue to decline steadily over the three Survey years. Continued firm control of public spending is essential. ~~Significant increases would put at risk our objective of further reductions in taxation.~~

They would also jeopardise the confidence of the markets in our ability to sustain the economic success of recent years. The markets are concerned about overheating and the effects of the balance of payments on sterling. ~~They are looking for a tightening of fiscal policy -~~ any hint of relaxation of our control of public sp would be unsettling and could precipitate a crisis. Over the past five years, we have succeeded in keeping public spending under tight control (it has grown barely more than 1 per cent a year in real terms). At a time when we are trying to restrain the growth of private spending, it would be quite wrong to ease up on our restraint of public spending.

Our room for manoeuvre has already been narrowed by the implications of the RSG settlement, higher forecast net payments to the European Communities and the NHS pay awards. This means that hard choices will have to be made in order to deliver our objectives.

SECRET

GENERAL BRIEF FOR BILATERALS

Growth of economy and scope to draw down reserves means plenty of room within ratios?

Departments may infer that there is substantial scope to raise the planning totals within the agreed objective that the ratio of public expenditure to GDP should continue to decline steadily over the three Survey years. They will be able to guess that, in 1989-90, money GDP will be 2 - 3 per cent higher than the FSBR projection. Departments might therefore conclude that a steady decline may be maintained, and the reserves kept at £3.5/7.0/10.5 billion, while adding £6 billion rising to £9 billion to departments' spending in the Survey years. Their sums might look as follows:

	1988-89	1989-90	1990-91	1991-92
PEWP				
Money GDP (£bn)	448	475	501	
GGE/GDP (%)	42	41.75	41.25	
FSBR				
Money GDP (£bn)	456	486	516	545
GGE/GDP (%)	41.25	40.75	40	(39.5)
Departmental guesses				
Money GDP (£bn)	465	498	528	557
possible additions to programmes (£bn)		+6	+7	+9
which would give "acceptable" ratios of (%)	40.4	40.1	39.8	39.5

You should avoid an argument about detailed figures, and draw on the following points.

Cabinet remit was to stick as close as possible to existing planning total so that share of public spending in national income continues to decline steadily over the three Survey years. This implies that we must build on the position we have already reached and not allow progress to be reversed. Even with growth of economy, a further decline in the ratio between this year and <u>next year</u> requires difficult decisions:

(a) expenditure next year has already been committed in a number of areas:

local authority relevant current	£1,750m
net payments to EC	£380m
NHS Review Body awards	£780m
social security changes agreed earlier this year	£206m
TOTAL	£3.1bn

These are far higher additions to expenditure baselines than we faced at this time last year.

(b) In addition, there are large estimating changes for social security which probably cannot be wholly offset [or, if speaking to Mr Moore: as you know, there are severe pressures for extra expenditure on the NHS].

(c) We need to keep substantial reserves to cover other areas where colleagues have put down markers that there will be upward pressures, but have not bid yet. [If pressed: eg student loans, launch aid, future Review Body awards, end year flexibility, etc.]

These 3 factors more or less exhaust the room for manoeuvre within the agreed objective, before we even consider all the other bids.

For the subsequent Survey years,

(a) similar factors still apply; and in addition

(b) we must base our plans for three years ahead on a reasonable view of sustainable economic growth. To plan on basis of growth achieved in peak years would be imprudent - would shake market confidence in stability of our planning, and raise spectre of painful retrenchment later in this Parliament. Quite wrong to presume an upwards adjustment to spending plans because of higher prices than previously envisaged; would destroy basis of cash planning and would mean inflation feeding on itself.

Buoyancy of economy and hence government revenues means there is more money for public spending.

Strength of activity in economy points to continuing restraint of public spending not a relaxation. At a time when we are trying to hold back private spending (through higher interest rates) wrong to ease up on public spending.

But prospect of higher privatisation proceeds means more room for programmes?

Not relevant to what can be afforded on departmental programmes: our objective is stated after excluding privatisation proceeds. In any case, still too many uncertainties over water and electricity.

Continued public sector debt repayments means debt interest will fall fast, leaving more room for departmental programmes?

Declining debt interest already built into figures. But must take into account other factors outside GGE which will affect our ability to deliver our tax objectives: interest receipts and dividends also decline. Must also allow for decline over medium term in contribution from North Sea Revenue. So little or no extra room for manoeuvre.

Wrong to penalise departments because of loss of negative EFLs due to Treasury policy of privatisation?

Loss of negative EFLs is a real change in public expenditure totals; cannot be ignored. Also, it is matched by privatisation proceeds which we have already taken into account: must look at both sides of account. This is basis on which Cabinet agreed our objective.

Extra public spending would be better for balance of payments than tax cuts?

Cabinet has already agreed our objective for public expenditure on the basis of the need to retain market confidence if balance of payments deficit is to be successfully financed. In any case:

Some may dispute

(a) almost ¾ of public expenditure goes straight into peoples pockets, in form of benefit payments, subsidies and public sector pay. Hence, effect on demand for imports very similar to that of income tax cuts.

(b) import content of public sector capital spending will vary widely from project to project. But cannot let short term demand/balance of payments considerations determine long term capital spending: projects must generate adequate return in their own right, and capital equipment must be bought wherever it offers best value for money.

(c) need to consider long-run competitive position of UK economy. Tax cuts stimulate enterprise and improve incentives.

NEW CONSTRUCTION

Factual

1. Construction industry already stretched. Building Employers Confederation (BEC) Survey published in August 1988 reported that nearly 70 per cent of firms are operating at full capacity compared with 55 per cent a year earlier.

2. Construction output grew by 8.5% in 1987 and is likely to expand by up to 10 per cent this year - DOE data for first half of 1988 shows growth of over 10% on an annual basis. Orders received in the first half of 1988 were well up on the previous year, especially in London and the South East.

3. 76 per cent of firms expect tender prices to rise - in London and the Eastern region 95 per cent, compared with 80 per cent in the first quarter of 1988.

4. Shortages of skilled labour now spreading more widely across the country. Likely to put pressure on earnings. 97 per cent of London firms report shortages of bricklayers - also shortages of carpenters and plasterers - 14 per cent of firms report serious delays to work.

5. Shortages of building supplies are leading to increased imports of some specialised materials.

Positive

1. Bids submitted this year for construction spending total some £1.3 billion for 1989-90, £1.4 billion for 1990-91 and over £1.5 billion for 1991-92. Bids would if conceded represent substantial increases in provision, and would add more than 2½ per cent to construction demand in 1989-90 and 1990-91, driving prices up even faster.

Defensive

1. But forecast of output growth is slowing down?

No reason to add to inflationary pressures by large bids. Forecasts of output in later years of Survey must in any case be subject to some uncertainty. NEDO Survey points out that at beginning of 1988 it was predicted that level of construction activity had already peaked. Proved not to be the case. NEDO report also says that predicted 8 per cent growth rate in output for commercial work is lower than orders might suggest precisely because of fears that work may be held up due to delays by subcontractors and shortages of skilled labour. In any case official statistics and BEC Survey may underestimate output as they do not capture activity in the black economy.

2. Small bids by individual departments not have significant effect on construction industry.

But total of these small bids may have significant impact. All departments must look to scale down their bids to reduce pressure on over-stretched construction industry.

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pmp.

FROM: MISS M P WALLACE

DATE: 5 September 1988

PS/CHIEF SECRETARY

cc Sir P Middleton
Sir T Burns
Mr Anson
Mr Turnbull
Mr MacAuslan

PUBLIC EXPENDITURE SURVEY 1988: BRIEFING FOR BILATERALS

The Chancellor has seen Mr MacAuslan's minute of 2 September, and had a couple of comments on the speaking note for the bilaterals which was attached. He would prefer to see the last sentence of the first paragraph deleted ("significant increases would put at risk our objective for further reductions in taxation".) And he would also prefer the third sentence of para 2 deleted, amending the following sentence to read: "any hint of relaxation of our role of public spending would be unsettling...". He has commented that fiscal policy is already tight, but that to speak of further tax reductions at this stage would be counter-productive.

MPW.

MOIRA WALLACE

CONFIDENTIAL

CHIEF SECRETARY TO THE TREASURY

FROM: MISS C EVANS
DATE: 5 September 1988

MR GRIFFTHS

cc Chancellor
Mr Anson
Mr Phillips
Miss Peirson
Mr Saunders
Mr Turnbull
Mr Call

PES 1988; INCREASED RECEIPTS FROM FPS CHARGES

The Chief Secretary was grateful for your submission of 31 August. He agrees that a joint paper by officials would be best if Mr Saunders can achieve agreement on that. He is content for you to send the note attached to your minute, subject to omitting the possible package suggested in the summary of options.

2 The Chief Secretary has commented that, on merit (political not moral) items 1, 2(a), and 5 or 6 seem the most practicable (especially on the back of a large prospective PES increase and the outcome of the NHS Review with, he hopes, some points of appeal in it!). However colleagues generally will dislike 2(a) especially. The Chief Secretary would be reluctant to remove children's exemptions on several grounds, including the knock through to child benefit. But he is content for the list as drafted to form the basis of discussion in the bilateral.

Carys Evans

MISS C EVANS
Private Secretary

I see every chance [illegible] 1, 5 & 6; [illegible] with children and 4. But the [illegible] [illegible] Given the recent changes [illegible], I see no grounds for 2(a).

gep1.ip/jm/cst pes

Pup

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FROM: J MACAUSLAN
DATE: 7 September 1988

CHIEF SECRETARY

The lines here X & Y. It must be made clear to DES what Cabinet agreed in July, ~~[illegible]~~ as well as the [illegible] position –

cc: Chancellor
Mr Anson
Sir T Burns
Mr Monck
Mr Phillips
Mr Luce
Mr Sedgwick
Mr Turnbull
Mrs Case
Miss Walker
Mr Call

PUBLIC EXPENDITURE SURVEY 1988: BRIEFING FOR BILATERALS

Anthea Case mentioned to me that the DES PFO had spoken to her about the article, "Economic View" on page 25 of the Times on Monday. This said that it might be possible to add £4 billion to the planning total for 1989-90 without breaching the PEWP GGE/GDP ratio. Our calculations show this to be a substantial underestimate of the theoretical scope for additions within the PEWP ratio. An increase of £4 billion would keep us within the FSBR ratio. The figure to hold within the PEWP ratio is about £9 billion. But these figures are academic - they neither represent agreed policy, nor are remotely acceptable given the economic situation. X

2. If Mr Baker raises the question on Thursday, you will want to use the brief attached to my submission of 2 September. The Cabinet remit requires that we continue a downward path from the ratio achieved in 1988-89, which will be a good deal lower than suggested in the PEWP (or FSBR). And, as the article pointed out, any such increases would be unsettling in the markets. And the room for manoeuvre has already been reduced by decisions taken, eg local authority current expenditure (much of it on schools), social security measures agreed in April, and NHS pay. Y

3. The DES PFO also said that recent economic indicators suggested that inflation assumptions would again be increased latc in the Survey process, undermining the basis on which the Survey had been conducted. If Mr Baker (or others) uses this argument to support bids, I suggest you take the following line:

> "This year, we revised the inflation assumptions in July, to put the Survey on a firm basis. The July figure took account of the pressures reflected in recent indicators. Public expenditure planning is in cash terms."

JM

J MACAUSLAN

1.7.9jg

CONFIDENTIAL

FROM: JOHN GIEVE
DATE: 7 SEPTEMBER 1988

I agree with this, but wd omit [ ] @ X

CHIEF SECRETARY

cc Chancellor
Mr Turnbull
Mr R Evans
Mr N Towers
Mr H Bush o/r

PUBLIC EXPENDITURE: CONTACTS WITH THE PRESS

I have been giving some thought to our approach to public expenditure stories in the coming two months. While it seems very unlikely that we will want to make any comments on the record, there may be some opportunities speaking off the record to influence expectations both on the overall picture and on individual programmes.

Overall Result

2. In brief our aim is to maintain the view that stringency is essential (both to encourage your colleagues to accept less and to lower the expectations of the lobbies and the backbenchers) while not creating unrealistic expectations in the City.

3. At present the position on this front is reasonably satisfactory. As a result of the difficulties on the economic front, we do not need to do much, if anything, to convince people that now is not the time for large increases in public expenditure. Nonetheless, such comment as I have seen (excepting Anne Segall in the Daily Telegraph) has seemed to accept that a substantial increase in the planning totals - perhaps of the order of £2-3 billion is likely and that seems a fair yardstick to be judged by.

4. On the general position, therefore, we probably need to do no more than look lugubrious but determined. We will need, however, to keep a close watch on City expectations to ensure that they do not become too optimistic (nor on the other hand start to take fright).

General progress of bilaterals

5. I don't think there is anything to be gained from saying anything very concrete about bilaterals. Our line should be:-

(a) as usual you are holding bilaterals with your colleagues and, as normal, this involves a series of meetings throughout September and early October;

(b) the aim of these meetings is to reach agreements where possible and where not to clarify and refine issues that may need to be referred on to Star Chamber and to Cabinet (with Star Chamber starting work in October).

6. If asked about Star Chamber and Mr Parkinson, I see no harm in building on the briefings the latter appears already to have given on the following lines:

(a) much too early to say whether and, if so, how many programmes will go to Star Chamber;

(b) Star Chamber typically comprises a number of senior Ministers; only Mr Parkinson has been appointed at this stage; he is known to be a "dry" on public expenditure [- perhaps more so than Lord Whitelaw;] therefore

X

(c) Ministers may feel it is risky to go to Star Chamber this time, especially given the evident need to keep a stringent grip on political expenditure.

7. At some point, perhaps at the end of the month, it may be helpful to you if your colleagues get a sense that settlements are being reached on a number of big programmes. However, I don't think we should let on to the press about this because we don't want to excite too much comment on the results before the Autumn Statement. It should be possible to avoid too much speculation before the Party Conference. What we say after that will depend on the situation.

Particular programmes

8. In the past we have tried to avoid getting drawn into briefing or counter-briefing on particular programmes during the bilaterals. Not only is this honourable but it also has advantages:-

(i) it makes your position in negotiations easier;

(ii) we have no natural constituency and are therefore more likely to lose than gain from exciting debate in public on difficult policy areas;

(iii) it is often in our interests that a Department should be ignorant of the issues being discussed with other Departments.

9. I think this approach is probably the right one this year too. I certainly do not think we should be seen to initiate briefings against any particular Department. If we find ourselves sinned against we should consider what, if anything, to put out in return case by case.

10. One of our difficulties in the past has been that we have little access to the relevant specialist correspondents on the papers. Briefing of the economic correspondents is a transparent approach, while briefing the lobby correspondents focuses attention on the personal rift rather than the issues. This is a problem throughout the year and not only at bilateral time. I hope over the next few months to open up contacts with one or two potentially helpful journalists in key fields so that - at least - they will contact us and give us an opportunity to express a view when issues arise.

11. In summary, I think we should adopt a low profile in the coming weeks. You may wish to discuss.

JSG. Gieve

JOHN GIEVE

cm/psbr/mthminch **CONFIDENTIAL AND PERSONAL**

MES 12/9

Tony D
pl minute

FROM: COLIN MOWL
DATE: 12 September 1988

1. **MR SCHOLAR**

2. **CHANCELLOR OF THE EXCHEQUER**

cc Sir P Middleton
Sir T Burns
Mr Peretz
Mr Sedgwick
Mr Vernon
Mrs Todd
Miss Chapman

PSBR IN AUGUST

The first provisional outturn for the PSBR in August is a net repayment of £1.3 billion, compared with last month's forecast of a net repayment of £0.8 billion. This first internal estimate is a day later than usual as a result of some of the local authority returns to the DOE being delayed by the postal dispute. The DOE now have the same number of returns as usual at this stage so the quality of the estimate should be no different from usual. As ever the estimated outturn is subject to revision before publication. There is no reason to think that the postal dispute will prevent us from publishing the outturn on schedule, on Friday 16 September.

2. The CGBR(O) in August is provisionally a net repayment of £1.4 billion, a £0.1 billion higher net repayment than the first outturn reported in Mrs Todd's minute of 2 September 1988, and a £0.3 billion higher net repayment than forecast last month. Mrs Todd's minute (copy attached) gives details of the difference between forecast and outturn.

3. The LABR in August is provisionally borrowing of £0.1 billion, a little less borrowing than forecast last month. The PCBR was provisionally zero in August, in line with the forecast.

4. The PSBR in the first five months of 1988-89 is a net repayment of £4.4 billion, a £3.9 billion higher repayment than forecast in the Budget profile. In the first five months of 1988-89, the CGBR(O) is a £3.6 billion higher net repayment than forecast in the Budget profile, and the LABR is £0.5 billion lower borrowing than forecast in the profile. The PCBR is close to profile.

5. Excluding privatisation proceeds the PSBR in the first five months of 1988-89 is £4½ billion less than in the equivalent period of 1987-88. The difference is more than accounted for by central government own account transactions.

6. The monthly note, presenting updated estimates for August and forecasts for September to November, will be circulated this Friday.

Colin Mowl

COLIN MOWL

CONFIDENTIAL AND PERSONAL

	August 1988			April - August 1988			April - August 1987
	Provisional outturn	Last month's forecast	Difference	Provisional outturn	Budget profile	Difference	Outturn
CGBR(O)	- 1.4	- 1.0	- 0.3	- 4.3	- 0.7	- 3.6	2.3
LABR	0.1	0.2	-	0.3	0.8	- 0.5	0.2
PCBR	-	0.1	- 0.1	- 0.4	- 0.6	0.2	- 0.9
PSBR	- 1.3	- 0.8	- 0.5	- 4.4	- 0.5	- 3.9	1.7
PSBR excluding privatisation proceeds	0.9	1.3	- 0.4	0.5	4.5	- 4.0	5.0

ptodd/cgbr(o)/mthnote

CONFIDENTIAL AND PERSONAL

FROM: MRS P TODD
DATE: 2 September 1988

1. **MR ~~MOWL~~** EJM

2. **CHANCELLOR**

cc Sir P Middleton
Sir T Burns
Mr Anson
Mr Scholar
Mr Sedgwick
Mr Peretz
Mr Watts o.r.
Mr Vernon

CGBR(O) AND CGBR IN AUGUST

The provisional outturn for the CGBR(O) in August is a net repayment of £1.3 billion, compared with the forecast made last month of a net repayment of £1.0 billion. The estimate of the CGBR(O) is subject to revision before publication on Friday 16 September.

2. The main differences from forecast were higher Inland Revenue receipts (by £0.2 billion), mainly due to higher PAYE receipts, and slightly lower departmental expenditure (by £0.1 billion).

3. In the first 5 months of 1988-89, the CGBR(O) is a net repayment of £4.3 billion, compared with the Budget profile forecast of a net repayment of £0.7 billion. The main factors underlying the difference are:

(a) Higher Inland Revenue receipts (by £0.8 billion), mainly due to higher income tax.

(b) Higher Customs and Excise receipts (by £0.6 billion), of which £0.3 billion is due to higher VAT on imports.

(c) Higher National Insurance Contributions (by £0.3 billion).

(d) Lower departmental expenditure (by £1.9 billion) of which £0.4 billion is due to lower net payments to the EC and £0.4 billion is due to lower National Insurance Fund benefit payments.

4. On-lending to local authorities in August totalled £0.6 billion and on-lending to public corporations totalled £0.4 billion. The provisional CGBR in August is therefore a net repayment of £0.3 billion. The cumulative CGBR to August is a net repayment of £1.4 billion.

5. Further analysis of the CGBR(O) outturn in August will be given in the next Ministerial note on the PSBR in two weeks time.

