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PART P

MISCELLANEOUS PAPERS

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PART P

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24 September 1987 at 11.30 am and thereafter unclassified

PMP

To Minister for Trade

Copy No ..3..(28)

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

15 September 1987

OVERSEAS TRADE FIGURES FOR AUGUST: EXPORTS

1 The value of exports in August, seasonally adjusted on a balance of payments basis, is estimated at £6.5 billion, £0.2 billion (3½ per cent) lower than in July. Exports of oil increased by about £0.1 billion but exports of the erratic items fell by £0.2 billion. Excluding oil and the erratic items exports decreased by 2½ per cent between July and August.

2 In the three months ended August the total value of exports increased by 1½ per cent compared with the previous 3 months; excluding oil and the erratic items the increase was 3½ per cent.

3 In the three months ended August, total export volume was ½ per cent lower than in the previous three months but 5 per cent higher than the same three months a year ago. Excluding oil and the erratic items export volume grew by 3 per cent in the latest three months to be 7½ per cent up on a year earlier. The underlying level of non-oil export volume continues to remain close to the high level reached at the end of last year.

4 Recent export figures are shown in the attached table; charts plotting the main aggregates are also attached. A note describing imports and the current account will be circulated on Friday 18 September, ie as soon as the import figures become available. The monthly press notice for August is scheduled for release on Thursday 24 September. On Thursday of this week (17 September) the CSO will publish full quarterly balance of payments accounts up to the end of June, including the latest available information on invisible transactions.

P J STIBBARD

999-80

* PS/ let me know urgently what this will show.

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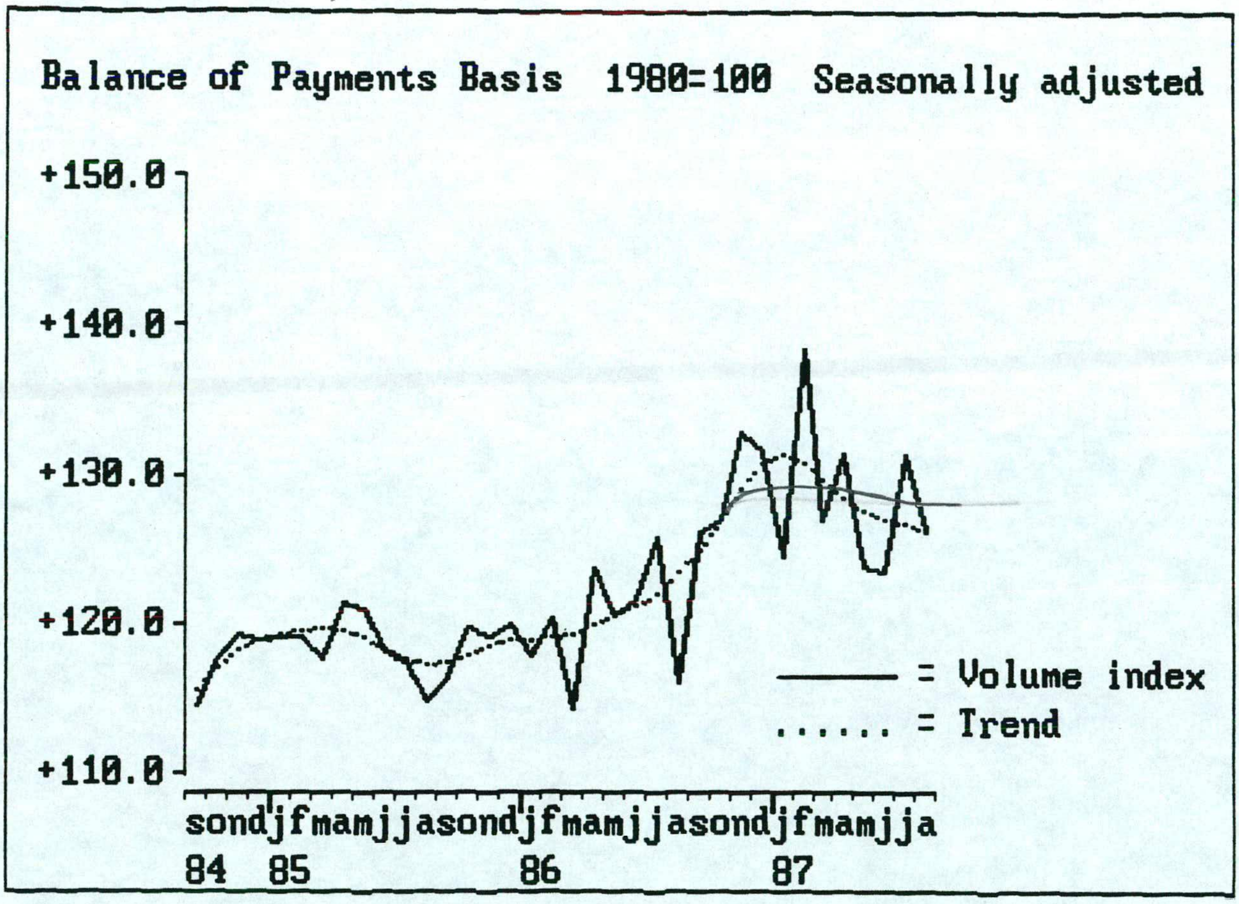
EXPORTS
(Balance of payments basis; seasonally adjusted)

		---TOTAL TRADE---		EXCLUDING --OIL & ERRATICS--	
		VALUE £m	VOLUME (1980=100)	VALUE £m	VOLUME (1980=100)
1986	Q2	17786	121.9	14455	115.1
	Q3	17553	122.6	14839	118.5
	Q4	19340	130.5	15873	125.3
1987	Q1	19637	130.0	15899	124.4
	Q2	19381	126.3	15885	122.4
1987	MAR	6429	126.9	5168	120.5
	APR	6610	131.4	5312	123.6
	MAY	6372	123.9	5270	121.6
	JUN	6399	123.5	5303	122.1
	JUL	6776	131.3	5564	129.3
	AUG	6545	126.4	5430	125.1

TOTAL EXPORTS



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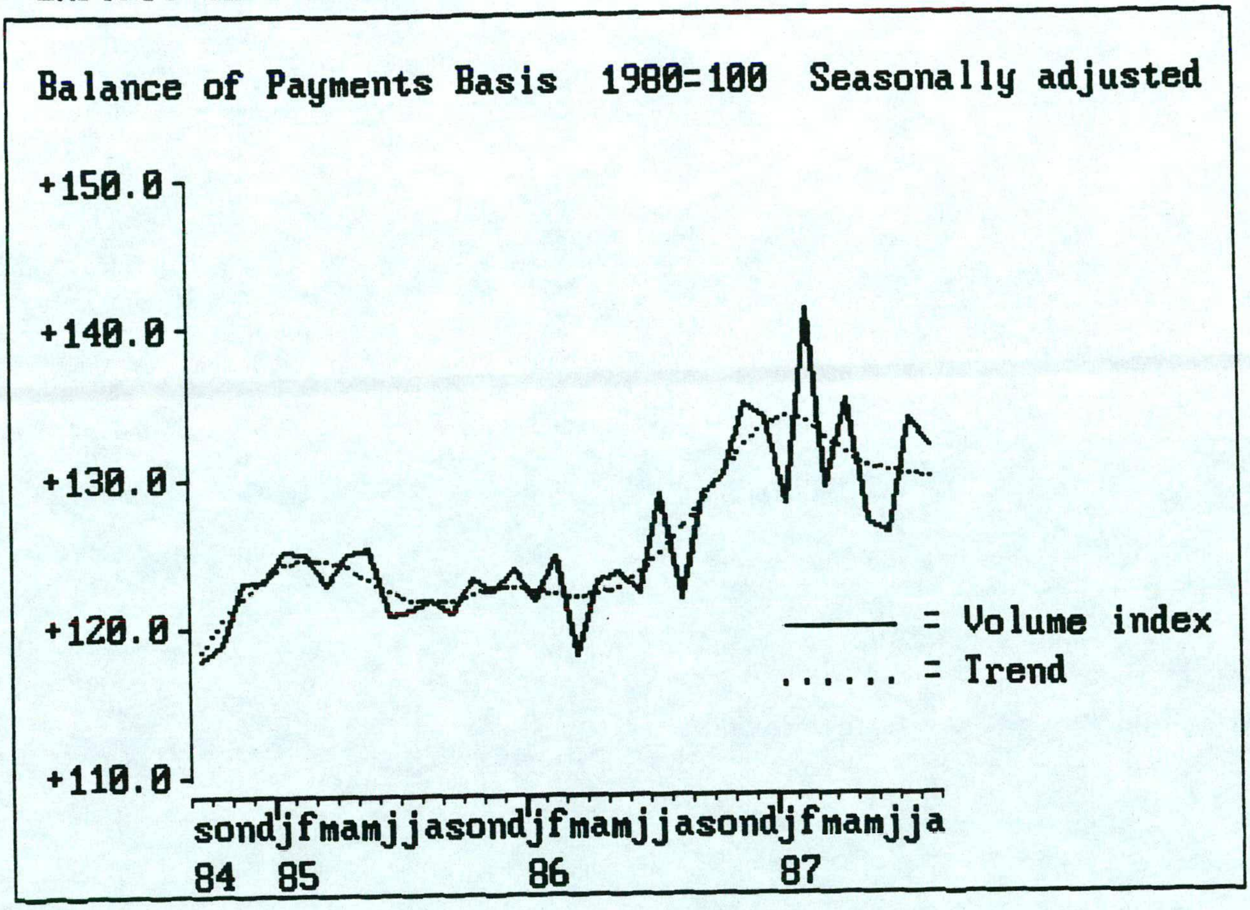
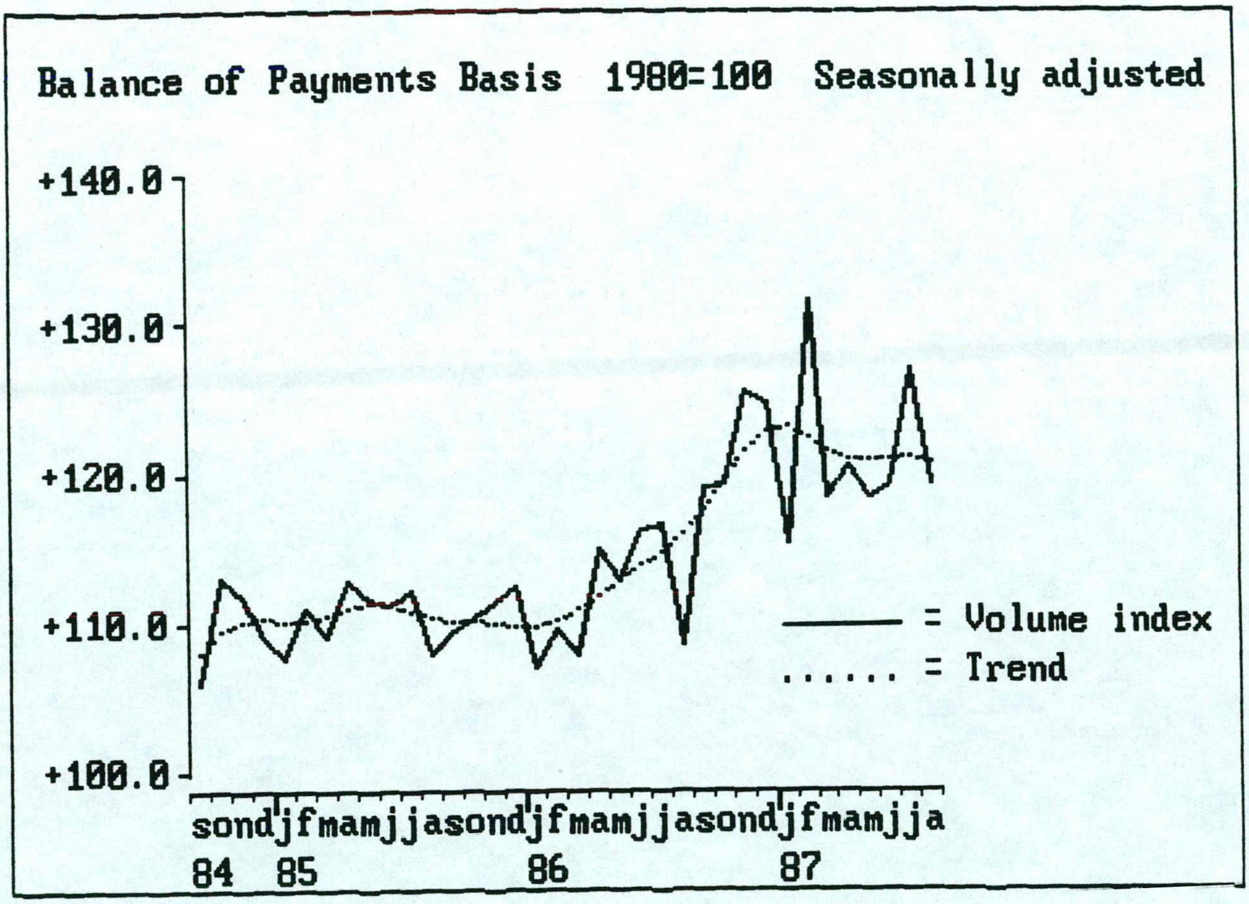
EXPORTS LESS ERRATICS #