Philip Todd

P TODD

CONFIDENTIAL AND PERSONAL

CENTRAL GOVERNMENT TRANSACTIONS

	August 1988			April-August 1988			April-August 1987
	Provisional outturn	Last months forecast	Difference	Provisional outturn	Budget profile	Difference	Outturn
Receipts							
Inland Revenue	3.9	3.7	0.2	24.5	23.7	0.8	22.2
Customs and Excise	4.6	4.6	-	19.9	19.3	0.6	17.7
National Insurance Contributions	2.6	2.6	-	12.6	12.3	0.3	11.1
Interest & dividends	0.6	0.6	-	3.2	2.8	0.3	3.0
Other receipts	0.4	0.4		1.0	1.1	-0.1	1.4
Total receipts	12.1	11.9	0.2	61.1	59.2	1.9	55.3
Expenditure							
Privatisation proceeds	-2.2	-2.2	-	-4.9	-5.0	0.1	-3.4
Interest payments	1.3	1.3	-	6.8	6.7	0.2	6.6
Departmental expenditure (a)	11.6	11.7	-0.1	54.9	56.8	-1.9	54.4
Total expenditure	10.7	10.9	-0.1	56.8	58.5	-1.7	57.6
CGBR(O)	-1.3	-1.0	-0.3	-4.3	-0.7	-3.6	2.3
CGBR(O) excluding privatisation proceeds	0.8	1.1	-0.3	0.6	4.3	-3.6	5.7
On-lending to LAs	0.6	0.3	0.4	2.5	1.4	1.1	3.0
On-lending to PCs	0.4	0.4	-	0.3	0.2	0.1	-0.7
CGBR	-0.3	-0.4	0.1	-1.4	0.9	-2.4	4.6

(a) on a cash basis, net of certain receipts

+ = higher receipts, and higher borrowing, higher expenditure

- = lower receipts, and lower borrowing, lower expenditure

Passed on PNP

WS. @ ET mtg @ No 10 today Mr Baker agreed with Mr Fowler that annual DOS subvention to TVC should cease forthwith.

002/4206

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SWIP 3AG

Nick Wilson Esq
Private Secretary to the
Secretary of State for Employment
Department of Employment
Caxton House
Tothill Street
London
SW1H 9NF

13 September 1988

Dear Nick

PUBLIC EXPENDITURE SURVEY 1988:
DEPARTMENT OF EMPLOYMENT

I enclose a note of the Chief Secretary's bilateral meeting with the Secretary of State for Employment on 8 September.

Yours ever
Carys

MISS C EVANS
Private Secretary

Internal circulation:

Those present
PS Chancellor
Mr Anson
Mr Phillips
Mr Turnbull

CONFIDENTIAL

CHIEF SECRETARY TO THE TREASURY

NOTE OF A MEETING HELD IN THE CHIEF SECRETARY'S ROOM, TREASURY CHAMBERS AT 3.00 PM, ON 8 SEPTEMBER 1988

Present:	Chief Secretary	Secretary of State for Employment
	Mr Monck	Minister of State for Employment
	Mr Burgner	Mr Holland
	Mr Luce	Mr Reid
	Mr MacAuslan	Mr Talintyre
	Mr Burr	Mr Chambers
	Mr Dodds	
	Miss Evans	
	Mr Finnegan	Mr Rees (WO)
	Mr Kalen	Miss Low (SO)

PUBLIC EXPENDITURE SURVEY 1988: DEPARTMENT OF EMPLOYMENT

The meeting was held to discuss the proposals for the DE expenditure programme in the Secretary of State's letter of 26 May to the Chief Secretary and the Chief Secretary's replies of 25 June and 29 July.

2. The **Chief Secretary** opened the meeting by recalling the decision of the July Cabinet that expenditure totals should be kept as close as possible to the public expenditure Planning Totals agreed last year and that the GGE/GDP ratio should continue to decline. He was now faced with very substantial additional bids. Tough decisions would therefore be needed, including a substantial net reduction in the DE programme. But although the proposed savings were large, he did not believe that they were unreasonable in the light of the improved employment situation and demographic trends. He was grateful for the reduced requirements DE had offered, but further reductions were needed. He noted that since the Secretary of State's letter the Department's estimate of savings on account of revised economic assumptions (B1) had been

increased from £11.9 million to £16.7 million. Further work was needed on the management plan, notably to resolve outstanding questions on the efficiency savings, and officials should take this forward.

3. The **Secretary of State** said he would do his best to make some contribution to the Chief Secretary's required savings, but could not make the kind of reductions that the Chief Secretary was proposing. He was ready to write early next week with some specific proposals of his own. But there were two points which he wished to emphasise now:

(i) **ET** was an extremely important programme. It was important not to be seen to give ground in the face of the previous day's votes at the TUC to boycott it. The announced £1.4 billion provision would be difficult to cut, especially as the programme had already been criticised as under-funded.

(ii) The fall in unemployment was, of course, very welcome. But there was still a very real need for measures such as checks on availability and fraud, jobclubs and counselling if unemployed people were to be stimulated to take full advantage of the job opportunities which were available.

4. The **Chief Secretary** said that if on receipt of the Secretary of State's letter it appeared that a settlement was within reach, he would be prepared to bring forward the second bilateral. The **Secretary of State** said that that would be welcome.

DE BIDS

5. The **Chief Secretary** said that there were a large number of small bids. He suggested that at this meeting it was necessary to discuss only the larger ones. The **Secretary of State** agreed.

A1 ET-transfer from DHSS.

6. The **Chief Secretary** said this required no discussion, save to note that the **amount** of the transfer was contingent on what was finally agreed about the scale of ET itself.

A3 YTS.

7. The **Chief Secretary** said it was important to establish exactly which parts of the bid were related to the guarantee specified in the manifesto. His understanding was that these were bridging allowance (15/15/15), ending the re-entry restriction (3.0/3.3/3.6) and extension to 18th birthday (6.6/9.7/10.9). He asked what were the Secretary of State's priorities among the non-guarantee parts of the bid. The **Secretary of State** said that his broad ranking would be first, securing a qualification, second, initial assessment, and third, the inner cities.

A8 Stricter Benefit Regime.

8. The **Secretary of State** said that if unemployment was to keep coming down it was necessary to have an effective Employment Service and a benefit regime which ensured that people really were available for work. Part of the bid referred to White Paper initiatives, but the major element would continue in future years the work which was already being carried out on a stricter benefit regime. The aim was to secure benefit savings of £100 million - £120 million a year, but the effect on the unemployment figures was also important. The **Chief Secretary** said that some Inland Revenue enforcement work offered a better pay-off than the stricter benefit regime, but that was not a decisive argument for increasing running costs. The fact that savings were more than 1:1 did not automatically justify a bid and it was necessary to ensure that as much as possible of the expenditure was absorbed. On the White Paper measures the Chancellor's letter of 4 February had said that the White Paper must not produce any increase in public expenditure. On the stricter benefit regime itself, £11 million of the £19 million which was being spent in the current year was being absorbed within the overall running cost provision. He was not sure why this should not happen next year. **Mr Talintyre** said that the agreement at the time of the White Paper had been about expenditure rather than running costs. The **Secretary of State** said that the Employment Service was having to

run very hard to make staff reductions to keep up with the fall in unemployment, and the margin for absorbing further expenditure was therefore reduced.

9. **Mr Burr** said that the pay-off varied from measure to measure and it was necessary to look at priorities. The **Secretary of State** said that they were all cost effective, some especially so. The **Minister of State** said that it was difficult to choose between measures since they reinforced one another. **Mr Monck** said that there was also a risk of double counting the savings. The **Secretary of State** pointed out that the savings did not accrue to DE but fell on the DSS programme. The **Chief Secretary** said that his concern was to ensure that the benefit service was run as cost-effectively as possible. The **Secretary of State** agreed to see how far his bid could be absorbed.

A9 Other Benefit Administration.

10. The **Secretary of State** said this bid was necessary because payments to trainees on the Employment Training (ET) programme would be made by Unemployment Benefit Office (UBO) staff. The **Chief Secretary** asked why a bid was needed since ET replaced other programmes. **Mr Talintyre** explained that individual participants in the Community Programme, one of the main schemes replaced by ET, were paid by managing agents whereas ET participants would be paid by UBO staff. The **Chief Secretary** asked why the running cost bid should result in a net expenditure bid. **Mr Chambers** said that the bid was partly offset by increased receipts shown at B7 which represented payments from the Training Commission's (TC) ET programme. The **Secretary of State** agreed to write explaining the relationship between the running cost bid and net public expenditure.

A10 Pay and Prices.

11. The **Secretary of State** said that this bid reflected his assessment of likely pay increases at 6 per cent per annum and

price increases at 5,4 and 4 per cent in the PES years. The Chief Secretary asked why there was a declining profile for prices but not for pay. **Mr Talintyre** said that Civil Service pay agreements would tend to mean that increases elsewhere were reflected in Civil Service pay 2 years later, so that the effect of any decline would be deferred beyond the PES period. The **Chief Secretary** said he did not see any mention of efficiency savings offsetting this bid. **Mr Talintyre** said that they were dispersed around the other bids. **Mr Chambers** said one example was that the reductions at B2 (ET and Bridging Allowance payments) were made possible by the decision to computerise the payment system. The **Chief Secretary** asked that further details should be provided of the use made of efficiency savings.

A14 IT Capital.

12. The **Secretary of State** said that a number of projects made up this bid. **Mr Holland** said that some did not produce savings until after the PES period but where savings were expected in the PES period they had been scored. The bid was set against baseline provision of about £60 million a year. **Mr Holland** said some projects were very important such as those in the Employment Service supporting the Stricter Benefit Regime and SUPERVACS. The **Chief Secretary** asked whether all this year's provision for SUPERVACS would be spent. **Mr Chambers** said it would be; the slippage had been in 1986-87 and had been surrendered. The **Chief Secretary** asked what value for money SUPERVACS provided and **Mr Holland** said he would provide a note. The **Chief Secretary** asked what priority the Secretary of State attached to the various elements of the bid and the **Secretary of State** agreed to provide this information.

CHIEF SECRETARY'S PROPOSALS FOR REDUCTIONS

C1 ET.

13. The **Secretary of State** said the TUC boycott would have no great impact in the short term: all the places had been

contracted for. The programme would go ahead as planned. He saw no reason why the attitude of the TUC should have much effect on take-up. The **Chief Secretary** said that given the reduced level of unemployment since the planning stage of ET, he thought it most unlikely that the originally planned throughput of 600,000 was in fact achievable. The **Secretary of State** said we still had 2.3 million unemployed and 1.3 million unemployed for more than six months.

14. The **Chief Secretary** said Treasury calculations showed that given the recent and prospective decline in the client groups, the proportionate take-up required to achieve the 600,000 absolute level of throughput would need to be much greater than originally assumed, and implausibly high. Against the 600,000 target, the scheme would be judged a failure. There was therefore a good case for holding to the take-up rates originally assumed, and accepting that this meant a lower absolute throughput.

15. The **Secretary of State** said that there would be a major political problem in making cuts which were inconsistent with the £1.4 billion to which the Government was committed in a White Paper approved by Cabinet. The programme had already been criticised as being underfunded. If take-up by the client groups were less than 600,000 he would prefer to use the shortfall either to improve the quality of training, or perhaps to bring in other categories of client, excluded from the original calculations because they could not be accommodated within the £1.4 billion. There might however be more room for manoeuvre in the second and third years.

16. **Mr Holland** said the original calculations had allowed for a downward trend in unemployment. The **Chief Secretary** suggested that officials of both departments should examine the unemployment and take up assumptions. The **Secretary of State** said that he could agree to that on the clear understanding that this was not the only relevant consideration. The Government's commitments were also of key relevance, given the high political profile of ET.

17. The **Chief Secretary** emphasised that in reducing the scale of the programme he wanted to put the emphasis on cutting the less valuable **project-based** training at the expense of **employer-based** training. The **Secretary of State** said that there were difficulties here, since he had to take account of the sensitivities of the voluntary bodies.

C2 YTS.

18. The **Chief Secretary** said that the logic underpinning his proposed reduction was the prospective reduction in the client group due to demographic factors and the tightening of the youth labour market. It was also Government policy that employers should contribute more, and he strongly suspected that there was growing deadweight in YTS.

19. **Mr Fowler** said that it was essential to fulfil the 2 year guarantee. But he had some sympathy with what the Chief Secretary had said, and his letter would propose further measures to reduce the costs of this programme.

C3 Publicity.

20. The **Chief Secretary** noted that publicity expenditure was distributed over the individual programmes, and not drawn together into a publicity budget. He asked whether DE could explore whether for the future a separate publicity budget could be set up. **Mr Talintyre** said that DE's practice, in line with FMI principles, was to manage publicity expenditure as part of the individual programmes to which it related. It was **agreed** that further work would be done on how a separate publicity budget might work.

21. The **Chief Secretary** said that there were a number of general concerns about Government publicity, and it was important to be able to control and monitor it. He had not yet received the letter which the Secretary of State had promised in his letter of

26 May clarifying marketing objectives and suggesting ways of improving effectiveness and value for money in achieving them. There was also room for doubt about the continuing need for large-scale publicity expenditure. For example, the good response from training managers to **ET** had reduced the need for further publicity; on **YTS**, the withdrawal of income support, demographic factors, and the fact that it was a well established programme meant that there was little need to publicise it. DE publicity expenditure had risen rapidly when unemployment was rising. For the last 24 months unemployment had been falling, and publicity expenditure should now follow suit.

(!) 22. The **Secretary of State** said that DE publicity was not of an image-building nature, but programme-related, informing employers and employees about the opportunities available. He did not think an annual spend at the present level was excessive. On YTS, we needed to interest employers, and market the scheme to them, if we wanted them to contribute more. It was **agreed** that the Treasury would write with suggestions about where savings might be found.

C4 EAS.

23. The **Chief Secretary** asked what had been happening to the numbers in the scheme, in the light of the scrutiny report recommendation that they should level off or decline. **Mr Talintyre** said they had levelled off, and the baseline allowed for level numbers of entrants. The **Secretary of State** said that there was some room for contraction in numbers on the scheme. His letter would cover this.

C5 Tourism.

24. The **Chief Secretary** asked how far the review of tourism had progressed. The Secretary of State said that it would not be complete until the end of the year. He felt it would be very difficult to make decisions before that, and that the Scottish and Welsh Secretaries agreed strongly with him on this. The **Chief Secretary** said that public spending on tourism had grown much more

quickly than public spending generally over the last 5 years. Tourism was a profitable industry, and the support given to it was contrary to the Government's approach to other industries. The review seemed to be progressing slowly: he had hoped to see some results by now. The **Secretary of State** said that the Chairman of the BTA and ETB was very supportive of the review, and it would be a mistake to interrupt it. **Mr Rees** said that Mr Walker would resist any action in advance of the review. There had been a number of reviews of the tourist industry in Wales recently. These had not resulted in increased public expenditure but in clearer objectives and better co-ordination. **Ms Low** said timing was also important for Scotland. In response to a question from the Chief Secretary she confirmed that tourism expenditure was part of the Scottish block. The **Secretary of State** said that the existence of the review could not be an argument against considering any reduction, and he would see what scope there was for savings. One problem was that savings on Section 4 grants would be slow to come through given existing commitments.

C6 TVEI.

25. **The Chief Secretary** said that the essence of his case was that there should be a pause on TVEI until the evaluation results were available and studied. The Newcastle study was not encouraging. **Mr Holland** said a running evaluation was taking place. The full effects of TVEI were long term ones. But some results were available. He would send a note about the evaluation. On the Chief Secretary's option, undoubtedly something could be done, and the Secretary of State's letter would cover this. But TVEI was meant to be a catalyst for a limited period, and a pause would prolong the period over which it ran. It was currently due to be phased out by the mid-1990s.

Business Improvement Initiative (BII).

26. The **Chief Secretary** said that there must be scope for reductions here. As BII would be funding consultancy, rather than training, it should cost less than the programmes it was

replacing. The Government's policy of getting employers to pay more of the costs of training was also a reason for reducing provision. **Mr Reid** said BII was not all consultancy. In response to a question from **Mr Burgner**, he said DE were in touch with DTI to avoid overlap with their consultancy programme. The **Secretary of State** said BII was intended to stimulate private funding, on a pump-priming basis. It was oriented towards small firms. But he would see whether some savings could be made, and cover this in his letter.

C8 Jobstart.

27. The **Secretary of State** said he would be reluctant to abolish this scheme. It had a useful role in helping people back into work. The **Chief Secretary** said it had an effect on the unemployment count of only 150 per month, and ET was a better way of helping people back into work. In response to a question from the Chief Secretary, **Mr Reid** said the scheme had so far attracted 17,000 entrants.

C9 Small Firms Loan Guarantee Scheme (SFLGS).

28. The **Minister of State** said the Prime Minister had only recently announced the increased cover to 85% of the loan in inner cities. It would be impossible to abolish the scheme so soon after this, and he was not clear whether it was practicable to retain it for the inner cities only. He did not accept that the recent NERA report justified abolition. There would be considerable political difficulty in withdrawing such a high profile scheme. But DE would look further at the possibility of limiting it to the inner cities, and offering further savings as a result of recent evidence of a lower incidence of guarantees being called.

Conclusion

29. It was agreed that the Secretary of State would write as indicated in discussion. Officials would also discuss the figures

for the effects of the decline in unemployment on the take-up rates for ET. The **Chief Secretary** reiterated that he was ready to have a further meeting soon if that would be helpful.

Carys Evans

H M TREASURY
12 September 1988

MISS C EVANS

cm/psbr/chandpb CONFIDENTIAL AND PERSONAL

PMP

FROM: COLIN MOWL
DATE: 14 September 1988

CHANCELLOR OF THE EXCHEQUER

cc Economic Secretary
Sir P Middleton
Sir T Burns
Mr Scholar
Mr Sedgwick
Mr Odling-Smee
Mr Gieve
Mr Towers
Mr Vernon
Ms Chapman

Thanks. Arguably, at least, the £0.5 bn & Rover 525m counted as negative privatisation proceeds.

passed on.

DRAFT PRESS BRIEFING ON PSBR IN AUGUST

I attach the draft Treasury Reuters pages and press briefing on the PSBR in August.

2. The estimate of the PSBR in August to be published on Friday has not yet been finalised due to computer problems at the Bank of England. The latest estimate we have is a net repayment of £1.4 billion, a £0.1 billion higher net repayment than the first estimate I sent you on 12 September. I will let you know tomorrow if the final figure is very different from this.

3. Available City forecasts cover a very wide range, from £½ billion borrowing to a £3 billion repayment. The average is a net repayment of £1 billion, a slightly lower net repayment than the currently estimated outturn. As last month, analysts may use the tax and expenditure figures as up to date indicators of the level of activity in the economy. They are likely to conclude that there is no sign here of any slackening in the pace of growth.

4. We propose that the press notice and Treasury Reuters pages should mention three special factors affecting the August figures. First there are £2.2 billion of privatisation proceeds from the BP second call. Secondly there is £1.4 billion voted lending to British Coal which is the main reason for a high supply expenditure figure in the press notice. We feel it is important to explain that this is largely matched by repayment of lending to

the NLF with little net effect on the CGBR(O) or the PSBR. Thirdly there is the payment to Rover of £½ billion in connection with its sale to British Aerospace. This does increase the CGBR(O).

5. We should be grateful for any comments on the Reuters pages and press briefing, which as usual have been discussed with Mr Scholar and IDT, during the course of Thursday morning.

Colin Mowl

COLIN MOWL

DRAFT

<u>TREASURY REUTERS' PAGES</u>

UK TREASURY, PARLIAMENT STREET, SW1 01-270-5238
PSBR IN AUGUST 1988 = SUMMARY

THE PUBLIC SECTOR BORROWING REQUIREMENT - PSBR - IN AUGUST IS PROVISIONALLY ESTIMATED TO HAVE BEEN A NET REPAYMENT OF STG 1.4 BILLION. THIS GIVES A CUMULATIVE PSBR OF MINUS STG 4.5 BILLION IE. A NET REPAYMENT FOR THE FIRST FIVE MONTHS OF 1988-89 COMPARED WITH BORROWING OF STG 1.7 BILLION IN THE SAME PERIOD LAST YEAR. THE PSBR EXCLUDING PRIVATISATION PROCEEDS IS PROVISIONALLY ESTIMATED TO HAVE BEEN STG 0.4 BILLION IN THE FIRST FIVE MONTHS OF 1988-89 COMPARED WITH STG 5.0 BILLION IN THE SAME PERIOD OF LAST YEAR.