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

EXPORTS LESS OIL



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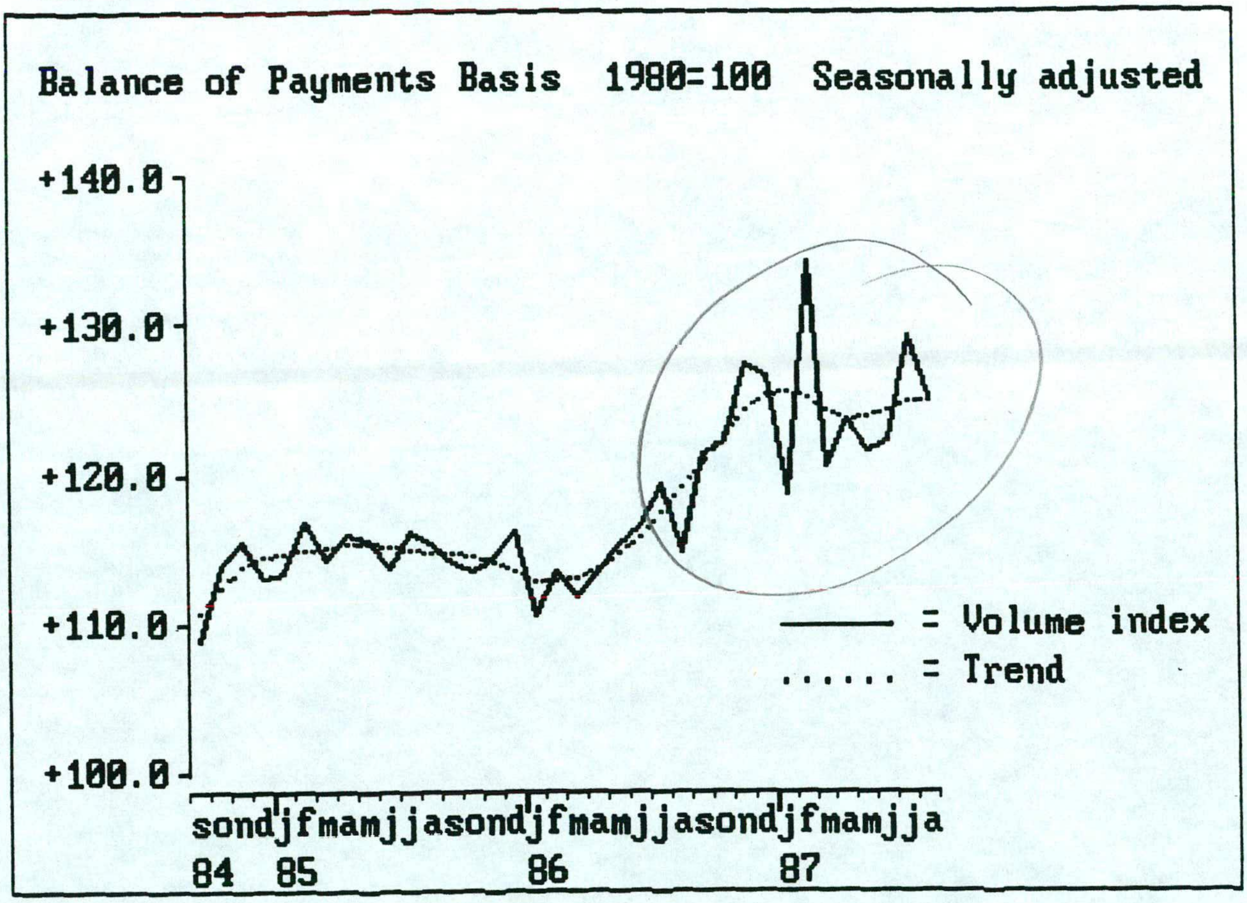
EXPORTS LESS OIL & ERRATICS



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CIRCULATION LIST .

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

Mr Davis

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THE CURRENT ACCOUNT - TABLE 2

Balance of payments basis
£ million; seasonally adjusted

	CURRENT BALANCE fob	EXPORTS fob	IMPORTS fob	VISIBLE BALANCES: TOTAL	OIL	NON-OIL	INVISIBLE BALANCE
1985	2919	78111	80289	-2178	8104	-10282	5097
1986	-980	72843	81306	-8463	4056	-12519	7483
1986 Q2	135	17786	19393	-1608	765	-2372	1742
Q3	-918	17553	20444	-2891	621	-3512	1973
Q4	-930	19340	22065	-2725	785	-3510	1795
1987 Q1	471	19637	20772	-1135	1164	-2300	1606
Q2	-561	19381	21742	-2361	1033	-3395	1800
1986 DEC	-313	6477	7388	-911	256	-1167	598
1987 JAN	18	6235	6752	-517	383	-900	535
FEB	333	6973	7174	-202	328	-529	535
MAR	119	6429	6846	-417	454	-870	536
APR	74	6610	7136	-526	423	-949	600
MAY	-496	6372	7467	-1096	365	-1461	600
JUN	-140	6399	7139	-740	245	-985	600
JUL	-310	6776	7686	-910	284	-1194	600
AUG		6545					
JUN-AUG 86		17316					
MAR-MAY 87		19411					
JUN-AUG 87		19720					
PERCENTAGE CHANGES:-							
LATEST 3 MONTHS ON PREVIOUS 3 MONTHS		1.5%					
SAME 3 MONTHS ONE YEAR AGO		14.0%					
JAN-AUG86		47399					
JAN-AUG87		52338					

231 down

Manufs less erratics -130
Erratics -200
Oil +100
-230

a
Not v good
AA

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Copy No. 6 (9)

SPECIAL FACTORS — SUMMARY

£ million seasonally adjusted
Balance of payments basis

	TOTAL TRADE		SNAPS		TOTAL LESS SNAPS		TRADE IN-OIL		NON-OIL TRADE		TOTAL LESS OIL & SNAPS		VISIBLE BALANCES					
	EXP	IMP	EXP	IMP	EXP	IMP	EXP	IMP	EXP	IMP	EXP	IMP	TOTAL	SNAPS	TOTAL LESS SNAPS	OIL	NON-OIL	TOTAL LESS OIL+ SNAPS
1980	47421	46061	3874	4350	43548	41711	6133	5818	41288	40243	37414	35893	1360	-476	1836	315	1045	1521
1981	50977	47617	3092	2679	47885	44938	9108	5996	41869	41621	38777	38942	3360	413	2947	3112	248	-165
1982	55565	53234	3447	2458	52118	50775	10686	6042	44879	47191	41432	44733	2332	989	1343	4643	-2312	-3301
1983	60776	61612	4495	3429	56280	58183	12501	5525	48274	56086	43779	52658	-836	1067	-1903	6976	-7812	-8879
1984	70367	74751	4622	3561	65745	71191	14852	7915	55515	66836	50894	63276	-4384	1061	-5445	6937	-11321	-12382
1985	78111	80289	4292	3540	73819	76749	16134	8029	61977	72259	57685	68719	-2178	752	-2930	8104	-10282	-11034
1986	72843	81306	5384	3649	67459	77657	8221	4165	64621	77141	59238	73491	-8463	1735	-10198	4056	-12519	-14254
1985 Q2	20192	20403	1282	1035	18909	19369	4326	1878	15866	18526	14584	17491	-212	248	-459	2448	-2659	-2907
Q3	18703	19300	914	762	17790	18537	3394	1615	15309	17685	14396	16923	-596	152	-748	1779	-2376	-2527
Q4	19135	19306	1195	641	17940	18665	3687	1703	15448	17604	14253	16963	-171	554	-726	1984	-2155	-2710
1986 Q1	18164	19404	1070	909	17094	18495	3024	1138	15140	18266	14071	17357	-1240	161	-1401	1886	-3126	-3287
Q2	17786	19393	1547	938	16238	18455	1783	1018	16003	18375	14455	17437	-1608	609	-2217	765	-2372	-2981
Q3	17553	20444	1186	883	16367	19561	1529	908	16024	19536	14839	18653	-2891	303	-3193	621	-3512	-3814
Q4	19340	22065	1581	919	17759	21146	1886	1101	17454	20964	15873	20045	-2725	662	-3387	785	-3510	-4172
1987 Q1	19637	20772	1512	939	18125	19833	2225	1061	17411	19711	15899	18772	-1135	573	-1709	1164	-2300	-2873
Q2	19381	21742	1420	1061	17961	20681	2076	1042	17305	20700	15885	19639	-2361	359	-2720	1033	-3395	-3754
1986 MAR	5765	6743	344	344	5421	6399	701	331	5064	6412	4720	6068	-978	-0	-978	370	-1348	-1348
APR	6049	6347	636	345	5413	6001	671	368	5378	5979	4743	5634	-298	290	-588	303	-601	-891
MAY	5870	6563	435	336	5435	6227	582	357	5288	6207	4853	5870	-693	99	-792	225	-919	-1017
JUN	5867	6483	477	257	5390	6226	530	294	5336	6189	4860	5932	-616	220	-836	236	-853	-1073
JUL	5970	6633	448	244	5522	6389	554	331	5416	6302	4968	6059	-663	204	-868	223	-887	-1091
AUG	5480	6871	234	250	5246	6621	440	293	5040	6578	4805	6328	-1391	-16	-1375	147	-1538	-1522
SEP	6103	6940	504	390	5600	6550	534	284	5569	6657	5065	6267	-837	114	-951	251	-1087	-1201
OCT	6294	7047	468	318	5826	6729	629	429	5665	6618	5197	6300	-753	150	-903	200	-953	-1103
NOV	6569	7630	572	325	5997	7305	632	303	5937	7327	5365	7002	-1061	247	-1308	329	-1390	-1637
DEC	6477	7388	541	276	5936	7112	625	370	5852	7018	5311	6743	-911	266	-1176	256	-1167	-1432
1987 JAN	6235	6752	469	263	5765	6489	731	348	5504	6404	5034	6141	-517	206	-723	383	-900	-1106
FEB	6973	7174	524	291	6449	6884	752	424	6221	6750	5697	6460	-202	233	-435	328	-529	-762
MAR	6429	6846	519	385	5910	6461	743	289	5686	6557	5168	6172	-417	134	-550	454	-870	-1004
APR	6610	7136	467	384	6144	6753	832	409	5778	6727	5312	6344	-526	83	-609	423	-949	-1032
MAY	6372	7467	472	328	5899	7139	629	264	5743	7204	5270	6875	-1096	144	-1240	365	-1461	-1605
JUN	6399	7139	481	349	5918	6790	615	370	5784	6769	5303	6420	-740	132	-872	245	-985	-1117
JUL	6776	7686	553	356	6224	7330	660	375	6117	7311	5564	6954	-910	196	-1106	284	-1194	-1390
AUG	6545		353		6192		761		5783		5430							
	-231		-200		-32		+101		-334		-134							