UK TREASURY, PARLIAMENT STREET, SW1 01-270-5238
PSBR IN AUGUST 1988 = 2

THE PSBR FOR AUGUST 1988 IS PROVISIONALLY ESTIMATED TO HAVE BEEN A NET REPAYMENT OF STG 1.4 BILLION. PRODUCTION OF PSBR ESTIMATE NOT SIGNIFICANTLY AFFECTED BY POSTAL DISPUTE. PRIVATISATION PROCEEDS IN AUGUST WERE STG 2.2 BILLION FROM THE SECOND CALL ON BP. SUPPLY EXPENDITURE INCLUDES STG 0.5 BILLION IN CONNECTION WITH THE SALE OF ROVER TO BAE AND STG 1.4 BILLION VOTED LENDING TO BRITISH COAL. EFFECT OF LATTER ON CGBR LARGELY OFFSET BY REPAYMENT OF NLF DEBT BY BRITISH COAL.

05:50 pm 14 Sep, 1988

1 2 3

PERSONAL AND CONFIDENTIAL UNTIL PUBLICATION
TREASURY REUTERS PAGE 1

UK TREASURY, PARLIAMENT STREET, SW1 01-270 5238
LATEST PSBR FIGURES STG MILLION

	LATEST MONTH	88-89 CUM	87-88 CUM
CGBR	-346	-1470	4589
CGBR OWN A/C	-1370	-4329	2330
LABR	36	203	191
FROM CG	632	2519	2981
OTHER	-596	-2316	-2790
PCBR	-43	-421	-860
FROM CG	392	340	-722
OTHER	-435	-761	-138
PSBR	-1377	-4547	1661

05:50 pm 14 Sep, 1988

1 2 3

PERSONAL AND CONFIDENTIAL UNTIL PUBLICATION
TREASURY REUTERS PAGE 2

UK TREASURY, PARLIAMENT STREET, SW1 01-270 5238
LATEST PSBR FIGURES STG MILLION

	LATEST MONTH	88-89 CUM	87-88 CUM
CONSOL FUND TOTAL REV	10024	50005	44694
OF WHICH INLAND REV	3916	24537	22219
CUSTOMS AND EXCISE	4642	19879	17695
OTHER	1466	5589	4780
CF TOTAL EXPENDITURE	11994	51513	49374
OF WHICH SUPPLY SERVICES	10612	44402	42690
STANDING SERVICES	1382	7111	6684
CF SURPLUS+/DEFICIT-	-1970	-1508	-4680
SUPPLY EXPENDITURE	10640	44430	42160

05:50 pm 14 Sep, 1988

	1	2	3

PERSONAL AND CONFIDENTIAL UNTIL PUBLICATION
TREASURY REUTERS PAGE 3

UK TREASURY, PARLIAMENT STREET, SW1 01-270 5238
LATEST PSBR FIGURES STG MILLION

	LATEST MONTH	88-89 CUM	87-88 CUM
NATIONAL LOANS FUND			
RECEIPTS	1324	6993	6512
PAYMENTS	678	8225	8828
BORROWING	1324	2740	6996
OTHER CGFA	1670	4210	2407

	88-89	87-88
PRIVATISATION PROCEEDS STG BN		
CURRENT MONTH	2.2	.4
CUMULATIVE	4.9	3.4

From: KEITH VERNON
16 September 1988

MR J. GIEVE - IDT

MR LANG - CSO Press Office

cc List A

Chancellor
Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Anson
Mr Monck
Mr Scholar
Mr Peretz
Mr Odling-Smee
Mr Sedgwick
Mrs Butler
Mr Grice
Mr Mowl
Miss O'Mara
Mr Pickford
Mr Bush
Mr Franklin
Mr Hudson
Mr I Taylor
Mrs Todd
Mr R Evans
Miss Chapman
Mr Mansell - CSO
Miss Orgill - CSO
Mr Wright B/E
Mr Gray - No 10

List B
(distributed at 11.30am, 16 September)

Mr C.M. Kelly
Mr Cropper
Mr Tyrie
Mr Call
Mr Ko - IR
Mr Balley - C and E

BRIEFING FOR 16 SEPTEMBER PSBR PRESS NOTICE

The PSBR figures for August will be published at 11.30am on 16 September. The provisional outturns, together with figures for 1987-88 are shown in Table 1. Cumulative figures for the PSBR and its components for 1986-87,1987-88 and 1988-89 are shown in Table 2 overleaf. Table 3 shows outturns excluding privatisation proceeds.

Table 1: Borrowing requirement outturns

£ billion

	April-Aug 1987	April-Aug 1988	Aug 1988
Central government on own account	2.3	-4.3	-1.4
Local authorities	0.2	0.2	-
Public corporations	-0.9	-0.4	-
PSBR	1.7	-4.5	-1.4
Memo: PSBR (excluding privatisation proceeds)	5.0	0.4	0.8

Note: Figures may not sum precisely because of rounding.

CONFIDENTIAL AND PERSONAL

CONFIDENTIAL AND PERSONAL (draft)

Table 3: PUBLIC SECTOR BORROWING REQUIREMENT EXCLUDING PRIVATISATION PROCEEDS

Cumulative £ billion

	Central government on own account			Local authorities borrowing requirement			Public corporations borrowing requirement			Public sector borrowing requirement		
	1986-87	1987-88	1988-89	1986-87	1987-88	1988-89	1986-87	1987-88	1988-89	1986-87	1987-88	1988-89
Apr	1.3	2.1	**0.3**	0.7	0.5	**0.8**	0.0	-0.4	**-0.3**	2.0	2.2	**0.7**
May	3.0	2.9	**0.8**	0.4	0.1	**0.8**	-0.3	-0.5	**-0.4**	3.0	2.5	**1.2**
Jun	4.2	4.1	**1.3**	-0.1	0.2	**0.4**	-0.5	-0.5	**-0.4**	3.5	3.8	**1.3**
Jul	4.2	4.3	**-0.2**	-0.1	0.4	**0.2**	-0.8	-0.7	**-0.4**	3.3	4.0	**-0.4**
Aug	5.3	5.7	**0.6**	0.2	0.2	**0.2**	-0.6	-0.9	**-0.4**	4.9	5.0	**0.4**
Sep	7.8	6.0		0.0	0.5		-0.8	-0.7		7.1	5.9	
Oct	7.5	4.9		-0.3	0.1		-0.3	-0.7		6.9	4.3	
Nov	8.6	5.5		-0.7	-0.5		-0.7	-0.8		7.1	4.2	
Dec	8.9	5.2		-0.6	0.2		-0.7	-0.8		7.6	4.6	
Jan	5.5	-0.8		-0.6	0.0		-1.0	-1.0		3.9	-1.7	
Feb	6.0	-1.1		-0.7	0.2		-1.4	-1.4		4.0	-2.2	
Mar	9.0	1.7		0.2	1.4		-1.3	-1.5		7.9	1.5	

Note: Figures may not sum precisely because of rounding.

kv/min/sltakepsbr

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(DRAFT)

SUMMARY (PAGES 1 AND 2 OF TREASURY REUTERS PAGES)

Page One

THE PUBLIC SECTOR BORROWING REQUIREMENT - PSBR - IN AUGUST IS PROVISIONALLY ESTIMATED TO HAVE BEEN A NET REPAYMENT OF STG 1.4 BILLION. THIS GIVES A CUMULATIVE PSBR OF MINUS STG 4.5 BILLION I.E. A NET REPAYMENT FOR THE FIRST FIVE MONTHS OF 1988-89 COMPARED WITH BORROWING OF STG 1.7 BILLION IN THE SAME PERIOD OF LAST YEAR. THE PSBR EXCLUDING PRIVATISATION PROCEEDS IS PROVISIONALLY ESTIMATED TO HAVE BEEN STG 0.4 BILLION IN THE FIRST FIVE MONTHS OF 1988-89 COMPARED WITH STG 5.0 BILLION IN THE SAME PERIOD OF LAST YEAR.

Page Two

THE PSBR FOR AUGUST IS PROVISIONALLY ESTIMATED TO HAVE BEEN A NET REPAYMENT OF STG 1.4 BILLION. PRODUCTION OF PSBR ESTIMATE NOT SIGNIFICANTLY AFFECTED BY POSTAL DISPUTE. PRIVATISATION PROCEEDS IN AUGUST WERE STG 2.2 BILLION FROM THE SECOND CALL ON BP. SUPPLY EXPENDITURE INCLUDES STG 0.5 BILLION IN CONNECTION WITH THE SALE OF ROVER TO BAE AND STG 1.4 BILLION VOTED LENDING TO BRITISH COAL. EFFECT OF LATTER ON CGBR LARGELY OFFSET BY REPAYMENT OF NLF DEBT BY BRITISH COAL.

1. August PSBR

Background

The average of City forecasts for the PSBR in August was a net repayment of £1 billion. (The forecasts range from £½ billion borrowing to a £3 billion repayment.) The PSBR in August is around £2.0 billion lower than in August 1987. Privatisation proceeds were £2.2 billion resulting from the second call on BP. A payment was made to Rover of £½ billion associated with the sale of the company to British Aerospace.

Line to take

PSBR in August was a net repayment of £1.4 billion. A payment of £½ billion was made to Rover associated with its sale to British Aerospace. Privatisation proceeds were £2.2 billion from second call on BP. PSBR excluding privatisation proceeds was borrowing of £0.8 billion.

2. PSBR, April- August

Background

PSBR in first 5 months of 1988-89 is a net repayment of £4.5 billion, compared with borrowing of £1.7 billion for same period last year. Excluding privatisation proceeds, PSBR for April-August was £0.4 billion, compared with £5.0 billion in the same period last year.

Line to take

PSBR for April-August was a net repayment of £4.5 billion. Excluding privatisation proceeds it was borrowing of £0.4 billion, compared with borrowing of £5 billion in the same period last year.

3. FSBR forecast of PSBR much too high?

Background

FSBR forecast 1988-89 PSDR of £3.2 billion. Already PSBR for April-August is £6.2 billion lower than for the same period last year (net repayment of £4.5 billion this year, borrowing of £1.7 billion last year) when PSDR outturn for the year was £3.6 billion. Chancellor said, in a speech to the Cities of London and Westminster Annual Luncheon that "while I do not propose to make a new forecast, all the signs are that this year's budget surplus is likely to be, if anything, greater than I projected at the time of the Budget".

Line to take

Too soon to give a new PSBR forecast given the month to month volatility of the pattern of borrowing but signs are that Budget surplus likely to be greater than that projected at time of Budget. New forecast in Autumn Statement.

4. Privatisation proceeds

Background

Privatisation proceeds in August were £2.2 billion resulting from second call on BP. For April-August they were £4.9 billion compared to an FSBR projection of £5 billion for year as a whole. (April-August 1987 £3.4 billion.) BP proceeds are shown in "Other central government funds and accounts" column 12 Table 3 - CSO/ Treasury Press notice - since they were not, in August, yet paid over to Consolidated Fund.

Line to take

Privatisation proceeds in August were £2.2 billion - all from the second call on BP. April-August proceeds some £1.7 billion up on those of last year.

5. Consolidated Fund Revenues

Background

Consolidated Fund Revenues in April-August

	% FSBR Forecast 1988-89 on 1987-88	% change April-August 1988 on 1987
Total	+ 4	+ 12
of which:		
Inland Revenue	+ 6	+ 10½
Customs & Excise	+ 7	+ 12½

Increase in revenues of 12 per cent compares with FSBR forecast of 4 per cent for year as a whole. Inland Revenue and Customs and Excise receipts (up 10½ per cent and 12½ per cent) both very buoyant. Chancellor has indicated (Oral Questions June 16) "that economic growth this year could be slightly higher than 3 per cent forecast at Budget time". That, together with buoyant revenues so far this year, suggests that Consolidated Fund revenue could be greater than the £128.2 billion - 4 per cent growth - forecast at Budget time. This is a reason for expecting larger PSDR than projected at Budget time.

Line to take

Consolidated Fund revenues in April-August 12 per cent up on same period last year, even though tax cuts now reflected in figures. With expectations of higher economic growth this year than forecast at Budget time, they suggest that Consolidated Fund revenues could be greater in 1988-89 than the £128.2 billion projected at the time of the Budget.

6. Inland Revenue Receipts

Background

1988 FSBR forecast 6 per cent increase in Inland Revenues receipts in 1988-89. Impact of budget income tax cuts, associated with PAYE, are reflected in April-August cumulative total. Receipts in April-August some 10½ per cent up on same period last year. With the five months figures in, together with the general buoyancy of the economy and expectations of higher economic growth this year than forecast in the FSBR, signs are that receipts will be above FSBR forecasts.

Detailed estimates of composition of August receipts will be published in October's Financial Statistics (Table 3.13). Fall in August from July (around £2½ billion) is a usual phenomenon reflecting large payment in July associated with quarterly installments of Advance Corporation Tax and half yearly installment of schedule D income tax.

Line to take

Receipts for April-August £24.5 billion - 10½ per cent up on last year. They include PAYE effects of 1988-89 tax cuts. With five months data in, and expectation of higher economic growth this year than forecast at budget time, expectation is that receipts of 1988-89 will be above budget forecast.

7. Customs and Excise Receipts

Background

Receipts up 12½ per cent in year to August compared with FSBR forecast of 7 per cent increase for 1988-89. With five months data in, the buoyancy of retail sales and expectation of higher economic growth this year than projected at budget time, signs are that receipts will be greater than those forecast in FSBR. [Car tax and VAT resulting from August's record new car registrations will be reflected in September, October and subsequent receipts.] Detailed estimates of composition of August receipts will be published in October's Financial Statistics (Table 3.14).

Line to Take

Receipts for April-August £19.9 billion -10½ per cent up on same period 1987-88. Signs are that receipts will be greater than those forecast in FSBR.

8. Consolidated Fund Expenditure

Background

Consolidated Fund expenditure, at £51.5 billion, up 4½ per cent on same period last year. Supply expenditure (see below) gives a clearer indication of expenditure trends measuring, as it does, actual expenditure from Departments' accounts.

Line to take

Consolidated Fund expenditure up 4½ per cent on same period last year.

9. Supply Expenditure

Background

1988 FSBR gives a figure for provision for supply in 1988-89 but not a forecast of outturn because the public expenditure Reserve is not allocated in the FSBR to individual components of expenditure (public expenditure total used in PSBR forecast assumes that the Reserve was fully spent). It is not easy therefore to assess how far recorded expenditure during a year is consistent with the FSBR. But supply expenditure in April-August, at £44.4 billion, was up 5 per cent on same period last year. Payment to Rover (£½ billion) one special factor in explaining August supply expenditure total. Another is the payment of £1.4 billion of voted loans to British Coal resulting from a change in financing. Effect of this on CGBR(O) and PSBR largely offset by repayments of loans by British Coal to NLF. Excluding the payment to British Coal, supply expenditure in April to August is around 2 per cent higher than in the same period of last year.

Line to take

Provisional outturn for supply expenditure in April-August £44.4 billion - up 5 per cent on same period last year (up 2 per cent excluding British Coal). Agreed claim on reserve from NHS pay settlement (£¾ million) has yet to have full impact on figures.

10. CGBR(O)

Background

Net repayment of £4.3 billion for CGBR(O) in April-August compares with borrowing of £2.3 billion for April-August 1987. Privatisation proceeds were £4.9 billion. (April-August 1987 £3.4 billion). Excluding privatisation proceeds CGBR(O) in April-August around £5 billion lower than in previous year.

Line to take

CGBR(O) in April-August a net repayment of £4.3 billion.

11. Local Authorities

Background and Line to take

LABR for April-August borrowing of £0.2 billion. Much the same as in equivalent period in previous years.

12. Public Corporations

Background and Line to take

PCBR for April-August, net repayment of £0.4 billion - a little lower than previous two years, but composition of sector now different due to privatisation.

13. Revisions to earlier estimates

Line to take

There are no significant revisions to previous month's PSBR.

14. Postal Dispute

Background

LABR in August may be subject to revision eventually given slightly fewer returns from local authorities than usual as a result of dispute, but effect likely to be small.

Line to take

Postal dispute unlikely to have had significant impact on August's PSBR figures.

KEITH VERNON (270-5029)
PSF Division, HM Treasury

.EcAssp/Sept88 CONFIDENTIAL

FROM: J S HIBBERD
DATE: 20 SEPTEMBER 1988

CHANCELLOR OF THE EXCHEQUER

cc : Chief Secretary
Sir Peter Middleton
Sir Terence Burns
Mr Anson
Dame A Mueller
Mr Monck
Mr Phillips
Mr Scholar
Mr Burgner
Mrs Case
Mr H P Evans
Mr C W Kelly
Mr Odling-Smee
Miss Peirson
Mr Peretz
Mr Sedgwick
Mr Robson
Mr Turnbull
Mrs R Butler
Mr Grice
Mr MacAuslan
Mr McIntyre
Mr Mowl
Mr T Burr
Mr Owen
Mr Cunningham
Mr Call
Mr Cropper
Mr Tyrie

Ch/ This is just Part I of the exercise - unemployment and RPI for yr 1 benefit uprating only.

Thanks. Contd.

ECONOMIC ASSUMPTIONS FOR PUBLIC EXPENDITURE

Economic assumptions need to be agreed at around this time of year in order to provide an up to date basis for Ministerial discussion as the Public Expenditure Survey figures for demand led expenditure are finalised. A set of agreed assumptions will be published over the next few months: in the Autumn Statement, the Public Expenditure White Paper, and the November Report of the Government Actuary. Table 3 of the Annex sets out when and where the various assumptions are published.

2. As at this time last year, we are asking you ahead of any firm results from the autumn forecasting exercise, and before there are indications of what will be in the Autumn Statement forecast, to approve certain preliminary assumptions. The assumptions are those which would be little, if at all, affected by the outcome of the forecast; approval is needed this early to permit the Social Security expenditure figures to be reworked in time for the initial paper for the Star Chamber in early October. The DSS also need an early review

of the unemployment assumptions to settle their very large administration bids. The remaining assumptions (and any revisions to those proposed here that subsequently prove necessary) will be the subject of a further submission in the first half of October.

3. This submission covers proposals on;

(i) the unemployment path over the PEWP period;

(ii) the 1989 uprating (ie the RPI figure for September 1988);

The average earnings assumption is also discussed but we propose delaying any changes to this until early October.

4. The unemployment assumption is normally a stylised path rather than a forecast. Thus while the choice of unemployment assumption is certainly affected by what we expect to happen to unemployment over the next two or three months, the choice is not really affected by the forecast of unemployment trends beyond the current financial year. The proposals in this submission take account of the latest data on unemployment, average earnings, and retail prices.

The unemployment assumption

5. An unemployment assumption for 1988-89 and the following financial year will be published in November in the Government Actuary's report. The assumption for the whole of the Survey period will be published in Part 2 of the Autumn Statement and in the PEWP. The last published assumption (which appeared both in the 1987 Autumn Statement and 1988 PEWP) is shown in the table below together with the unpublished assumptions subsequently issued to Departments (in March and July). Also shown is the forecasters' current view for 1988-89 (which is subject to revision in the latter part of the autumn forecasting round).

	GB adult unemployment (millions)			
	1988-89	1989-90	1990-91	1991-92
1988 PEWP (last published)	2.6	2.6	2.6	
March assumption	2.4	2.4	2.4	2.4
July assumption	2.25	2.25	2.25	2.25
Forecasters' current view	2.1			

6. Beginning with the October unemployment count, changed benefit regulations will effectively abolish under-18 unemployment (and, by implication, school leaver unemployment). At the moment there are around 50,000 under-18 claimant unemployed within the measured total of GB unemployed excluding school leavers. This "adult" unemployment count will, therefore, be 50,000 lower in October (and thereafter) than it would otherwise have been. (The DEmp will publish a long back run of unemployment numbers consistent with the new definitions when the October unemployment count is published on 17 November.) We have anticipated the change in the proposed assumptions set out below. Thus the assumption for 1988-89 represents six months (April to September) on the old definition and six months (October to March) on the new definition. This seems the most appropriate approach for DHSS's PES purposes. The assumptions for later years are on the new definition.