031/1393

From: P R C GRAY

Date: 15 September 1987 Papers PSE

CHIEF SECRETARY

cc Chancellor
PMG
Mr F E R Butler
Mr Monck
Mr Burgner
Mr Gilmore
Mr Turnbull
Mr Burr
Mr Waller
Mr MacAuslan
Mr Wynn Owen
Mr Cropper
Mr Tyrie
Mr Call

ENTERPRISE IN HIGHER EDUCATION

This minute recommends you to send a quick response to the Secretary of State for Employment's letter, dated (?17) September.

BACKGROUND

2. We have known for some time that DE, DES, DTI and MSC have been discussing a possible programme whereby MSC funds would be used to stimulate higher education institutions to gear more of their provision towards "enterprise". We had some initial discussions with the Departments concerned in the spring, when we made clear that any proposal would need to be more precisely worked up and that we would expect it to form part of the 1987 PES proposals.

3. Since then all has been quiet, although we have been conscious that the idea had not gone away and was quite likely in due course to be linked to the growing pressure for improvements in management education. But DE included nothing in their PES bids and there has been no mention of the idea thus far in our official Survey discussions.

4. So Mr Fowler's letter comes as something of a surprise.

DISCUSSION

5. At the end of the day it is likely that some sort of initiative on the lines set out by Mr Fowler will be agreed. The basic proposition that higher education courses are insufficiently geared to the requirements of subsequent working lives is probably sound. But, notwithstanding what Mr Fowler says about no addition to resources, there are risks of strong pressures developing from the enterprise/management education lobbies for additions to budgets, particularly via DES. And, more immediately, new ideas for spending MSC money make it harder for you to achieve the PES reductions you are seeking. So any proposition has to be handled with caution.

6. It is also rather extraordinary that Mr Fowler should write to you merely **informing** you that he is consulting the MSC in the terms attached to his letter. This would be true whatever the timing. It is the more striking that he should invite the Commission to put forward a proposal within their total resources when you are in the middle of PES discussions about what those resources should be.

CONCLUSION

7. I therefore recommend that you should respond to Mr Fowler, gently taking him to task. The terms of his letter to the MSC enable you to make one or two points which it may be marginally helpful to be able to parade before the Prime Minister (to whom Mr Fowler copied his letter). I attach a draft.

PRCG.

P R C GRAY

030/1393

DRAFT LETTER FOR THE CHIEF SECRETARY'S SIGNATURE

Write to: Secretary of State for Employment

Copies to: Prime Minister, Secretaries of State for Education, Trade and Industry, Wales and Scotland

ENTERPRISE IN HIGHER EDUCATION

Thank you for your letter dated 17 September concerning enterprise in higher education. Perhaps I could register some surprise at its contents and timing.

2. We are currently discussing the future level of your expenditure programmes as part of the PES round. In that context you have not mentioned this possible call on the MSC's resources for training and education, although I note from your letter that discussions have been proceeding since the spring. It seems rather odd that you should write <u>now</u> to the Commission's Chairman, inviting him to make proposals for a new programme within the Commission's total resources, <u>before</u> we have reached agreement on what those resources should be. If you have not already written I suggest you defer any such letter until we have concluded our discussions.

3. I am also puzzled by the terms in which you invite the Commission to put forward their proposal. Clearly you will need to know about the proposed costs, but I am not clear what you mean by "how the costs involved in this initiative will affect the Commission's present expenditure objectives". Moreover it is not satisfactory just to know about the costs. It is now well established procedure that any new expenditure proposals have to be supported also by statements of objectives, the targets to be achieved and procedures for evaluation; I am surprised you seem to have overlooked those aspects in this case.

4. I am sending copies of this letter to the Prime Minister and the Secretaries of State for Trade and Industry, Education and Science, Wales and Scotland.

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SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

B/f with advice

My ref:

Your ref:

The Rt Hon Nigel Lawson MP
HM Treasury
Parliament Street
LONDON
SW1

CH/EXCHEQUER
REC. 16 SEP 1987
ACTION FELLGETT
COPIES TO CST, PMG, PEM, FERB, ANSON, GILMORE, POTTER, SINCLAIR, TYRIE, PS/IR, HOUGHTON-IR, MR HEARD-IR, Battersby-IR.

15 September 1987

Dear Nigel

EFFECTS OF DOMESTIC REVALUATION

Thank you for your letter of 11 August in reply to mine of 31 July.