7. In August GB adult unemployment stood at 2,154 thousand, having fallen by an average of 46 thousand a month over the most recent three months, compared to an average 37 thousand fall in the previous three months. If unemployment continues to fall at around the recent rate for two more months - and a strong downward trend in unemployment is quite possible for some while yet - the October GB unemployment figures published in mid-November will show unemployment at around 2.0 million, perhaps a touch over. By January, when the PEWP is published, unemployment could well be under 1.95 million. For the current financial year, therefore, we should probably revise the assumption to 2.1 million, the outturn the forecasters now expect for the financial year average.

8. For the later years we are not primarily concerned at the moment with what we publish in the Autumn Statement in November. Rather, we are concerned to give DSS reasonably realistic numbers which, at the same time, avoid any unnecessary implications that as a result of lower unemployment there is currently less prospective pressure on their total programme, and hence less need to restrain the growth of the programme over the Survey period. We, therefore, propose to circulate a provisional assumption of 2 million for 1989-90 and beyond. This reasonably implies some further fall from the August numbers, which is, anyway, implied by the revised assumption of 2.1 million for 1987-88. But it is sufficiently stylised not to represent a forecast. It is possible that we could argue for a lower number for 1989-90 and beyond by the time of our next submission on assumptions, when we must also decide what to publish in the AS.

9. To summarise, the proposed unemployment assumption is:

1987-88	1988-89	1989-90	1990-91	1991-92
2.7	2.1	2.0	2.0	2.0

10. If subsequently we decide to stick with this assumption for the Autum Statement, the proposed path will follow the same pattern as in the last two Autumn Statements, ie a lower level in the three forward years than in the current year. In the 1985 Autumn Statement, the assumption was 3.05 million in 1985-86 and 3 million in each of the subsequent years; and in the 1986 Autumn Statement the assumption was 3.1 million in 1986-87 and 3.05 million in each of the subsequent years. In the 1987 Autumn Statement the assumption was 2.7 million in 1987-88 and 2.6 million in 1988-89.

The 1988 uprating

11. The 1989 social security uprating will be determined by the increase in the RPI over the year to September 1988. DHSS need our best guess at this now. (They will, of course, have to rework their expenditure estimates again when the September RPI is published unless our proposed figure is exactly right.)

12. We now expect that the increase in the all items RPI in the year to September will be 5.8 per cent. This compares with 5.7 per cent in the year to August. The assumption that DHSS are currently using, originally issued in July, is for a 5½ per cent increase in the RPI over the year to September 1988. The RPI excluding housing - which is used to update about a third of the social security programme - is expected to rise by 4.8 per cent in the year to September 1988, higher than the July assumption of 4¼ per cent).

13. The forecast is not sufficiently far advanced for us to propose revised RPI assumptions for later years: these will be covered in the next submission.

Average earnings

14. The last published average earnings assumptions from the 1988 PEWP are illustrated below, along with the revised assumptions issued in July.

	1988-89	1989-90	1990-91	1991-92
PEWP	7½	6½		
July assumptions	8½	7	6	5

15. This time last year we gave an early indication of the whole economy average earnings assumption for 1988-89 and later years. But the outlook for actual earning depends crucially on the prospect for activity in general and the RPI in particular. We are still too early in the forecasting round to give a considered view of these. We therefore propose not to issue revised earnings assumptions at this stage, but to leave it till our next submission in early October when we will have a much better idea of how the forecast is shaping up.

16. However, by way of forewarning, it is unlikely that the assumption for 1988-89 will differ much from the figure of 8½ per cent circulated to departments in July (but not published). Underlying whole economy average earnings rose by 9 per cent in the year to August, and they are unlikely to moderate substantially over the rest of the current financial year. It, therefore, seems that 8½ per cent will be the lowest figure we could conceivably defend for 1988-89 in the Government Actuary's November report.

Effect on public expenditure

17. Table 2 in the Annex gives ready reckoners for the effects of changes in the unemployment and RPI assumptions on demand led expenditure. The effect of the revisions proposed in this submission on the expenditure figures currently in PESC will be approximately as follows:

	1988-89	1989-90	1990-91	1991-92
Unemployment	- 330	- 575	- 600	- 625
RPI		165	175	190
Total	- 330	- 410	- 425	- 435

Approval

18. We would like to send the revised assumptions to DHSS by early morning Tuesday 27 September. We would, therefore, be grateful for your approval of the proposals by close on 26 September.

Jim Hibberd

J S HIBBERD

ANNEX Table 1

PROPOSED ASSUMPTIONS ON UNEMPLOYMENT, EARNINGS AND INFLATION*

Unemployment GB narrow (millions)	1987-88	1988-89	1989-90	1990-91	1991-92
Published PEWP assumption		2.6	2.6	2.6	
Unpublished March assumption	2.63	2.35	2.35	2.35	
Unpublished June forecast	2.62	2.24	2.15	2.20	2.22
July Assumptions		2.25	2.25	2.25	2.25
Proposed Assumptions		2.1	2.0	2.0	2.0

RPI (per cent changes)	Year to September 1988
Published PEWP assumption	4½
Unpublished June forecast	5
July Assumptions	5½
Proposed Assumptions	**5.8**
Proposed Assumption for RPI excluding housing	**4.8**

ANNEX Table 2

EFFECT OF CHANGES IN ASSUMPTIONS ON THE PUBLIC EXPENDITURE PLANNING TOTALS

	£ million			
	1987-88	1988-89	1989-90	1990-91
100,000 rise in unemployment				
DHSS	215	220	230	240
One per cent higher September RPI relevant to April uprating				
DHSS		405	410	430

ANNEX Table 3 PUBLICATION OF ECONOMIC ASSUMPTIONS

	AUTUMN STATEMENT:	GOVERNMENT ACTUARY'S ANNUAL REPORT	PUBLIC EXPENDITURE WHITE PAPER
DATE DUE	**November**	**November**	**January**
UNEMPLOYMENT	Figures shown in PEWP are also given in Part 2 of AS.	Financial year averages for 1988-89 and 1989-90 shown as basis for estimates of expenditure on social security.	Financial year averages up to 1991-92 shown as basis for estimates of expenditure on social security.
RPI	Figures shown in PEWP are also given in Part 2 of AS. **The Industry Act forecast will also show annual percentage changes to 1988Q4 and 1989Q4.**	Percentage increase in year to September 1988 shown as basis for estimates of expenditure on social security.	Annual percentage increases up to September 1990 shown as basis for estimates of expenditure on social Secuity.
AVERAGE EARNINGS	As for GAD Annual Report. Internal forecast used to derive published estimates of government revenue.	Average growth rates to 1988-89 and 1989-90 shown, as basis for estimates of income from NI contributions.	Not shown. But used for calculating family income supplement and housing benefit.
INTEREST RATES	Not shown. But figures used as basis for estimating expenditure on various programmes (eg interest support costs, housing).	Not relevant.	Not shown. But figures up to 1991-92 used as basis for estimating expenditure on various programmes and debt interest payments.
GDP DEFLATOR	Shown in Part 2 of AS.	Not relevant.	Financial year percentage increases up to 1991-92 shown. They determine cost terms for public expenditure.

FROM : MISS J C SIMPSON
DATE : 22 SEPTEMBER 1988

1. MR ~~ODLING-SMEE~~ I think it is better to get this out of the way now. OO-S 22/9

2. CHANCELLOR OF THE EXCHEQUER 14/2

cc Chief Secretary
Sir Peter Middleton
Mr Anson
Mr Phillips
Mr Beastall
Mr Culpin
Mr Turnbull
Mrs Butler
Mr MacAuslan
Mr Richardson
Mr Hurst
Miss Walker
Mr Denison
Mr Shore

Ch/content for draft at annex A to issue? MPW 22/9

OK as drawn

FINANCIAL REPORTING TO PARLIAMENT

The TCSC published its response to the Government's proposals on financial reporting to Parliament just before the Recess. The Committee broadly welcomed our proposals; its sole recommendation was that revised estimates of revenue expenditure should be presented in the Autumn. We propose that our reply should reject this recommendation.

2. We ought to reply to the Committee by the end of this week. Apart from the proprieties of Select Committee/Government relationships, we think it would be advisable to get it to them in time for any disappointment at our response to have subsided before the Autumn Statement. I attach at Annex A the draft reply we propose to send if you are content. I have spoken to the Clerk about the form of the reply. He agrees that as there is only a single recommendation to deal with, the Treasury's response did not merit being published as a White Paper. He thought that the Committee would be content to receive a Memorandum.

3. If, however, you wished to delay the response a little longer, an opportunity for doing so without offence lies in the fact that our original report was addressed jointly to the TCSC and the PAC.

We have as yet had no response from the PAC, nor are likely to before they reconvene at the end of October. This would mean that the window between any recommendation they might make and the Autumn Statement would be uncomfortably short. The PAC are not, in practice, likely to comment on the particular point to which the TCSC's recommendation relates, but we could use their non-response to delay our reply to the TCSC if you wished to do so for any reason. In that case it would be necessary for us to write to the Clerk to explain our position so that we did not appear simply to be ignoring the proprieties.

JS

MISS J C SIMPSON

ANNEX A

FINANCIAL REPORTING TO PARLIAMENT

The Government's Observations on the TCSC Sixth Report 1987-88

This memorandum gives the Government's observations on the Sixth Report of the Treasury & Civil Service Committee, concerning financial reporting to Parliament.

The Committee recommended (paragraph 9)

~~**2. We therefore recommend**~~ **that Parliament should be provided with revenue forecasts in the autumn to set beside expenditure decisions**. ~~**(paragraph 9).**~~

nor 8/10

The main purposes of the Government's Autumn Statement are to announce the conclusions of the annual public expenditure Survey and to provide the Government's latest forecast of the economy. The autumn is not the time the MTFS is reviewed or decisions about taxation made, and so there are no proposals about tax revenues that need to be reported to Parliament. Nor is the Autumn Statement a preview of the Budget. Moreover, as the Chancellor explained in November 1985, any revenue projections (serve no operational purpose, would) in the autumn would inevitably be ~~uncertain~~ substantially revised in the Spring, and have in the past led to confusion and misunderstanding.

The Committee also made a number of observations about the Government's proposals for the publication of financial information set out in Cm 375. The Government has noted these observations and will take them into account alongside the comments and recommendations of other Committees.

SIXTH REPORT

The Treasury and Civil Service Committee has agreed to the following Report:

FINANCIAL REPORTING TO PARLIAMENT

1. Since its inception the Treasury and Civil Service Committee has taken a keen interest in the arrangements for informing Parliament about the Government's expenditure plans. In our report in February on this year's Public Expenditure White Paper (PEWP) we proposed some further changes in financial reporting to Parliament.[1] The Government responded positively to these proposals and to proposals last year from the Committee of Public Accounts (PAC) in a White Paper published in May.[2] In that reply the Government indicated that it would be grateful for the views of PAC and of this Committee. This report gives our views on the outstanding issues. As in the past we are indebted to Professor Andrew Likierman for his assistance in our work.

The Autumn Statement

2. We enthusiastically welcome the Government's acceptance of the broad thrust of, and many of the detailed suggestions, in our report. Our consistent aim has been to ensure full and early publication of available financial information. The appropriate time for information on the outcome of the public expenditure survey to be published is immediately after the Cabinet reaches its final decisions. We therefore believe that the acceptance of our recommendation that as much as practicable of the material in chapter 1 of the Public Expenditure White Paper should be published in November in the Autumn Statement[3] will greatly assist the House.

Departmental Information

3. We proposed in our report on the PEWP that while the Autumn Statement should be expanded the present departmental chapters of Volume II of the PEWP should be published as individual annual departmental reports. The Government's response was to say that Volume II should be split into departmental volumes,[4] later described as "departmental reports".[5] We welcome this change since it will make it possible to fulfil an aim we share with a number of other departmental Select Committees of ensuring that more information is regularly published by departments.

4. We argued in our Report that "the basic financial information in these annual reports would follow a standard pattern agreed with the Treasury, and all departments should give the fullest possible information on objectives, targets and performance indicators and on their success in meeting these".[6] We welcome what the Government said about the degree of uniformity of the departmental volumes. We agree in particular with what was said by the Government about the need for the departmental volumes to contain—

— a basic core of financial information, drawn from a common database;

— a statement of objectives;

— an adequate array of indicators of performance and output with comparisons with the comparable targets set in previous plans;

— information about running costs and manpower; and

— a clear link with the detailed Estimates.[7]

We also agree with the Government that the information should satisfy the criteria of consistency, relevance and reliability and that the volumes should have similar structure and presentation.[8] While there will be scope for due weight to be given to the widely differing character and functions of departments, it should still be possible for us, and for the House as a whole, to reach a judgment on the development and effectiveness of widely different expenditure programmes. We

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[1] Second Report, 1987-88, HC292.
[2] Cm 375.
[3] Cm 375, paragraph 7 (i).
[4] Ibid, paragraph 7 (ii).
[5] Ibid, paragraph 12.
[6] HC (1987–88) 292, paragraph 7.
[7] Cm 375, paragraph 10.
[8] Ibid.

ourselves will wish to consider in the future whether the appropriate balance has been struck as between a reasonable degree of departmental freedom in reporting to Parliament and the desirability of maintaining a consistent approach in comparing the effectiveness of one programme as against another.

5. We were somewhat disappointed that in paragraph 11 of its reply the Government indicated that although the Treasury was well advanced with its new computer system it would not be practicable to bring together completely systems relating to the Public Expenditure Survey and the Estimates until the outcome of the 1990 Survey. As a result the Government's proposal is that the present departmental chapters of Volume II of PEWP should be published as separate volumes in January 1989 and 1990 and that not until 1991 would the departmental reports be published alongside the Estimates.[1] We do not understand why adaptation of the computer system should hinder progress towards departmental reports in the form, and with the later issue date, we have suggested, especially as we agree that the reports themselves should not contain full details of the Supply Estimates. We urge the Government to try to implement the agreed proposals before 1990/91. In the meantime we suggest that the expanded departmental chapters which are to be published separately next year should be offered at a significant discount to anyone who wishes to buy all of them, since we suspect that the total cover price of the 20 chapters will be significantly greater than that of volume II of PEWP which this year cost £22.

Estimates

6. As to the method of publication of the Estimates under the new arrangements we believe that it would be best if, as the Government suggested in paragraph 9 of the reply, departmental reports were to carry a summary of the Estimates with the full Estimates being separately printed and published at the same time. We also believe that it would be useful if the present helpful summary and Guide to the Supply Estimates[2] were extended to introduce, and demonstrate the links between, both sets of publications.

Outstanding information

7. We have also considered how best the remaining material now in Volume 1 of the PEWP which could not be published at the time of the Autumn Statement ought to be published in future.[3] Our view is that this detailed information, including, for instance, forecasts of the outturn of expenditure for the current year, should be published in a White Paper as soon as possible after the Autumn Statement as a statistical annex to it. We would expect this material to be available no later than the current PEWP (that is by about mid-January).

Debates in the House

8. As a corollary to the proposals about the abolition of the PEWP, we suggested in our report that in place of a debate on PEWP there might be a day's debate, arising from reports by departmental select committees, on motions relating to the new annual departmental reports.[4] We continue to believe that such a day would be valuable. We also consider, however, that in view of the extra weight being placed on the Autumn Statement there might usefully be a two day debate on it with perhaps one day devoted to the macro-economic context and the other to more detailed public expenditure issues and priorities. Such debates might take place in December, as has been usual in the past, or perhaps more usefully in January—allowing time for a rather longer inquiry by ourselves (and possibly for hearings by other committees) into the Autumn Statement.

9. If detailed expenditure plans are announced at the earliest possible moment after the Cabinet decides on them in the autumn, then there is a case for information also to be given about forecast revenue, based on unchanged rates and scope of taxation. We fully recognise that any such forecast is likely to be significantly changed by Budget time, but there seems to us to be a most powerful case for bringing the two sides of the economic equation together at the earliest date when the expenditure plans are presented. We therefore **recommend** that Parliament should be provided with revenue forecasts in the autumn to set beside expenditure decisions.

[1] Cm 375, paragraph 12.
[2] Cm 328 and 339–IND.
[3] See Cm 375 paragraph 7(iii) and HC (1987–88) 292, paragraph 15.
[4] HC (1987–88) 292, paragraph 14.

CONCLUSIONS

10. The Government financial cycle is a continuing process. There is scope for intervention at any point in it by parliamentary committees and by the House as a whole. The greater prominence now given to the Autumn Statement means that the House can consider the Government's decisions on expenditure priorities immediately after the Cabinet has reached its conclusions on the public expenditure round. But the more information that is made available, both in the Autumn Statement and in departmental volumes, gives select committees in particular, but also the House as a whole, an opportunity to consider expenditure plans not only after they have been reached by Government, but also during their formulation in the round which begins in March/April each year. We are sure select committees will wish to seize the opportunity both to scrutinise the previous year's performance against plans but also to make their views known before plans for future years are finalised.

13 *July* 1988

cst.ps/7ce27.9/min

CONFIDENTIAL

Rp

CHIEF SECRETARY TO THE TREASURY

FROM: MISS C EVANS
DATE 27 September 1988

MR TURNBULL

cc: Chancellor
Sir P Middleton
Mr Anson
Mr Beastall
Mr A J Edwards
Mr Farthing
Mr MacAuslan
Mr S Wood
Mr Richardson
Miss Walker

[Get note on the science programme]

BRINGING FORWARD EXPENDITURE INTO 1988-89

The Chief Secretary was grateful for your minute of 23 September.

2 As I have discussed with Mr Farthing, he would like us to offer Mr Baker £15 million to £20 million in 1989-90 for equipment in return for a commensurate reduction in those bids in 1989-90 and something extra for science. He also wants to offer the lump sum of £9 million for Osterley to help his negotiations with Mr Ridley.

Carys Evans

MISS C EVANS
Private Secretary

CONFIDENTIAL

MP

From: T P Lankester
Date: 3 October 1988

CHIEF SECRETARY

cc

Chancellor
Sir Peter Middleton
Mr Anson
Sir G Littler
Mr Lankester
Mr Monck
Mr Phillips
Mr Luce
Mr Mountfield
Mr Turnbull
Mr Burgner
Mr MacAuslan
Mr Waller
Mr Hansford
Mr Bottrill
Mr Binns
Mr Stevens
Mr Hancock
Mr Halligan
Mr Call
Mr Tyrie

If we wait a yr Docklands may well be cheaper!

1988 PUBLIC EXPENDITURE SURVEY: ECGD

Lord Young has written rejecting your view that ECGD should move from their London office to Docklands with an associated saving on running costs of £2.8 million in 1989/90 (though there is no effect on public expenditure). He suggests instead that the accommodation question should be looked again next year after the completion of a review of ECGD's future status and structure.

2. The attached submission from Mr Halligan and Mr Bottrill strongly recommends you to stick by your earlier position. My own view is that it is rather evenly balanced and I would now be inclined to give way.

3. There are certainly compelling arguments in favour of a firm decision to move to Docklands in 1989 - most notably the £2.8 million saving. Moreover, I do not believe there would be any appreciable loss of profitable business as a result of the

move. Nor am I much concerned at the risk of ECGD staff wanting to leave if a move goes ahead.

4. But there are some considerations which go the other way, and which to my mind tip the balance:

i. Although Mr Halligan is probably right in predicting no very radical outcome from the ECGD review, we are on tactically weak ground in rejecting this as an argument for delay. If Lord Young takes this case to the Star Chamber or to the Prime Minister (as I believe he would do), I suspect the review argument would alone win the day.

ii. We do not want to lose the Chief Executive, Malcolm Stephens. I entirely agree with you that we should not be blackmailed by resignation threats. However we cannot ignore the disruption and loss of momentum that would occur if he did resign. He may have cooled down a little on his holiday but I think there is a 60/40 probability he will resign if the decision goes against him. Of course, he can be replaced but I doubt whether we will be able to find anybody as competent quickly.

iii. A much bigger prize than minimising accommodation costs is the much needed improvement in portfolio management. We have been pressing ECGD for months on this and there is still much to do on their side. But if we insist on a move, I believe this portfolio management work will be setback by many months. Either we will have a very uncooperative Chief Executive in Stephens or else a new Chief Executive who will take time in addressing the portfolio issue.

5. Even if we give way this year, I believe we should return to the charge on the accommodation question next year. The option of Harbour Exchange will have gone, but I am sure there will be other attractive leases in Docklands. As a price for getting their way, we should insist on a running cost bid for 1990/91 and thereafter which presumes that they have moved to cheaper accommodation by then. We should also use this opportunity to insist on the need for early progress in getting in place a better portfolio management system.

6. Attached to Mr Halligan's submission is a draft letter which assumes you are rejecting Lord Young's proposal. I attach to this minute an alternative based on the advice given above.

7. If you decide to send my alternative draft, I think it would be worth my going over the ground with Malcolm Stephens first. I would like to ensure that he accepts the two conditions outlined in paragraph 5 before the letter goes off. I will tell him that if he does not, all bets are off and we will have to advise you to insist on the move to Docklands in 1989.

T P LANKESTER

DRAFT LETTER

FROM: Chief Secretary
TO : Secretary of State for Trade and Industry

1988 PUBLIC EXPENDITURE SURVEY : ECGD

Thank you for your letter of 27 September.

2. I continue to believe that there is a strong case for relocating ECGD in Docklands. Not only would this achieve substantial running cost savings, it would promote Enterprise Zones and encourage Inner City development. However, I accept that it would not be sensible to make irrevocable location decisions, while ECGD was being subjected to a radical review. I would therefore be content to postpone a final decision on location until after we have the results of Mr Kemp's review and accept a 1989-90 running cost ceiling of £39 million, subject to two conditions.

3. First, the location issue should be addressed as soon as we have Mr Kemp's report so that, if relocation then seems appropriate, it can take place in time to yield savings in 1990-91. As I am convinced that relocation to Docklands will remain the right decision after the review, I propose to fix your running cost baseline for 1990-91 and 1991-92 on the assumption that ECGD, at approximately the same level of staff, move to Docklands in 1990-91. My officials will be in touch with your about the precise figures but I believe that it implies a baseline of £38.0 million in 1990-91 and £39.9 million in 1991-92. (This compares with your bids, based on remaining in Export House but economising

on space, of £39.3 million in 1990-91 and £40.8 million in 1991-92). The assumption will be that relocation will take place in time to yield savings in 1990-91 and the burden of proof will be on ECGD if they wish to remain in Export House beyond next year.

4. Second, I would like to see more progress towards reducing the overall level of ECGD drawings on the Exchequer. As you know, the biggest drain on the public purse from ECGD comes from paying transfer claims on sovereign debt. In the last financial year these exceeded £800 million and reflect imprudent underwriting decisions in the past. There is nothing we can do about claims on business that has already been underwritten but, by having better controls on the country risk portfolio, we can reduce the level of claims on new business. The establishment of a system to control the portfolio was recommended in the 1985 Chapman Report but progress on implementation has been very slow. I wrote to you expressing concern about this last September and, although you reported little progress on the groundwork necessary to establish such a system in January, I must tell you that I do not consider subsequent progress to have been rapid enough. Consequently, we have still been unable to agree either ECGD's Strategic Plan or the 1988 Business Plan.

5. Before I can agree to postponing the location decision and foregoing running cost savings in 1989-90, I would like to have your assurance that a proper portfolio management system that will control both the level and composition of country risk will be in place by the start of the 1989-90 financial year. The current position is that Treasury officials have, in the context of the

1988 Business Plan, put forward proposals for such a system which ECGD have now been considering for 4 months. The need is for this consideration to lead to the development of a system that can operate from the start of the 1989-90 financial year. Decisions about the limits to be placed on the level and make-up of future exposure should be made by Ministers when considerinq ECGD's Business Plan on an annual cycle, starting with the 1989 Business Plan. Provided that you can give me an assurance that an improved system for controlling ECGD's portfolio will be implemented from the start of the 1989-90 financial year, I can agree to your running cost proposal for 1989-90.

(JOHN MAJOR)

aef2.cj/halligan/minute/pes.ecgd.2 CONFIDENTIAL

The case for an early decision to move to Docklands still seems justifiable and in line with the Government's relocation strategy.

FROM: J M HALLIGAN
DATE: 29 September 1988

1. MR BOTTRILL AB 3/10
2. CHIEF SECRETARY

cc Chancellor
Sir P Middleton
Mr Anson
Sir G Littler
Mr Lankester
Mr Monck
Mr Phillips
Mr Luce
Mr Mountfield
Mr Turnbull
Mr Burgner
Mr MacAuslan
Mr Waller
Mr Hansford
Mr Binns
Mr Stevens
Mr Hancock
Mr Call
Mr Tyrie

1988 PUBLIC EXPENDITURE SURVEY : ECGD

Lord Young's letter of 27 September suggests putting off the accommodation decision until the review of ECGD's status and structure is completed in 6 months. Meanwhile he suggests settling ECGD's 1989-90 running cost limit at £39 million, as he originally proposed. We can see no case for delaying the decision, which would make a move to Docklands before 1990-91 (at the earliest) impossible and mean foregoing potential accommodation savings of £2.8 million in 1989-90. We advise you to continue to insist on a running cost ceiling for 1989-90 of £36.2 million, based on relocation to Docklands next year.

Background

2. You have agreed to a 1 year running cost settlement and accepted all the non-accommodation elements of the running cost bid. ECGD, who face a rent review on their existing London accommodation (Export House in EC4) which would double the rent next year, wish to stay in Export House but economise on space. We want them to move to cheaper accommodation in Docklands. You wrote to Lord Young on 19 September asking him to reconsider. His letter of 27 September, proposing a postponement of the accommodation decision, is his reply.

3. The implications for running costs of the opposing positions are at Annex A; the details of the accommodation options are at Annex B. If Lord Young's position is accepted, ECGD running cost limit for 1989-90 will be £39.0 million. Your counterbid is £36.2 million: a difference of £2.8 million.

Lords Young's New Proposal

4. Lord Young argues that the current review of ECGD status and structure might leave us with a very different organisation to the current ECGD and says that it would be premature to reach irrevocable decisions on accommodation before it is available. He proposes postponing the final decision until after the results of the review are available and suggests that this delay need not involve losing the potential savings from the programme for economising on space in Export House. The 1st phase of the programme (designed to save £1.3 million in 1989-90) compared with a "do nothing" option) can be pressed ahead immediately without any capital expenditure. The prospect of savings from the 2nd phase of the programme (designed to save a further £2.3 million in 1990-91) can be kept alive, despite the delay, if ECGD spend a small amount on consultancy in the next few months. ECGD have told us that the expenditure will probably be about £50,000, which they can find within the existing 1988-89 running cost ceiling.

5. A delay would rule out a move to Docklands in time to secure potentially larger savings in 1989-90. To achieve these savings, ECGD need to be out of Export House and in Docklands by September 1989. The lead time for a move is about a year and ECGD officials have told us that if they are to achieve this they must be able to commit themselves by end-October at the very latest. (This is the deadline for signing the lease on the proposed building - Harbour Exchange.) The Next Steps review will not be available until April 1989 and we can expect decisions about it to take at least 3 months and, if the report suggests radical changes, much longer. Indeed, there is a danger that delaying an accommodation decision until the Government has reached decisions on the whole review, may preclude a move until 1991-92.

Assessment

6. The only basis for delaying the accommodation decision would be if there was a good chance that the conclusions of the review were that ECGD did not need any Central London offices. It would not make sense committing ECGD to a lease on Harbour Exchange and spending £2.9 million furnishing it, if ECGD would never occupy it. (PSA may well have problems finding alternative tenants). If we thought that such an outcome was probable we would advise delaying a decision.

7. But, we consider this outcome to be very unlikely. The review is mainly about whether any of ECGD can be privatised or is fit for Agency status and it is possible that a change in status will be recommended for the short-term business, based in Cardiff. We think it very probable that the review will conclude that the existing activities carried out in London (mainly insuring major projects) should continue and should be based in London. (The report by PA Consultants ruled out locating these activities outside London). The alternative of closing down most of the project business and turning ECGD into an "insurer of last resort" (which because it was not competing for business could be located outside London) is unattractive to us, because the deterioration in the quality of ECGD's overall risk portfolio would mean an increased drain on the public purse. As ECGD's strategic objectives, approved by DTI Ministers, specifically rejects the "insurer of last resort" approach and favours a strategy of "growing the business" it is unlikely that Lord Young will now completely change his mind..

Options and recommendation

8. The likelihood is that after the review ECGD will still exist as a Government Department employing people in London. Putting off the accommodation decision will mean foregoing the possibility of saving money in 1989-90 and, if the decision making process following the review is prolonged, perhaps until 1990-91. Our advice remains that the financial case for relocation is

overwhelming, the "business" case against relocation is unconvincing, and that there is no case for delaying a decision.

9. Lord Young's letter highlights as his objections to relocation the effects on staff morale and the difficulty of dealing with relocation whilst other changes are taking place within ECGD. We think the staff morale argument has been exaggerated and as ECGD needs to shed staff over the next few years to meet the manpower targets, some departures could be accepted. The "managing change" argument seems to us to favour relocation rather than the alternative of space optimisation. ECGD would have a year to organise the move and, as far as most staff are concerned, they would move out of a fully fitted building on Friday evening and into a new fully fitted one on Monday morning. Space optimisation involves a 2 year works programme in the existing building while people try to work in it. The latter seems easily the more disruptive.

10. We think that you should write back to Lord Young restating your views and insisting that ECGD's running cost ceiling for 1989-90 and the indicative figures for 1990-91 and 1991-92 (which will be the starting point for next year's discussions) will assume a move to Docklands. Lord Young will then have to decide to move to Docklands or find the £2.8 million gap in 1989-90 by further staff reductions and other economies. The resultant figures are set out below:

(£m)	1988-89	1989-90	1990-91	1991-92
Baseline	38.8	39.9	40.9	41.9
ECGD bid		39.0	39.3	40.8
Treasury		36.2	38.0	39.9

11. The alternative is to accept Lord Young's proposals for a postponement and argue the case again for relocation to Docklands next year. Although Harbour Exchange will not be available then, there will be plenty of other Docklands offices to choose from. However, our chances of getting them to relocate next year, after they have started on space optimisation in Export House, must be quite small If the eventual decision is to remain in Export House, the postponement will not mean delaying the space optimisation savings because this is a 2 year programme and small scale expenditure now will keep this option open.

12. If ECGD are to move into Harbour Exchange in time to achieve savings in 1989-90 they must commit themselves to the landlords by end-October, so we need to resolve this issue quickly. We expect that Lord Young will want to discuss your forthcoming response with ECGD's Chief Executive, Mr Malcolm Stephens, before replying to you again. Mr Stephens will be back from leave on Monday 10 October and so your letter should go to Lord Young as soon as possible. Draft letter attached.

J. M Halligan

J M HALLIGAN

ANNEX A.

BRIEFING TABLE
ECGD

	1988-89	1989-89	1990-91	1991-92
S RUNNING COSTS				
line	38.8	39.9	40.9	41.9
nge on previous year %)		3.0	2.5	2.5
rease per man year %)		7.0	6.4	2.5

	Bid			HMT opening position			Fallback			Forecast outcome		
	1989-90	1990-91	1991-92	1989-90	1990-91	1991-92	1989-90	1990-91	1991-92	1989-90	1990-91	1991-92
ied net change from baseline	-0.9	-1.7	-1.1	-3.7	-2.9	-2.1	-3.7	-2.9	-2.1	-3.7	-2.9	-2.1
ied new running costs total	39.0	39.3	40.8	36.2	38.0	39.9	36.2	38.0	39.9	36.2	38.0	39.9
nge on previous year %)	0.6	0.7	4.0	-6.6	4.9	4.9	-6.6	4.9	4.9	-6.6	4.9	4.9
ease per man year %	4.6	5.8	5.7	-2.9	10.3	6.6	-2.9	10.3	6.6	-2.9	10.3	6.6

WER IN GROSS RUNNING COSTS

	1988-89	1989-90	1990-91	1991-92
nt plans	1,728	1,661	1,600	1,600
tment's bid		1,661	1,581	1,556
pening position		1,661	1,581	1,556
ck		1,561	1,581	1,556
ast outcome		1,661	1,581	1,556

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ANNEX B

ACCOMMODATION OPTIONS

Option A. "Squash-up" in Export House in 2 stages

Gross Running Costs	1989-90	1990-91	1991-92
Export House Running Costs	5,760	4,108	4,347
Total PSA Accommodation Costs	8,620	7,400	7,788
Other Running Costs	30,356	31,865	33,057
Total Running Costs	38,976	39,265	40,845
Capital Expenditure			
Export House Capital Costs	500	2,700	300
Other Capital Costs	1,596	1,270	1,175
Total Capital Costs	2,096	3,970	1,475
Running Costs & Capital Expenditure	41,072	43,235	42,320

Option B. Move to Harbour Exchange in 1989-90

Gross Running Costs	1989-90	1990-91	1991-92
Harbour Exchange Running Costs	2,680	2,680	3,209
Total PSA Accommodation Costs	5,540	5,972	6,650
Other Running Costs	30,644	32,014	33,206
Total Running Costs	36,184	37,986	39,856
Capital Expenditure			
Harbour Exchange Capital Costs	2,915	-	-
Other Capital Costs	1,596	1,270	1,175
Total Capital Costs	4,511	1,270	1,175
Running Costs & Capital Expenditure	40,695	39,256	41,031

Savings from Option B

	1989-90	1990-91	1991-92
Running costs	2,792	1,279	989
Capital costs	-2,415	2,700	300
Total	377	3,979	1,289

DRAFT LETTER FROM CHIEF SECRETARY TO THE SECRETARY OF STATE FOR TRADE AND INDUSTRY

1988 PUBLIC EXPENDITURE SURVEY : ECGD

Thank you for your letter of 27 September.

2. I am afraid that your suggestion that we postpone a decision on accommodation until after the review, and meanwhile settle your 1989-90 running cost limit at £39 million, is not acceptable. I applaud your intention to have a radical review of ECGD's status and structure and that privatisation, as well as Agency status, is included in the terms of reference. However, I understand that the likelihood is that most of the activities currently carried out from the London office will continue in being and will continue to be operated from London. I reach this conclusion because ECGD's consultants advised against relocating these parts of the business outside London and ECGD strongly resisted Treasury suggestions that this should be reconsidered, arguing vehemently that a regional location would destroy much of the existing business and turn ECGD into "a lender of last resort". This would be contrary to the strategic plan aim, approved by DTI Ministers, of growing the business. Unless you consider the arguments against a regional location to have been seriously flawed, or are contemplating a complete change of strategy, it seems almost certain that we will face the same decision on accommodation after the review as confronts us now.

3. You point out that it should still be possible to secure the planned savings from space optimisation in both 1989-90 and 1990-91, even with this postponement, if some limited expenditure takes

place in the next few months to keep that option open. However, postponement will make it impossible to secure savings from a relocation to Docklands in 1989-90. Indeed, once we take into account the time that it will take to reach decisions on the conclusions of the review, it may prove impossible to arrange a move to Docklands in time to secure savings in 1990-91 either. On the other hand, I understand that if a decision is taken on a move to Docklands by the end of October it should still be possible to secure the planned savings in 1989-90.

4. It seems to me that the present review is most unlikely to change the nature of the accommodation decision and that postponing a decision would simply mean foregoing the opportunity to achieve savings on accommodation next year, and possibly the following year, that we should now be planning to achieve. I remain convinced that there is an overwhelming case on financial grounds for relocation to Docklands and the arguments against a move are unconvincing. Based on my view about the appropriate level of ECGD accommodation costs, I am prepared to agree to a running cost limit of £36.2 million for 1989-90. The easiest way to achieve this would be to move ECGD to Docklands in 1989-90. But, if you are still not prepared to contemplate this, ECGD will have to economise on non-accommodation costs to offset the higher costs involved in remaining in Export House.. The choice is yours to make but it must be a choice between one of those two options. What I cannot accept is continued location in Export House financed out of a higher running cost ceiling.

(JOHN MAJOR)

PAM81

PERSONAL AND SECRET

FROM: MARK CALL
DATE: 4 OCTOBER 1988

CHANCELLOR

CHIEF SECRETARY

cc Mr Anson
Mr Turnbull

PRIME MINISTER'S MEETING WITH SPECIAL ADVISERS

I thought you would be heartened to know that the Prime Minister was very robust on public expenditure at her meeting yesterday with Special Advisers. "The battle on inflation and public expenditure is never done. You have to keep on winning it."

2. Some advisers made ill-judged and unsuccessful pleas for more money. For example, Transport pleaded for more spending on roads. PM's response: 'You shouldn't base your traffic forecasts on a peak growth year. And which other Departments are going to reduce their programmes to accommodate this?'

3. There was a blunt plea from Defence. PM: 'If you stopped wasting the money we give you, you'd find you have enough.' The PM then went on to list projects which had overrun or simply not worked, from Nimrod to Alarm.

4. Perhaps predictably, the only areas where she was encouraging were Police, and pollution ('Nitrates in water getting to an intolerable level').

5. But overall a very encouraging tone - from the Treasury viewpoint!

MC

MARK CALL

Ch
Andrew Tyrie gave me a rather different account, saying PM banged on about current account deficit being unsustainable, inflation going up however you measured it and too much Treasury complacency
AA

I suspect this [illegible] represents the PM's view - [illegible] only to Tsy advisers. I think so. L

3783/3

CONFIDENTIAL AND PERSONAL

FROM: MRS P TODD
DATE: 5 October 1988

1. MR MOWL ~~CTM~~

2. CHANCELLOR

cc Sir P Middleton
Sir T Burns
Mr Anson
Mr Scholar
Mr Sedgwick
Mr Peretz
Mr Watts
Mr Vernon

CGBR(O) AND CGBR IN SEPTEMBER

The provisional outturn for the CGBR(O) in September is borrowing of £1.2 billion, £0.3 billion more borrowing than forecast last month. Most of this underprediction could be accounted for by a larger than assumed increase in borrowing resulting from the postal dispute. The estimate of the CGBR(O) is subject to revision before publication on Tuesday 18 October.

2. The main differences from forecast were lower Inland Revenue receipts and national insurance contributions (by £0.6 billion), partly offset by higher Customs and Excise receipts (by £0.1 billion) and lower departmental expenditure (by £0.2 billion).

The postal dispute

3. Most of the backlog of strike-delayed mail was cleared at the end of September, but there are thought to have been some 25 million items of strike-delayed mail still held at the last main sorting centres to return to work. These centres supply the Inland Revenue Scottish main collection office at Cumbernauld with the result that Inland Revenue receipts have been particularly affected by the different regional rates of return to normal working.

4. We do not have independent estimates of the amounts of Inland Revenue and other receipts and expenditure which may have been delayed. We can only look at the differences between forecast and outturn for those revenues and expenditure flows known to have been affected by the strike and adjust them for any other factors known to have affected the outturn. However the remaining differences between forecast and outturn will include both strike effects and some remaining non-strike related forecast errors. With this qualification in mind it is possible that about £½ billion of Inland Revenue receipts and under £0.1 billion of Customs and

Excise receipts in September were delayed by the strike. These delays to receipts may have been partially offset by delays to expenditure of less than £¼ billion.

5. If this interpretation is correct, the total effect of the strike may have been to increase the CGBR by about £½ billion. However the forecast for September assumed £¼ billion additional borrowing for the strike. So the strike may have accounted for most of the £0.3 billion higher CGBR(O) than forecast last month. The strike effects should fully unwind in October. Only then will we be able to accurately assess the forecast errors for September and October combined.

CGBR(O) outturn April to September

6. In the first 6 months of 1988-89, the CGBR(O) is a net repayment of £3.2 billion, compared with the Budget profile of borrowing of £0.6 billion. (Details are shown in the table attached.) The cumulative undershoot of the Budget profile increased further in September despite the postal dispute. Excluding strike effects, the CGBR(O) to September could well be over £4 billion below the Budget profile.

CGBR

7. On-lending to public corporations in September totalled £0.2 billion. There was a net repayment of £0.1 billion by local authorities. The provisional CGBR in September is therefore borrowing of £1.3 billion. The cumulative CGBR to September is a net repayment of £0.2 billion.