I understand your concern about the implications of the proposed study for the Valuation Office's workload and the other issues you mention. Nonetheless I remain of the view that it would help our case substantially if we could point to current examples of the damage that would be done to individuals by revaluation, based on a survey, rather than having to rely on hypothetical constructed examples. It would be surprising if the effects were not at least as large as those of the last revaluation in Scotland, with the resultant fuss that we all saw. I fully accept that this exercise should not be allowed to delay essential work on the non-domestic revaluation, but I find it hard to believe that a resurvey on this modest scale would have that effect. I hope therefore that you will be prepared to reconsider your earlier view.

I am sending a copy of this letter, and the earlier ones, to the Prime Minister in view of the importance attached at our meeting on 2 July to the need to marshal all the facts on the prospective effects of a domestic rating revaluation (recorded in David Norgrove's letter of the same day).

Yours ever

Nicholas

NICHOLAS RIDLEY

CONFIDENTIAL

CH/EXCHEQUER
REC. 16 SEP 1987
ACTION CST
COPIES TO 2

PRIME MINISTER

CHARGING FOR SCHOOL ACTIVITIES

1. Your Private Secretary's letter of 7 September passed on a number of comments on the latest draft of our consultation document. The Chief Secretary also made a number of suggestions in his letter of the same date.

2. I am happy to accept all the Chief Secretary's amendments, and to change paragraphs 2, 5 and 7 as you suggested. All these changes serve to underline the overall intention to preserve current charging practice, while still maintaining the overall tone of the document.

3. There is a problem over one of the changes you proposed, where our proposals require some further explanation. In paragraph 9 of the document you suggest we should require only that 'reasonable' administrative costs are not passed on to parents. Of course we do not want unreasonable administrative costs to be incurred <u>or</u> to be passed on. But the proper constraints on unreasonable expenditure are through the processes of District Audit and rate capping. There would in any case be a danger in amending the document of appearing to suggest that unreasonable costs might be incurred <u>and</u> passed on to parents.

4. On your main point, I have considered again whether there is a real need for us to interpose the LEA between the law and school governors, as we had proposed. It is certainly more in tune with the thrust of our other policies to give LEA-maintained school governors freedom under the law (as we have done for the governors of grant-maintained schools in relation to charges). But the position is complicated because of the relationship between the LEA's control

CONFIDENTIAL

over resources and the power to charge. There would be an element of double funding in respect of any item which the LEA believed it had paid schools to provide free and for which the governors also made a charge. This would be at its most obvious where an LEA sent peripatetic staff into a school to give free music lessons, which the schools then made pupils pay to attend.

5. There are also presentational difficulties over allowing some schools to charge considerably more than others locally. The charging policy could serve to limit admissions to those willing to pay for better facilities (or in receipt of automatic remission). This could reinforce inequalities of provision. The local authorities, who have so far been our allies over the need to allow charges, and on whom we are relying to press the case during consultation, might be less willing to argue for a power over which they had so little control.

6. Given these real difficulties, I think we must be careful to seem as open to argument on this aspect of the policy as on any. But we can with benefit use the consultation document to ask for views about how to strike the right balance between LEA and governors control, and should start from an assumption that it is at school level that charging decisions should be made. We have redrafted paragraphs 7 and 21 of the consultation document to that effect and I attach copies of the revised versions. Elsewhere in the document some minor consequential amendments will be necessary to emphasise that it is <u>schools</u> charging practices we seek to preserve, not simply LEAs'.

7. I intend to issue the consultation document with the amendments mentioned in paragraphs 2 and 6 above around the middle of next week. I hope you are happy for me to do so. If we are to allow a reasonable period for consultation, and have draft clauses ready for the Bill in time for Committee stage, I must keep to that timetable. Could I therefore ask you to let me know by Monday 21 September, please, if you are not content?

8. Copies go to E(EP) members, Tom King, John Moore, Patrick Mayhew and Sir Robert Armstrong.

C de Boursy

pp KB

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

16 September 1987

Department of Education and Science

7. There is no question of requiring any LEA or maintained school to charge for any service it provides. We are seeking the views of local authorities and others concerned about the need for legislation expressly to allow schools, if they wished, to maintain their longstanding practice of charging for certain limited activities. The scope of any such legislation is a matter which the Secretary of State would need to consider further in the light of comments on this document; but - to illustrate the possibilities - such legislation might:

(i) establish much more clearly than at present those categories of expenditure in respect of which no charges could be made. It would, for example, be possible to include a list of such categories in primary legislation.

(ii) give the Secretary of State a new power to make Regulations listing those items for which charges might be passed on to parents. Statutory consultations could be required before Regulations were made or amended, and they could be subject to negative or affirmative resolution by both Houses of Parliament.

(iii) require each LEA to determine its policy in respect of what charges permitted by Regulations, if any, it would wish schools to pass on to parents, and what remission arrangements they would be expected to adopt. This policy would underlie the LEA's allocation of resources to its schools, as set out in its formula for financial delegation.

(iv) allow the Governing Bodies of individual schools, after consultation with the LEA, to introduce charges for items included in the Regulations, whether or not they form part of the authority's declared policy subject to suitable remission arrangements (see below).

(v) require any governing body choosing to pass on charges to establish remission arrangements, designed to avoid hardship and to ensure in particular that no charges fell to be met by families in receipt of income support or family credit.

21. Consistent with the general aim of increased financial delegation, the Governors of all schools could be enabled, having considered the LEA's policy and consulted the headteacher, to adopt charging and remission policies for their own school. This approach would enable the wide variety of charging practice which now occurs in schools, even within the same LEA, to continue. Such freedom for the Governors would in future be constrained by the clearly established national framework set out in legislation. However, under such arrangements the general charging policy which underlies the LEA's resourcing decisions, and that which is finally adopted by the Governors, could be significantly different. This would be acceptable in many cases, as the way in which funds are allocated to individual schools would not reflect the LEA's assumption about charging in any detailed way. However, there would need to be some limits on governors' freedom so that, for example, they did not charge parents for the services of LEA-employed music teachers who were not counted against the school's establishment but provided as a central resource for whom the LEA did not wish to charge.

Comments are invited on the best way to achieve an appropriate distribution of control over legally-permitted charges between the governing body and the LEA.

d.76

Papers PLE

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FROM: M GIBSON
DATE: 16 September 1987

Jon 17/9.

1. MR MCINTYRE
2. CHIEF SECRETARY

cc Chancellor
Mr F E R Butler
Mr Anson
Miss Peirson
Mr Potter
Mr Gieve
Mr Fellgett

£1.30 COMPENSATION IN INCOME SUPPORT FOR 20 PER CENT RATES CONTRIBUTION

You asked:

i. Was the £1.30 public knowledge?

ii. How was the £1.30 derived?

2. As far as we and DHSS officials are aware, the answer to i. is no.

3. The answer to ii. is provided in the attached note from DHSS. For the Treasury, the key question is whether we could successfully argue that the calculation of the £1.30 is too high. We and LG think it would be difficult; the 8% increase in rates assumed for 1987-88 has proved correct, and the assumed increase in line with the RPI for 1988-89 is very favourable to us.

4. We could try to argue that the calculation should be based, not on actual rates in 1986-87, but on the rates that councils should have levied if the local authorities spent in line with plans. However, the pledge (see attached) clearly relates to the (actual) bill householders are expected to pay in 1988-89, so this would be difficult.

4. We had thought that a better way to reopen the amount of compensation would have been via the forthcoming debate over

compensation for the community charge. DHSS and DOE officials had favoured a once and for all solution introduced in April 1988, reflecting the commitment to protect against both the rates and community charge contributions. We were also attracted by the possibility of a achieving a cheaper solution during the Survey period than the rates compensation agreed before the Election. But we have just learnt today that Mr Scott and Mr Portillo feel that it would be better to leave the £1.30 in place for 1988-89 and consider the compensation for the community charge at a more leisurely pace. Mr Moore is being consulted tomorrow.

M Gibson

M GIBSON

RATES CONTRIBUTION FOR SUPPLEMENTARY BENEFIT HOUSEHOLDERS

The Annual Statistical Enquiry (ASE), used for modelling the effects of the income support reforms, does not record information on housing costs. For householders appearing in the ASE we need therefore to impute levels of general rates from another source. For the (different) sample of supplementary benefit householders in the Quarterly Statistical Enquiry, local authorities are asked to provide the amount of certificated general rates included in their housing benefit assessment. Average rates figures from this source are available analysed by claimant type and by tenure. Householders in the ASE are then assumed to pay the same average amount of rates as claimants of the same tenure and family type in the QSE.

The latest QSE figures available are for May 1986. Uprating to 1988-89 levels was done on the basis of a DOE estimate of the likely average increase in April 1987 (8%) and the Treasury RPI forecast for 1988-89 over 1987-8 (3.5%).

Applied to the sample of supplementary benefit householders in the 1986 ASE, this gives an estimated average general rates amount of about £6.60 a week in 1988-89, implying an average 20% contribution of £1.32 a week.

This is rather higher than the figure implicit for supp ben householders in the White Paper Technical Annex of about £0.95 a week in November 1985. Part of the difference is accounted for by expected increases in rates between 1985 and 1988. The Technical Annex figure was based on data collected in the 1982 ASE* so the latest estimate also reflects the inclusion of more up-to-date information on actual rates.

* When housing costs were still paid via supplementary benefit.

Department of He
and Social Securit

Alexander Fleming Ho
Elephant and Castle
London SE1 6BY

PRESS RELEASE

Telephone 01-407 5522

Mr Hall

Copies please to

Miss Pavi-

Mr McIntyre

M. Fellgett

87/210 15 May 1987

CC Mr Gibson

r then file (35)

REFORMING SOCIAL SECURITY: HOUSING BENEFIT REGULATIONS

Revised draft regulations setting out the detailed structure of the new housing benefit scheme will be issued to local authorities on Monday 18 May, Mr Norman Fowler, Secretary of State for Social Services announced today. The draft regulations confirm that from April 1988 everyone who is liable to pay domestic rates will be expected to make a contribution of at least 20 per cent of their rates bill. Mr Fowler also made it clear that when the rates for income support are set in the autumn, they will include the average amount that householders who are income support claimants are expected to have to meet as their minimum contribution.

In reply to a Parliamentary Question from Mr Robert McCrindle MP for Brentwood and Ongar Mr Fowler said:

"Revised draft regulations on the detailed structure of the new scheme will be issued to all local authorities on Monday 18 May following consultation on the earlier drafts. These regulations set out firm proposals on the detailed structure required for local authorities to prepare for implementation of the scheme in April 1988.

"The draft regulations confirm that from April 1988 the Government expects everyone who is liable to pay domestic rates to make a minimum contribution of 20 per cent of their rates bill. However, when the rates for income support are set in the autumn, they will include the average amount that we expect householders who are income support claimants to have to meet as their minimum contribution. The details will be determined at the time the benefit rates are decided. This will mean that income support claimants will receive compensation in April 1988 in their benefit entitlement, whilst at the same time preserving

(MORE)

3693/2

UNCLASSIFIED

FROM: COLIN MOWL

DATE: 16 SEPTEMBER 1987

1. MR CASSELL
2. CHANCELLOR

I would not rate the risks here very high. But if anyone were to suggest that the recent PSBR numbers are too low, I think we are well placed to take it on the chin!

cc Sir P Middleton
Sir T Burns
Mr F E R Butler
Mr Hawtin
Mrs Lomax
Mr Peretz
Mr Sedgwick
Mr Potter
Mr Perfect
Mr Ritchie

Noted. Hope desirable to have this cleared up in time for AS. I take it the 1987-88 forecast as well as the 1986-87 ...