8. Further analysis of the CGBR(O) outturn in September will be given in the next Ministerial note on the PSBR in two week's time.

Philip Todd

P TODD

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CENTRAL GOVERNMENT TRANSACTIONS

	September 1988			April-September 1988			April-September 1987
	Provisional outturn	Last months forecast	Difference	Provisional outturn	Budget profile	Difference	Outturn
Receipts							
Inland Revenue	4.3	4.6	-0.2	28.9	28.1	0.8	27.5
Customs and Excise	3.7	3.6	0.1	23.5	22.7	0.9	20.9
National Insurance Contributions	2.2	2.6	-0.4	14.8	14.7	0.1	13.4
Interest & dividends	1.4	1.4	-	4.5	4.3	0.3	4.2
Other receipts	0.2	0.2	-	1.2	1.2	-	1.8
Total receipts	11.8	12.3	-0.5	73.0	70.9	2.1	67.7
Expenditure							
Privatisation proceeds	-0.1	-	-	-5.0	-5.0	-	-4.0
Interest payments	1.6	1.6	-	8.4	8.2	0.2	8.1
Departmental expenditure(a)	11.5	11.7	-0.2	66.4	68.3	-1.9	65.6
Total expenditure	13.0	13.2	-0.2	69.8	71.6	-1.7	69.7
CGBR(O)	1.2	0.9	0.3	-3.2	0.6	-3.8	2.0
CGBR(O) excluding privatisation proceeds	1.2	0.9	0.3	1.8	5.6	-3.8	6.0
On-lending to LAs	-0.1	0.1	-0.2	2.5	1.5	1.0	2.9
On-lending to PCs	0.2	0.2	-	0.5	0.3	0.2	-0.6
CGBR	1.3	1.2	0.1	-0.2	2.4	-2.6	4.4

(a) on a cash basis, net of certain receipts

\+ = higher receipts, and higher borrowing, higher expenditure

\- = lower receipts, and lower borrowing, lower expenditure cm/psbr/chandpb CONFIDENTIAL AND PERSONAL

FROM: KEITH VERNON
DATE: 14 October 1988

CHANCELLOR OF THE EXCHEQUER ✓

cc Economic Secretary
Sir P Middleton
Sir T Burns
Mr Scholar
Mr Sedgwick
Mr Odling-Smee
Mr Gieve
Mr Mowl o.r.
Mr Bush
Mrs Wright

Mr Riches.
OK; but see X.
Also, re Y, does this not also reflect shift of spending pattern → VATable goods (& services)?

DRAFT PRESS BRIEFING ON PSBR IN SEPTEMBER

I attach the draft Treasury Reuters pages and press briefing on the PSBR in September. The figures are liable to revision before publication and we will let you know if the final figures differ substantially from those included here.

2. The average of available City forecasts is for borrowing of £0.4 billion in September compared with the provisional estimate of £1.0 billion. The range, however, of City forecasts is wide - from £1.6 billion borrowing to £1.4 billion repayment.

3. We have included briefing on the effects of the Postal Dispute but, because of difficulties in measuring the effect accurately, we have not volunteered a figure in the press briefing (though an estimate of about £½ billion on borrowing is mentioned in the monthly note on the PSBR).

4. We have included a line on the impact on Petroleum Revenue Tax on Inland Revenue receipts in September, and specifically repayment of APRT. These bring down the growth in Inland Revenue Receipts in the year to date.

5. While the low growth of Inland Revenue Receipts may dissuade analysts from commenting that the economy is overheating, attention may be drawn to the rapid growth of Customs and Excise receipts. This may be used as an up to date indicator of rapidly growing private demand. We have therefore drawn attention to the lag between economic activity and actual payments for these receipts.

6. The Reuters pages draw attention to privatisation proceeds in September and the effect of the postal dispute.

7. We should be grateful for any comments on the Reuters pages and press briefing during the course of Monday morning, which as usual have been discussed with Mr Scholar and IDT.

K Vernon

KEITH VERNON

TREASURY REUTERS' PAGES

UK TREASURY, PARLIAMENT STREET, SW1 01-270-5238
PSBR IN SEPTEMBER 1988 = SUMMARY

THE PUBLIC SECTOR BORROWING REQUIREMENT - PSBR - IN SEPTEMBER IS ESTIMATED TO HAVE BEEN BORROWING OF STG 1.0 BILLION. THIS GIVES A CUMULATIVE PSBR OF MINUS STG 3.7 BILLION IE. A NET REPAYMENT FOR THE FIRST SIX MONTHS OF 1988-89 COMPARED WITH BORROWING OF STG 1.9 BILLION IN THE SAME PERIOD LAST YEAR. THE PSBR EXCLUDING PRIVATISATION PROCEEDS IS ESTIMATED TO HAVE BEEN STG 1.2 BILLION IN THE FIRST SIX MONTHS OF 1988-89 COMPARED WITH STG 5.8 BILLION IN THE SAME PERIOD OF LAST YEAR.

UK TREASURY, PARLIAMENT STREET, SW1 01-270-5238
PSBR IN SEPTEMBER 1988 = 2

THE PSBR FOR SEPTEMBER 1988 IS PROVISIONALLY ESTIMATED TO HAVE BEEN BORROWING OF STG 1.0 BILLION. PRIVATISATION PROCEEDS IN SEPTEMBER WERE STG 0.1 BILLION. EFFECT OF POSTAL DISPUTE WAS TO INCREASE PSBR IN SEPTEMBER SOMEWHAT.

05:08 pm 14 Oct, 1988

1 2 3

PERSONAL AND CONFIDENTIAL UNTIL PUBLICATION
TREASURY REUTERS PAGE 1

UK TREASURY, PARLIAMENT STREET, SW1 01-270 5238
LATEST PSBR FIGURES STG MILLION

	LATEST MONTH	88-89 CUM	87-88 CUM
CGBR	1161	-313	4399
CGBR OWN A/C	1068	-3263	2065
LABR	-174	23	466
FROM CG	-69	2448	2928
OTHER	-105	-2425	-2462
PCBR	95	-505	-666
FROM CG	162	502	-594
OTHER	-67	-1007	-72
PSBR	989	-3745	1865

05:08 pm 14 Oct, 1988

1 2 3

PERSONAL AND CONFIDENTIAL UNTIL PUBLICATION
TREASURY REUTERS PAGE 2

UK TREASURY, PARLIAMENT STREET, SW1 01-270 5238
LATEST PSBR FIGURES STG MILLION

	LATEST MONTH	88-89 CUM	87-88 CUM
CONSOL FUND TOTAL REV	11148	61153	55047
OF WHICH INLAND REV	4349	28886	27453
CUSTOMS AND EXCISE	3664	23543	20869
OTHER	3135	8724	6725
CF TOTAL EXPENDITURE	9988	61501	59053
OF WHICH SUPPLY SERVICES	8728	53130	50965
STANDING SERVICES	1260	8371	8088
CF SURPLUS+/DEFICIT-	1160	-348	-4006
SUPPLY EXPENDITURE	9210	53560	51030

05:08 pm 14 Oct, 1988

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PERSONAL AND CONFIDENTIAL UNTIL PUBLICATION
TREASURY REUTERS PAGE 3

UK TREASURY, PARLIAMENT STREET, SW1 01-270 5238
LATEST PSBR FIGURES STG MILLION

	LATEST MONTH	88-89 CUM	87-88 CUM
NATIONAL LOANS FUND			
RECEIPTS	1638	8631	8009
PAYMENTS	1499	9724	10321
BORROWING	-1299	1441	6318
OTHER CGFA	-2460	1754	1919
		88-89	87-88
PRIVATISATION PROCEEDS STG BN			
CURRENT MONTH		.1	.6
CUMULATIVE		4.9	4.0

From: KEITH VERNON
18 October 1988

MR J. GIEVE - IDT

MR LANG - CSO Press Office

cc List A

Chancellor
Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Anson
Mr Monck
Mr Scholar
Mr Peretz
Mr Odling-Smee
Mr Sedgwick
Mrs Butler
Mr Grice
Mr Mowl
Miss O'Mara
Mr Pickford
Mr Bush
Mr Franklin
Mr Hudson
Mr I Taylor
Mrs Todd
Mr R Evans
Mrs Wright
Mr Mansell - CSO
Miss Orgill - CSO
Mr Wright B/E
Mr Gray - No 10

List B
(distributed at 11.30am, 18 October)

Mr C.M. Kelly
Mr Cropper
Mr Tyrie
Mr Call
Mr Ko - IR
Mr Balley - C and E

BRIEFING FOR 18 OCTOBER PSBR PRESS NOTICE

The PSBR figures for September will be published at 11.30am on 18 October. The provisional outturns, together with figures for 1987-88 are shown in Table 1. Cumulative figures for the PSBR and its components for 1986-87,1987-88 and 1988-89 are shown in Table 2 overleaf. Table 3 shows outturns excluding privatisation proceeds.

Table 1: **Borrowing requirement outturns**

£ billion

	April-Sep 1987	April-Sep 1988	Sep 1988
Central government on own account	2.1	-3.3	**1.1**
Local authorities	0.5	-	**-0.2**
Public corporations	-0.7	-0.5	**0.1**
PSBR	1.9	-3.7	**1.0**
Memo: PSBR (excluding privatisation proceeds)	5.8	1.2	1.0

Note: Figures may not sum precisely because of rounding.

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Table 2: **PUBLIC SECTOR BORROWING REQUIREMENT – Comparison with the last two years**

Cumulative £ billion

	Central government on own account			Local authorities borrowing requirement			Public corporations borrowing requirement			Public sector borrowing requirement		
	1986–87	1987–88	1988–89	1986–87	1987–88	1988–89	1986–87	1987–88	1988–89	1986–87	1987–88	1988–89
Apr	0.2	1.9	**–1.5**	0.7	0.5	**0.7**	0.0	–0.4	**–0.2**	0.9	2.0	**–1.1**
May	1.9	2.2	**–2.0**	0.4	0.1	**0.7**	–0.3	–0.5	**–0.3**	2.0	1.8	**–1.6**
Jun	3.1	1.7	**–1.5**	–0.1	0.2	**0.4**	–0.5	–0.5	**–0.4**	2.4	1.4	**–1.5**
Jul	3.1	1.4	**–3.0**	–0.1	0.3	**0.2**	–0.8	–0.7	**–0.4**	2.2	1.0	**–3.2**
Aug	4.2	2.3	**–4.3**	0.2	0.1	**0.2**	–0.6	–0.8	**–0.6**	3.8	1.6	**–4.7**
Sep	6.7	2.1	**–3.3**	0.0	0.5	**0.0**	–0.8	–0.7	**–0.5**	6.0	1.9	**–3.7**
Oct	6.5	1.5		–0.3	0.0		–0.3	–0.7		5.8	0.9	
Nov	7.3	0.6		–0.7	–0.5		–0.7	–0.8		5.8	–0.8	
Dec	5.7	0.1		–0.6	0.1		–0.7	–0.8		4.3	–0.6	
Jan	2.2	–5.9		–0.6	–0.0		–1.0	–1.0		0.6	–6.9	
Feb	2.3	–6.2		–0.7	0.1		–1.4	–1.4		0.3	–7.4	
Mar	4.5	–3.4		0.2	1.3		–1.3	–1.6		3.4	–3.7	

Note: Figures may not sum precisely because of rounding.

CONFIDENTIAL AND PERSONAL
(DRAFT)

CONFIDENTIAL AND PERSONAL

Table 3: PUBLIC SECTOR BORROWING REQUIREMENT EXCLUDING PRIVATISATION PROCEEDS

Cumulative £ billion

	Central government on own account			Local authorities borrowing requirement			Public corporations borrowing requirement			Public sector borrowing requirement		
	1986-87	1987-88	1988-89	1986-87	1987-88	1988-89	1986-87	1987-88	1988-89	1986-87	1987-88	1988-89
Apr	1.3	2.1	**0.3**	0.7	0.5	**0.7**	0.0	-0.4	**-0.2**	2.0	2.2	**0.7**
May	3.0	2.9	**0.8**	0.4	0.1	**0.7**	-0.3	-0.5	**-0.3**	3.0	2.5	**1.1**
Jun	4.2	4.1	**1.3**	-0.1	0.2	**0.4**	-0.5	-0.5	**-0.4**	3.5	3.8	**1.3**
Jul	4.2	4.3	**-0.2**	-0.1	0.3	**0.2**	-0.8	-0.7	**-0.4**	3.3	3.9	**-0.4**
Aug	5.3	5.7	**0.5**	0.2	0.1	**0.2**	-0.6	-0.8	**-0.6**	4.9	5.0	**0.1**
Sep	7.8	6.0	**1.7**	0.0	0.5	**0.0**	-0.8	-0.7	**-0.5**	7.1	5.8	**1.2**
Oct	7.5	4.9		-0.3	0.0		-0.3	-0.7		6.9	4.2	
Nov	8.6	5.5		-0.7	-0.5		-0.7	-0.8		7.1	4.2	
Dec	8.9	5.2		-0.6	0.1		-0.7	-0.8		7.6	4.5	
Jan	5.5	-0.8		-0.6	-0.0		-1.0	-1.0		3.9	-1.8	
Feb	6.0	-1.1		-0.7	0.1		-1.4	-1.4		4.0	-2.3	
Mar	9.0	1.7		0.2	1.3		-1.3	-1.6		7.9	1.5	

Note: Figures may not sum precisely because of rounding.

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(DRAFT)

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SUMMARY (PAGES 1 AND 2 OF TREASURY REUTERS PAGES)

Page One

THE PUBLIC SECTOR BORROWING REQUIREMENT - PSBR - IN SEPTEMBER IS ESTIMATED TO HAVE BEEN BORROWING OF STG 1.0 BILLION. THIS GIVES A CUMULATIVE PSBR OF MINUS STG 3.7 BILLION I.E. A NET REPAYMENT FOR THE FIRST SIX MONTHS OF 1988-89 COMPARED WITH BORROWING OF STG 1.9 BILLION IN THE SAME PERIOD OF LAST YEAR. THE PSBR EXCLUDING PRIVATISATION PROCEEDS IS ESTIMATED TO HAVE BEEN STG 1.2 BILLION IN THE FIRST SIX MONTHS OF 1988-89 COMPARED WITH STG 5.8 BILLION IN THE SAME PERIOD OF LAST YEAR.

Page Two

THE PSBR FOR SEPTEMBER IS ESTIMATED TO HAVE BEEN BORROWING OF STG 1.0 BILLION. PRIVATISATION PROCEEDS IN SEPTEMBER WERE STG 0.1 BILLION. EFFECT OF POSTAL DISPUTE WAS TO INCREASE PSBR IN SEPTEMBER SOMEWHAT.

1. September PSBR

Background

The average of City forecasts for the PSBR in September was borrowing of £0.4 billion. (The forecasts range from £1.6 billion borrowing to a £1½ billion repayment.) The PSBR in September is £1 billion. Privatisation proceeds were £0.1 billion resulting from remaining payments from the second call on BP.

Line to take

PSBR in September was borrowing of £1.0 billion. Privatisation proceeds were £0.1 billion. PSBR excluding privatisation proceeds was borrowing of £1.0 billion.

2. Effects of Postal Dispute on PSBR

Background

Most of backlog of strike delayed mail was cleared by the end of September but some items were still held at sorting centres. Both revenue and expenditure affected but revenue more so mainly on Inland Revenue receipts and national insurance contributions. Customs and Excise receipts believed to be little affected. Net effect probably to increase PSBR somewhat, probably by some hundreds of millions of pounds. Difficult to isolate with any reasonable accuracy effects of dispute on PSBR. Estimates of effects on both revenue and expenditure could be outweighed by volatility of underlying money flows.

Line to take

Difficult to assess how much receipts and expenditure delayed by strike but net effect probably increase PSBR somewhat.

3. **PSBR in April-September**

Background

PSBR in first 6 months of 1988-89 is a net repayment of £3.7 billion, compared with borrowing of £1.9 billion for same period last year. Excluding privatisation proceeds, PSBR for April-September was £1.2 billion, compared with £5.8 billion in the same period last year.

Line to take

PSBR for April-September a net repayment of £3.7 billion. Excluding privatisation proceeds it was borrowing of £1.2 billion, compared with borrowing of £5.8 billion in the same period last year.

4. **FSBR forecast of PSDR much too low?**

Background

FSBR forecast 1988-89 PSDR of £3.2 billion. Six months into the year PSBR for April-September is £5.6 billion lower than for the same period last year when PSDR outturn for the year was £3.6 billion. Chancellor said, in IMF speech that 'PSDR will be considerably larger than projected at the time of the Budget'.

Line to take clearly

Budget surplus likely to be greater than that projected at time of Budget. New forecast in Autumn Statement next month.

5. **Privatisation proceeds**

Background

Privatisation proceeds in September were £0.1 billion resulting from remaining payments from second call on BP. For April-September they were £4.9 billion compared to an FSBR projection of £5 billion for year as a whole. (April-September 1987 £4.0 billion.). However the FSBR projection did not include any proceeds from the sale of British Steel now scheduled for second half of November. Note impact day not yet announced; depending on timing, proceeds may not be received until December.

Line to take

Privatisation proceeds in September were £0.1 billion. April-September proceeds some £1.0 billion up on those of last year. Privatisation proceeds for 1988-89 will overshoot Budget forecast due to sale of British Steel. If asked: British steel proceeds may not be received until December, depending on exact timing of impact day in second half of November.

6. Consolidated Fund Revenues

Background

Consolidated Fund Revenues in April-September

	% FSBR Forecast 1988-89 on 1987-88	% change April-September 1988 on 1987
Total	+ 4	+ 11
of which:		
Inland Revenue	+ 6	+ 5
Customs & Excise	+ 7	+ 13

Increase in revenues of 11 per cent compares with FSBR forecast of 4 per cent for year as a whole. Growth in Inland Revenue receipts little different from FSBR projection for year as a whole but Customs and Excise receipts - up 13 per cent - are very buoyant. Other Consolidated Fund receipts boosted in September by internal transfer from other funds and accounts of £2.0 billion BP proceeds previously received in August. This has no effect on September CGBR(O).

Chancellor has indicated (Oral Questions June 16) "that economic growth this year could be slightly higher than 3 per cent forecast at Budget time". That, together with buoyant revenues so far this year, suggests that Consolidated Fund revenue could be greater than the £128.2 billion - 4 per cent growth - forecast at Budget time. This is a reason for expecting larger PSDR than projected at Budget time.

Line to take

Consolidated Fund revenues in April-September 11 per cent up on same period last year benefitting from stronger economic growth than expected. A new forecast of General Government Receipts in the Autumn Statement.

7. Inland Revenue Receipts

Background

1988 FSBR forecast 6 per cent increase in Inland Revenue receipts in 1988-89. Impact of budget income tax cuts associated with PAYE reflected in April-September cumulative total. Receipts in April-September are only 5 per cent up on same period last year but not a good guide to year's outturn. September's receipts have been depressed by the postal dispute, by APRT repayments and by lower levels of PRT receipts than in September 1987. Together APRT and PRT gave a net repayment of £0.1 billion in September. This compares with September 1987 when there were no APRT repayments and there was a large PRT correction payment, boosting PRT receipts for the month to £0.9 billion. Excluding PRT and APRT, receipts in April to September are 8 per cent up on the same period last year, 2 per cent above the FSBR forecast despite the effects of the postal dispute. With the general buoyancy of the economy and expectations of higher economic growth this year than forecast in the FSBR, receipts likely to be above FSBR forecast. Detailed estimates of composition of September receipts will be published in November's Financial Statistics (Table 3.13).

Line to take

Receipts for April-September £28.9 billion - 5 per cent up on last year. They are not a good guide to annual outturn since receipts in September affected by postal dispute, by APRT repayments and by lower levels of PRT than in September 1987. Together, PRT plus APRT receipts were -£0.1 billion in September 1988, compared with PRT receipts of £0.9 billion in September 1987, and no APRT repayments.

8. APRT and PRT

Background

Advance Petroleum Revenue Tax (APRT) was paid on gross revenues rather than profits as a charge against future PRT payments. It was levied when oil fields reached a certain level of production. Any APRT payments which were not offset against PRT were repaid 5 years after the first APRT payment. APRT was phased out from the 1983 budget and the last payments were made in respect of 1986. The 1986 APRT act brought forward outstanding repayments of APRT. The £0.4 billion APRT repayment in September will be the last major repayment. There were no APRT repayments in September 1987.

September PRT receipts were £0.3 billion compared with £0.9 billion in September 1987. Over the first six months of 1988-89 PRT receipts totalled £0.6 billion compared with £1.3 billion over the same months last year.

Line to take

£0.4 billion APRT repayment in September will be the last major repayment. PRT receipts in September were £0.3 billion. Over the first six months of 1988-89 PRT receipts totalled £0.6 billion compared with £1.3 billion over the same months last year.

9. Customs and Excise Receipts

Background

Receipts up 13 per cent in year to September compared with FSBR forecast of 7 per cent increase for 1988-89. Customs and Excise receipts are paid with a lag. The length of lag depends upon what type of tax it is, for Home VAT payment traders for example the lag is 1-4 months.

Detailed estimates of composition of Septembers receipts will be published in November's Financial Statistics (Table 3.14). September's receipts little affected by postal dispute.

Line to take

Y Receipts for April-September £23.5 billion -13 per cent up on same period 1987-88. Signs are that receipts will be greater than those forecast in FSBR. Receipts reflect economic activity with a lag.

10. Consolidated Fund Expenditure

Background

Consolidated Fund expenditure, at £61.5 billion, up 4 per cent on same period last year. Supply expenditure (see below) gives a clearer indication of expenditure trends measuring, as it does, actual expenditure from Departments' accounts.

Line to take

Consolidated Fund expenditure up 4 per cent on same period last year.

11. Supply Expenditure

Background

1988 FSBR gives a figure for provision for supply in 1988-89 but not a forecast of outturn because the public expenditure Reserve is not allocated in the FSBR to individual components of expenditure (public expenditure total used in PSBR forecast assumes that the reserve was fully spent). It is not easy therefore to assess how far recorded expenditure during a year is consistent with the FSBR. But supply expenditure in April-September, at £53.6 billion, was up 5 per cent on same period last year.

Line to take

Supply expenditure in April-September £53.6 billion - up 5 per cent on same period last year. Agreed claim on reserve from NHS pay settlement £0.9 billion has yet to have full impact on figures.

12. CGBR(O)

Background

Net repayment of £3.3 billion for CGBR(O) in April-September compares with borrowing of £2.1 billion for April-September 1987. Privatisation proceeds were £4.9 billion. (April-September 1987 £4.0 billion). Excluding privatisation proceeds CGBR(O) in April-September around £4.4 billion lower than in previous year. Postal dispute [see 2 above] estimated to have increased CGBR(O)

Line to take

CGBR(O) in April-September a net repayment of £3.3 billion.

13. Local Authorities

Background and Line to take

LABR for April-September is close to zero.

14. Public Corporations

Background and Line to take

PCBR for April-September, net repayment of £0.5 billion - a little lower than previous two years, but composition of sector now different due to privatisation.

15. Revisions to earlier estimates

Line to take

PSBR for April to August revised down by £0.1 billion.

KEITH VERNON (270-5029)
PSF Division, HM Treasury

From: KEITH VERNON
17 October 1988

CHANCELLOR

Copy with PPS letter, attached, for:

Mr Gray - No. 10

cc List A

- Economic Secretary
- Sir P Middleton
- Sir T Burns
- Mr Scholar
- Mr Sedgwick
- Mr Peretz
- Mr Odling-Smee
- Mr Mowl
- Mr Watts
- Mrs Todd
- Mrs Wright

List B (distributed at 11.30am, 18 October)

- Chief Secretary
- Financial Secretary
- Paymaster General
- Mr J Anson
- Mr Moore
- Mr Culpin
- Mr Turnbull
- Mrs Brown
- Mrs Butler
- Mr J Gieve
- Mr Brooks
- Mr Grice
- Miss O'Mara
- Mr Richardson
- Mr Franklin
- Mrs Ryding
- Mr Tyrie
- Mr Call
- Mr Calder - IR
- Mr Allen - C and E

MONTHLY NOTE ON THE PSBR

I attach a report on the PSBR outturn for September together with the forecast for the period October - December The September outturn will be published by press notice at 11.30am on Tuesday 18 October.

JK Vern.

KEITH VERNON

PUBLIC SECTOR BORROWING

Summary

- The PSBR in September is provisionally borrowing of £1.0 billion, £0.2 billion lower than last month's forecast. The postal dispute increased the PSBR in September perhaps by as much as £½ billion which is expected to unwind in October.

- The PSBR for the first six months of 1988-89 is a net repayment of £3.7 billion compared with forecast borrowing of £1.2 billion in the Budget profile. The higher net repayment is largely accounted for by central government own account transactions - receipts are up and expenditure is down.

- Excluding privatisation proceeds the PSBR outturn for April to September is £4.7 billion lower than in the same period last year.

- The PSBR over the next three months is forecast to be a net repayment of about £3½ billion, compared to a net repayment of £½ billion forecast in the Budget profile.

- The PSBR during the first nine months of 1988-89 is forecast to be a net repayment of about £7¼ billion, compared to a Budget forecast of borrowing of £¾ billion.

Figures in this report are not seasonally adjusted and also may not sum precisely because of rounding.

Chart 1 : 1988-89: Comparisons with Budget profiles

£ billion cumulative

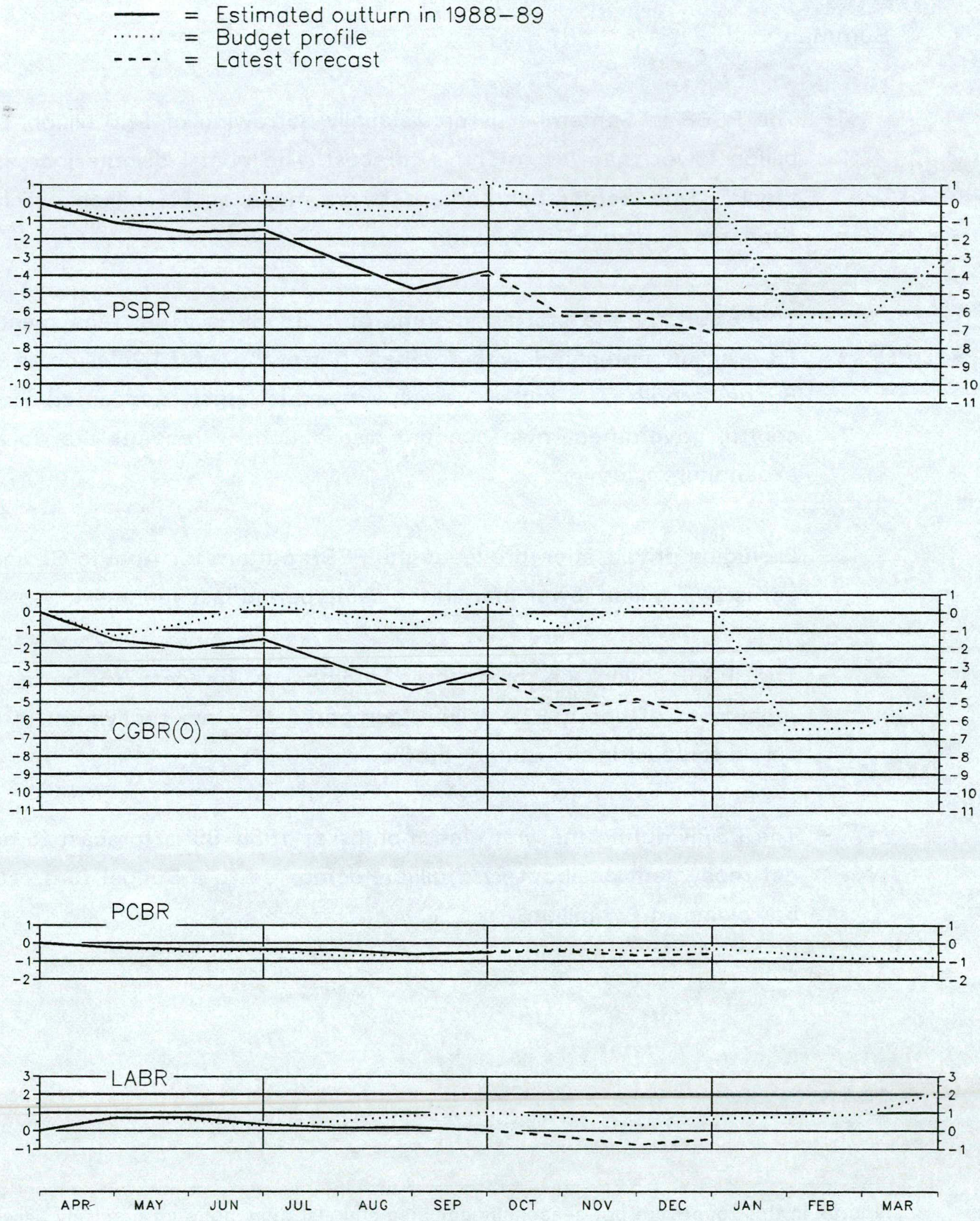


Chart 2: 1988-89: Comparisons with outturns for 1987-88

£ billion cumulative

—— = Estimated outturn in 1988-89
······ = 1987-88 outturn
- - - = Latest forecasts

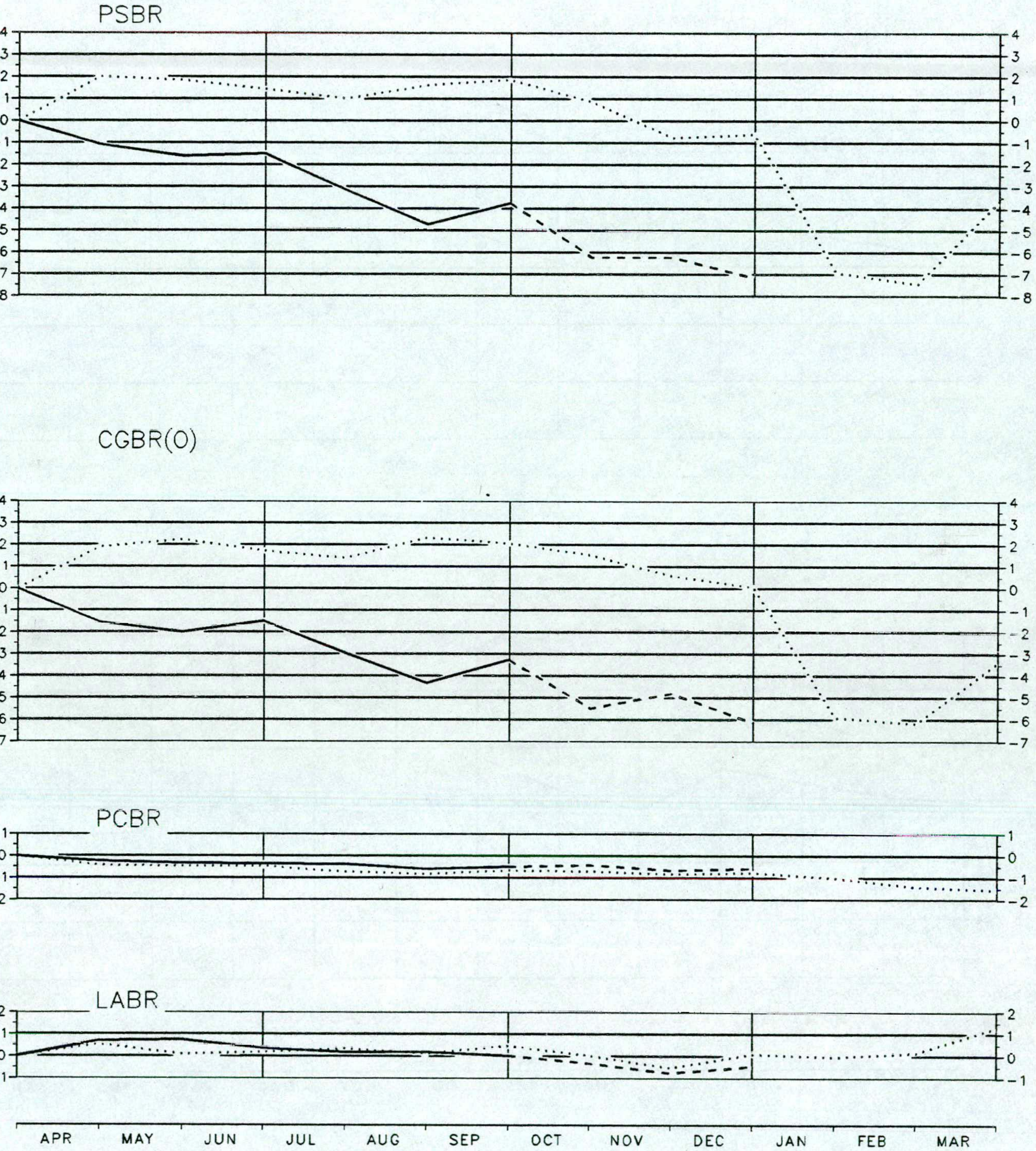
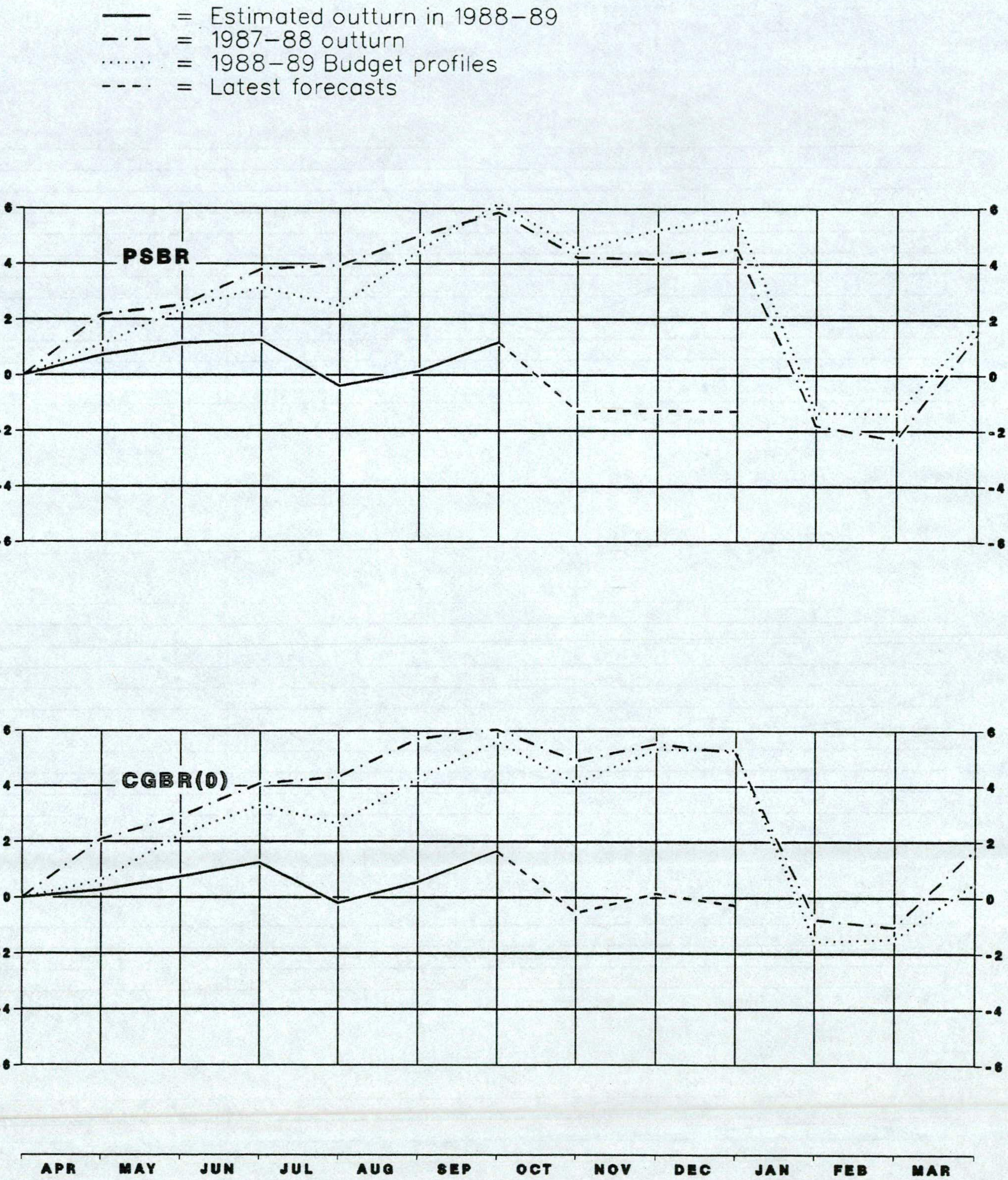


Chart 3: Comparisons excluding privatisation proceeds

£ billion cumulative



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Borrowing in September

(Outturn compared with last month's forecast)

1. The provisional estimate of the PSBR in September is borrowing of £1.0 billion, £0.2 billion lower than last month's forecast. The differences between forecast and outturn on the PSBR and its components are shown in the table below:-

Table 1: September 1988 borrowing requirements

£ billion

	PSBR	Comprising		
		CGBR(O)	LABR	PCBR
Forecast*	1.2	0.9	0.2	0.2
Outturn	1.0	1.1	-0.2	0.1
Difference	-0.2	0.2	-0.3	-0.1

*made on 16 September

2. The outturn on central government's own account was borrowing of £1.1 billion, compared with the forecast made last month for borrowing of £0.9 billion. This extra borrowing could be accounted for by a larger than assumed increase in borrowing resulting from the postal dispute. The main differences from forecast were lower Inland Revenue receipts and national insurance contributions (by £0.6 billion) largely offset by higher Customs and Excise receipts (by £0.1 billion), higher unallocated receipts (by £0.1 billion) and lower departmental expenditure (by £0.2 billion).

3. The Inland Revenue outturn included the last major repayment of £0.4 billion APRT, as scheduled. This was largely offset by a receipt of £0.3 billion PRT which included a positive correction payment by the oil companies of about £150 million for payments made in March to August 1988, in respect of the first half of 1988. Together APRT and PRT bring down the growth in Inland Revenue receipts in the year to date. In the first six months of 1988-89, PRT and APRT receipts totalled £0.6 billion, compared with £1.3 billion over the same months last year.

Effects of the postal dispute on CGBR(O)

4. Most of the backlog of strike delayed mail was cleared by the end of September but some items are still held at sorting centres. We do not have independent estimates of the amounts of receipts and expenditure which may been delayed. We can only look at the differences between forecast and outturn for those revenues and expenditure flows known to have been affected by the strike and adjust them for any other factors known to have affected the outturn. However, the remaining differences between forecast and outturn will include both strike effects and some remaining non-strike related forecast errors. With this qualification in mind it is possible that about £½ billion of Inland Revenue receipts and National Insurance contributions and under £0.1 billion of Customs and Excise receipts in September were delayed by the strike. These delays to receipts may have been partially offset by delays to expenditure of less than £¼ billion.

5. If this interpretation is correct, the total effect of the strike may have been to increase the CGBR by about £½ billion. However, the forecast for September assumed £¼ billion additional borrowing for the strike. So the strike may have accounted for the £0.2 billion higher CGBR(O) than forecast last month. The strike effects should fully unwind in October. Only then will we be able to assess accurately the forecast errors for September and October combined.

6. The local authorities' borrowing requirement (LABR) in September is a net repayment of £0.2 billion, £0.3 billion lower than forecast. Local authorities borrowed £0.3 billion in September last year and made a small net repayment in September 1986. The public corporation's borrowing requirement in September is borrowing of £0.1 billion, close to forecast.

April to September

(outturn compared with Budget forecast)

Table 2: April to September 1988 borrowing requirement

£ billion

	PSBR	Comprising		
		CGBR(O)	LABR	PCBR
Budget forecast	1.2	0.6	1.0	-0.4
Outturn	-3.7	-3.3	-	-0.5
Difference	-4.9	-3.9	-1.0	-0.1

7. The PSBR for the first six months of 1988-89 is £4.9 billion lower than forecast in the Budget profile , mainly due to the overforecast on the CGBR(O). Excluding privatisation proceeds the PSBR in April to September 1988 is £4.7 billion below the same period of last year.

8. In the first six month's of 1988-89, the CGBR(O) is a net repayment of £3.3 billion, compared with the Budget profile forecast of borrowing of £0.6 billion. The cumulative undershoot of the Budget profile increased further in September, despite the additional borrowing from the postal dispute. Table 3 shows where differences on individual components have occurred in the first half of 1988-89:

- higher Inland Revenue receipts are mainly due to higher Income Tax receipts.

- higher Customs and Excise receipts of which £0.5 billion is due to higher VAT on imports. (VAT on imports accruing in one month is paid over on the 15th of the following month).

- the shortfall on departmental expenditure (£1.9 billion on a cash basis). This is mainly accounted for by lower expenditure on social security benefits from the National Insurance Fund (£0.5 billion), lower payments to the EC (£0.5 billion) and, within Supply expenditure, lower expenditure by MOD (£0.5 billion), lower net IBAP expenditure by (£0.4 billion) and lower voted social security payments (£0.4 billion), These shortfalls are partially offset by the payment to Rover of £0.5 billion (for which only £0.2 billion was scored in the Budget forecast) and by a shortfall in receipts by ECGD of £0.4 billion resulting from the cancellation of Nigerian debt refinancing.

Table 3:CGBR(O) April to September: Differences from Budget profile

	£ billion	percentage
Receipts		
Inland Revenue [2]	+0.8	+2.9
Customs and Excise	+0.9	+3.8
NICs [2]	+0.1	+0.5
Interest and dividends	+0.3	+6.1
Other receipts	+0.2	+14.0
Total receipts	**+2.2**	**+3.1**
Expenditure		
Privatisation proceeds	--	+1.0
Interest payments	+0.2	+2.0
Departmental expenditure [1]	-1.9	-2.8
Total expenditure	**-1.7**	**-2.4**
Net effect on CGBR(O)	**-3.9**	

[1] on a cash basis, net of certain receipts and on-lending

[2] Difference from Budget profile understated because of the effects of the postal dispute

9. The LABR in April to September is close to zero, £1.0 billion below the Budget profile. This overforecast may reflect higher capital receipts than forecast at Budget time, due to council house sales.

10. The cumulative PCBR for the first six months of 1988-89 was a net repayment of £0.5 billion, close to the Budget profile A breakdown by industry of the aggregate PCBR figure is not available but information about borrowing by individual industries from other sources is summarised in Table 4.

Table 4: Public Corporations' net borrowing April to September

£million (- indicates lower borrowing)

	Difference from 1987-88	Difference from Budget profile+
Coal	+280	+70
Electricity	-70	-180
British Steel	+80	-20
Post Office	+200*	+90*
Water	-50*	-90*
Other NIs	+40*+	-120*+

+ Adjusted for privatisation and reclassification

* Figures for April to August only

October to December

11. The PSBR over the next three months is forecast to be a net repayment of £3½ billion, compared to a Budget profile of a net repayment of £½ billion. This difference is largely explained by higher central government receipts and higher privatisation proceeds. The main increases on the receipts side are Customs and Excise receipts (up by £0.4 billion) and National Insurance Contributions (up by £0.6 billion). The shortfall on expenditure is expected to continue but is partly offset in November by the payment of the 1988 Inter - Governmental Agreement (IGA) to the EC. The increase in receipts, particularly National Insurance contributions, reflects the assumed unwinding in October of the estimated effects of the postal dispute in September. In that these estimates are not robust (para 4 refers), this unwinding assumption adds to the risk of error in the forecast for October.

12. Privatisation proceeds are forecast to be about £0.9 billion over the next three months,

compared to zero forecast in the Budget profile, due mainly to receipts from the sale of British Steel expected in December. The estimate of proceeds from British Steel is very provisional. The sale of British Steel was not scored in the Budget forecast.

13. The monthly path of the CGBR(O) is as follows:

- In October the CGBR(O) is forecast to be a net repayment of £2.2 billion. Inland Revenue receipts are high because October is the largest month after January for receipts of Corporation Tax (forecast to be £2.9 billion, of which £1.2 billion is ACT). Receipts, particularly National Insurance contributions, are assumed to be boosted by the unwinding of September postal strike effects.

- In November the CGBR(O) is forecast to be £0.7 billion (borrowing). Inland Revenue receipts are relatively low and net debt interest payments are high. Customs and Excise receipts will be high (as in February, May and August). The forecast assumes payment of £0.6 billion of the 1988 Inter - Governmental Agreement (IGA) in November. There is a small chance that this could slip to December.

- In December, the CGBR(O) is forecast to be a net repayment of £1.3 billion. Inland Revenue receipts are relatively high. Privatisation proceeds from the sale of British Steel are expected to raise about £0.9 billion. National Insurance contributions are seasonally low.

14. The LABR over the next three months is forecast to be a net repayment of £0.5 billion, a £0.1 billion higher net repayment than forecast at the time of the Budget. Local authorities are forecast to make net repayments in October and November, but to borrow in December.

15. Public corporations are forecast to borrow £0.1 billion in October and December and have a surplus of £0.2 billion in November. The surplus in November reflects the fact that the Post Office is expected to receive £0.2 billion from the sale of Girobank.

April to December

16. The PSBR in the first nine months of 1988-89 is forecast to be a net repayment of £7.2 billion, £7.9 billion lower than forecast in the Budget profile and £6.5 billion lower than in the first nine months of 1987-88 (£5.8 billion lower than last year excluding privatisation proceeds).

Table 5:CGBR(O) April to December: Differences from Budget profile

	£ billion	percentage
<u>**Receipts**</u>		
Inland Revenue	+0.9	+2.0
Customs and Excise	+1.2	+3.5
NICS	+0.7	+3.3
Interest and Dividends	+0.3	+5.0
Other receipts	+0.1	+4.4
Total receipts	**+3.2**	**+2.9**
<u>**Expenditure**</u>		
Privatisation proceeds	-0.9	-18.3
Interest payments	+0.1	+0.8
Departmental expenditure[1]	-2.4	-2.3
Total expenditure	**-3.2**	**-2.9**
<u>Net</u> effect on CGBR(O)	**-6.5**	

[1]on a cash basis, net of certain receipts and on-lending

Chart 4: Components of central government receipts and expenditure

£ billion

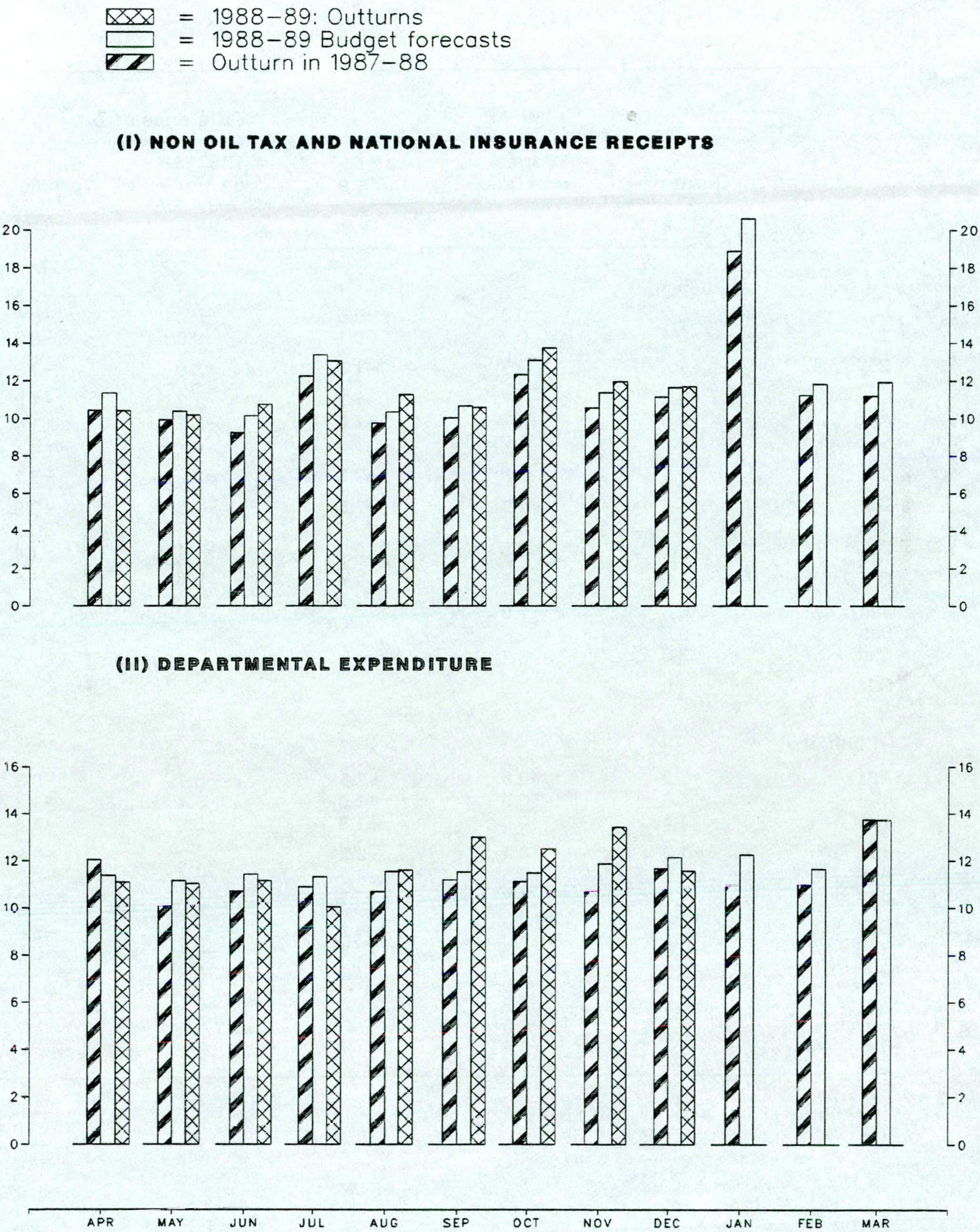

Table 6: PSBR for 1988-89 - comparisons with 1987-88 and 1988 Budget profile

£ billion

	1987-88	1988-89		Differences from	
	Outturn	Budget profile	Latest update[1]	1987-88 outturn	Budget profile
	1	2	3	3-1	3-2
Apr	2.0	-0.8	**-1.1**	-3.1	-0.3
May	-0.2	0.3	**-0.5**	-0.4	-0.8
Jun	-0.4	0.8	**0.1**	0.5	-0.7
Q2	1.4	0.3	**-1.5**	-2.9	-1.8
Jul	-0.4	-0.7	**-1.7**	-1.2	-1.0
Aug	0.6	-0.2	**-1.6**	-2.2	-1.4
Sep	0.2	1.7	**1.0**	0.7	-0.7
Q3	0.4	0.9	**-2.3**	-2.7	-3.1
Oct	-1.0	-1.6	**-2.5**	-1.5	-0.8
Nov	-1.6	0.7	**-**	1.6	-0.7
Dec	0.2	0.5	**-0.9**	-1.1	-1.4
Q4	-2.5	-0.5	**-3.4**	-0.9	-2.9
Jan	-6.3	-7.0			
Feb	-0.5	-			
Mar	3.8	3.1			
Q1	-3.0	-3.9			
Cumulative					
Apr	2.0	-0.8	**-1.1**	-3.1	-0.3
May	1.8	-0.5	**-1.6**	-3.4	-1.1
Jun	1.4	0.3	**-1.5**	-2.9	-1.8
Jul	1.0	-0.3	**-3.2**	-4.2	-2.8
Aug	1.6	-0.5	**-4.7**	-6.4	-4.2
Sep	1.9	1.2	**-3.7**	-5.6	-4.9
Oct	0.9	-0.5	**-6.2**	-7.1	-5.8
Nov	-0.8	0.3	**-6.2**	-5.5	-6.5
Dec	-0.6	0.7	**-7.2**	-6.5	-7.9
Jan	-6.9	-6.3			
Feb	-7.4	-6.3			
Mar	-3.7	-3.2			

[1]Figures for April to September are outturns

Table 7: **Borrowing requirement in 1988–89**
(Budget profiles in italics for comparisons)

	PSBR		Comprising					
			CGBR(O)		LABR		PCBR	
Apr	**-1.1**	*-0.8*	**-1.5**	*-1.3*	**0.7**	*0.8*	**-0.2**	*-0.2*
May	**-0.5**	*0.3*	**-0.5**	*0.7*	**–**	*-0.2*	**-0.1**	*-0.2*
Jun	**0.1**	*0.8*	**0.5**	*1.1*	**-0.4**	*-0.3*	**–**	*0.1*
Jul	**-1.7**	*-0.7*	**-1.5**	*-0.7*	**-0.2**	*0.3*	**–**	*-0.3*
Aug	**-1.6**	*-0.2*	**-1.4**	*-0.5*	**–**	*0.3*	**-0.2**	*0.1*
Sep	**1.0**	*1.7*	**1.1**	*1.3*	**-0.2**	*0.2*	**0.1**	*0.2*
Oct	**-2.5**	*-1.6*	**-2.2**	*-1.5*	**-0.3**	*-0.3*	**0.1**	*0.1*
Nov	**–**	*0.7*	**0.7**	*1.2*	**-0.4**	*-0.4*	**-0.2**	*-0.1*
Dec	**-0.9**	*0.5*	**-1.3**	*-*	**0.3**	*0.4*	**0.1**	*0.1*
Cumulative								
Apr	**-1.1**	*-0.8*	**-1.5**	*-1.3*	**0.7**	*0.8*	**-0.2**	*-0.2*
May	**-1.6**	*-0.5*	**-2.0**	*-0.6*	**0.7**	*0.6*	**-0.3**	*-0.5*
Jun	**-1.5**	*0.3*	**-1.5**	*0.5*	**0.4**	*0.3*	**-0.4**	*-0.4*
Jul	**-3.2**	*-0.3*	**-3.0**	*-0.2*	**0.2**	*0.5*	**-0.4**	*-0.7*
Aug	**-4.7**	*-0.5*	**-4.3**	*-0.7*	**0.2**	*0.8*	**-0.6**	*-0.6*
Sep	**-3.7**	*1.2*	**-3.3**	*0.6*	**–**	*1.0*	**-0.5**	*-0.4*
Oct	**-6.2**	*-0.5*	**-5.5**	*-0.8*	**-0.3**	*0.7*	**-0.4**	*-0.3*
Nov	**-6.2**	*0.3*	**-4.8**	*0.4*	**-0.8**	*0.3*	**-0.7**	*-0.4*
Dec	**-7.2**	*0.7*	**-6.1**	*0.4*	**-0.5**	*0.7*	**-0.6**	*-0.3*

	Excluding privatisation proceeds				Memo item:	
	PSBR		CGBR(O)		privatisation proceeds	
Apr	**0.7**	*1.1*	**0.3**	*0.6*	**1.8**	*1.9*
May	**0.4**	*1.3*	**0.5**	*1.6*	**0.9**	*0.9*
Jun	**0.1**	*0.8*	**0.5**	*1.1*	**–**	*-*
Jul	**-1.7**	*-0.7*	**-1.5**	*-0.7*	**–**	*-*
Aug	**0.5**	*2.0*	**0.7**	*1.6*	**2.1**	*2.2*
Sep	**1.0**	*1.7*	**1.1**	*1.3*	**0.1**	*-*
Oct	**-2.5**	*-1.7*	**-2.2**	*-1.5*	**–**	*-*
Nov	**–**	*0.7*	**0.7**	*1.2*	**–**	*-*
Dec	**–**	*0.4*	**-0.4**	*-*	**0.9**	*-*
Cumulative						
Apr	**0.7**	*1.1*	**0.3**	*0.6*	**1.8**	*1.9*
May	**1.1**	*2.4*	**0.8**	*2.3*	**2.7**	*2.8*
Jun	**1.3**	*3.2*	**1.3**	*3.3*	**2.8**	*2.8*
Jul	**-0.4**	*2.5*	**-0.2**	*2.6*	**2.8**	*2.8*
Aug	**0.1**	*4.5*	**0.5**	*4.3*	**4.9**	*5.0*
Sep	**1.2**	*6.2*	**1.7**	*5.6*	**4.9**	*5.0*
Oct	**-1.3**	*4.5*	**-0.5**	*4.1*	**4.9**	*5.0*
Nov	**-1.3**	*5.2*	**0.2**	*5.3*	**5.0**	*5.0*
Dec	**-1.3**	*5.7*	**-0.3**	*5.3*	**5.9**	*4.9*

MP

PERSONAL

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer

6th December 1988

<u>The PES Settlement for Science</u>

The 16 per cent increase in spending on basic science agreed in this year's PES was, of course, motivated by the clarification of our thinking about the respective responsibilities of government and industry in the funding of science.

But we have always been aware of the significance and seriousness of the "Save British Science" lobby, and I thought you might like to hear what I was told when I went to speak at the (undergraduate) Science Society at Cambridge last week.

The Chairman, who is a junior member of the "Save British Science" campaign, had, just the night before, attended their annual meeting in London. He told me that they were - and I use his word - "pole-axed" by what we have done, and that there was even some discussion about the possibility of changing their name!

This is good news. We are beginning to turn some tricks in the world of the intelligentsia.

RJ

ROBERT JACKSON

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

4 July, 1989.

Dear Alex,

PUBLIC EXPENDITURE

The Prime Minister had a brief meeting this morning with the Chancellor and the Chief Secretary to discuss the handling of the public expenditure Cabinet on Wednesday, 12 July.

I should be grateful if you and Carys Evans would ensure that this letter is seen only by those with a direct need to know.

In discussion, the following main points were raised:

- This was arguably the most difficult public expenditure round yet faced. Departmental bids had proved to be higher even than expected, totalling some £13 billion in 1990-91, rising to some £23 billion in 1992-93. Although a number of the bids were grossly inflated - for example, on education and transport - many of them were supported by good cases on merits. The areas where policy savings could be found were relatively few, although this included the Employment and Scotland programmes; together with the need to reverse Baroness Faithfull's amendment in the Lords and thereby freeze child benefit for a further year.

- In the light of the latest inflation prospects, it would be necessary to increase the assumed GDP deflators; from 5½% to 7% in 1989-90, from 4% to 5% in 1990-91, from 3% to 3½% in 1991-92, and from 2½% to 3% in 1992-93. These adjustments would of themselves lead to further expenditure bids, in particular from the education, defence and health programmes, and it would be necessary to resist these to the maximum possible extent. Departments would need to be urged to add further to their efficiency improvements.

- Amongst the various spending programmes, health would be the most sensitive area.

- It was not possible at this stage accurately to forecast the outcome of the public expenditure negotiations, but the aim should be to stay within the existing published public expenditure/GDP ratios.

Summing up the discussion, the Prime Minister said that the following steps were agreed as preparation for the 12 July Cabinet discussion:

(i) Cabinet should be invited to endorse the formulation in your letter to me dated 3 July, namely "Cabinet agreed to maintain the downward trend in the ratio of public spending to national output and to hold as close as possible to existing plans".

(ii) It would be essential to stress that public spending was planned and controlled in cash terms, and that changes in inflation assumptions did not give rise to entitlements to adjustments to the plans.

(iii) It would be sensible for the Cabinet conclusions to include the point that a Star Chamber would be established as and when necessary in the Autumn to adjudicate on any outstanding disputes between the Chief Secretary and spending Ministers. This would enable the Comittee to be established without further reference back to the Cabinet.

(iv) The Chancellor and Chief Secretary would prepare drafts of their papers on the economic prospects and public expenditure by Friday, 7 July, and the final version would be circulated to Cabinet on Monday, 10 July.

I am copying this letter to Carys Evans (Chief Secretary's Office).

Yours,

Paul

Paul Gray

Alex Allan, Esq.,
HM Treasury.