LOCAL AUTHORITY BANK DEPOSITS AND THE LABR

We advised you in April (paragraphs 4 and 5 of Mr Briscoe's minute of 22 April, copy attached) that a large discrepancy had emerged between the estimate of local authority bank deposits compiled by the Bank of England from the banking statistics and the estimate compiled from local authority returns to the DOE. It is the banks' estimate which is used to compile the published LABR and PSBR figures. Were the LAs' own estimate to have been used the PSBR in 1986-87 would have been £0.7 billion higher than published.

2. The statisticians have taken a number of steps to eliminate the discrepancy but, as I reported to you on 21 August, with as yet no concrete results. They now advise that a full reconciliation between figures for individual authorities from the two sources is required. This could be done either by individual authorities asking their banks what figures they are providing for the banking statistics or by asking the banks to identify individual authorities in the figures given to the Bank of England. Either way the permission and involvement of local authorities themselves will have to be sought.

3. To this end the DOE plan to raise the matter next week at a routine meeting of their Working Group on Local Government Financial Statistics. This group comprises representatives of CIPFA and the authorities as well as of the DOE and Treasury.

The discrepancy between the two estimates will be raised in a low key way as a purely statistical matter, but will effectively come into the public domain. There is a possibility however that someone will subsequently argue that the published PSBR figures are too low.

4. We do not think there would be a serious problem if this happened. The way in which the PSBR figures are compiled has not changed. Other statistical evidence points to the banks' estimates (incorporated in the published PSBR figures) being a more accurate guide than the LAs' own estimates given to the DOE. The official paper for next week's meeting includes a long list of purely statistical reasons which might have given rise to the discrepancy (eg the ommission of residuary bodies; differences between cheque issued and cheques cleared).

Conclusion

5. You are invited to note:

(i) the intention to mount a reconciliation exercise involving the LAs', banks and CIPFA between the two sets of estimates;

(ii) the possibility that doubts about the published PSBR estimates might be raised in public but that we do not consider this would pose a serious problem (briefing is being prepared for IDT).

Colin Mowl

COLIN MOWL

3?56/008/JRF

PUP

FROM: S PRICE

DATE: 16 September 1987

TO MR CULPIN

cc PS/Chancellor 12/2
Sir Terence Burns
Mr Sedgwick
Mr Davies
Mr Gilhooly
Miss O'Mara

RELEASE DATE OF RPI

I understand that DE are considering moving the release of the RPI from Friday to Thursday. This will mean that in some months the release will coincide with the Monthly package of Labour market statistics. I would welcome any comments you have on this proposal.

Simon Price

S PRICE

ps2/19R

PERSONAL AND CONFIDENTIAL
until 11.30am 16 September 1987
then UNCLASSIFIED

RD

FROM: CATHY RYDING
DATE: 16 September 1987

MR PETER CURWEN

INDEX OF OUTPUT OF THE PRODUCTION INDUSTRIES - JULY

The Chancellor was grateful for your minute of 15 September.

2. He notes the comment in your paragraph 6 that manufacturing output in the latest three months is at about the same level as the 1979 peak.

CATHY RYDING

8:2/3a

PERSONAL AND CONFIDENTIAL
until 11.30am 16 September 1987
then UNCLASSIFIED

FROM: **PETER CURWEN**
DATE: 15 September 1987

1. **MR S J DAVIES**/ Approved in draft
2. **CHANCELLOR OF THE EXCHEQUER**

cc Chief Secretary
Financial Secretary
Economic Secretary
Paymaster General
Sir Peter Middleton
Sir Terence Burns
Mr Cassell
Mr Monck
Mr Burgner
Mr Scholar
Mr Sedgwick
Mr Culpin
Mr Gray
Miss O'Mara o/r
Mr Pickford o/r
Mr Brooks
Mr Hudson
Mr Dyer (+1 for No 10)
Mr Call
Mr Cropper
Mr Tyrie
Mr Stirling - CSO
HB/002

Thanks. Lots X

INDEX OF OUTPUT OF THE PRODUCTION INDUSTRIES - JULY

This will be published at 11.30am on Wednesday 16 September.

2. The index of production rose by 2.2 per cent between June and July, by 0.7 per cent between the latest 3 months and the previous 3 months and by 3.5 per cent between the latest 3 months and the same period a year earlier.

3. Manufacturing output rose by 1.6 per cent between June and July, by 1.5 per cent between the latest 3 months and the previous 3 months and by 5.9 per cent between the latest 3 months and the same period a year earlier.

4. The index of manufacturing output has been revised upwards for recent quarters and this has particularly affected the first half of 1987. Manufacturing output in 1987H1 is now estimated to be 0.6 per cent higher than previously estimated and the index of production 0.4 per cent higher. These revisions have helped to boost the growth rate between the latest 3 months and the same period a year earlier.

5. **Recent movements**

percentage changes	Latest 3 months on previous 3 months	Latest 3 months on same period year earlier	July on June	Latest 3 months on 1979H1
Index of Production within which:	+0.7	+3.5	+2.2	+6.2
Manufacturing	+1.5	+5.9	+1.6	+0.5
Energy and Water	-1.6	-2.0	+3.8	+23.7

6. Within manufacturing, output of the metals industry increased by 3.7 per cent over the two latest three month periods and that of other minerals, of textile and clothing and 'other manufacturing industries' increased by about 2 per cent. The growth of manufacturing output between June and July is evident across almost all industrial groups which may suggest no special factors are at work. However, the CSO believe that the July figure possibly overstates the underlying growth of output as the holiday season may not have been correctly captured in the seasonal adjustment. Manufacturing output in the latest 3 months is 0.5 per cent higher than 1979H1 (although the figure for July is 2.1 per cent below the 1979 monthly peak): it is probably best just to say that manufacturing output in the latest 3 months is at about the same level as the 1979 peak. X

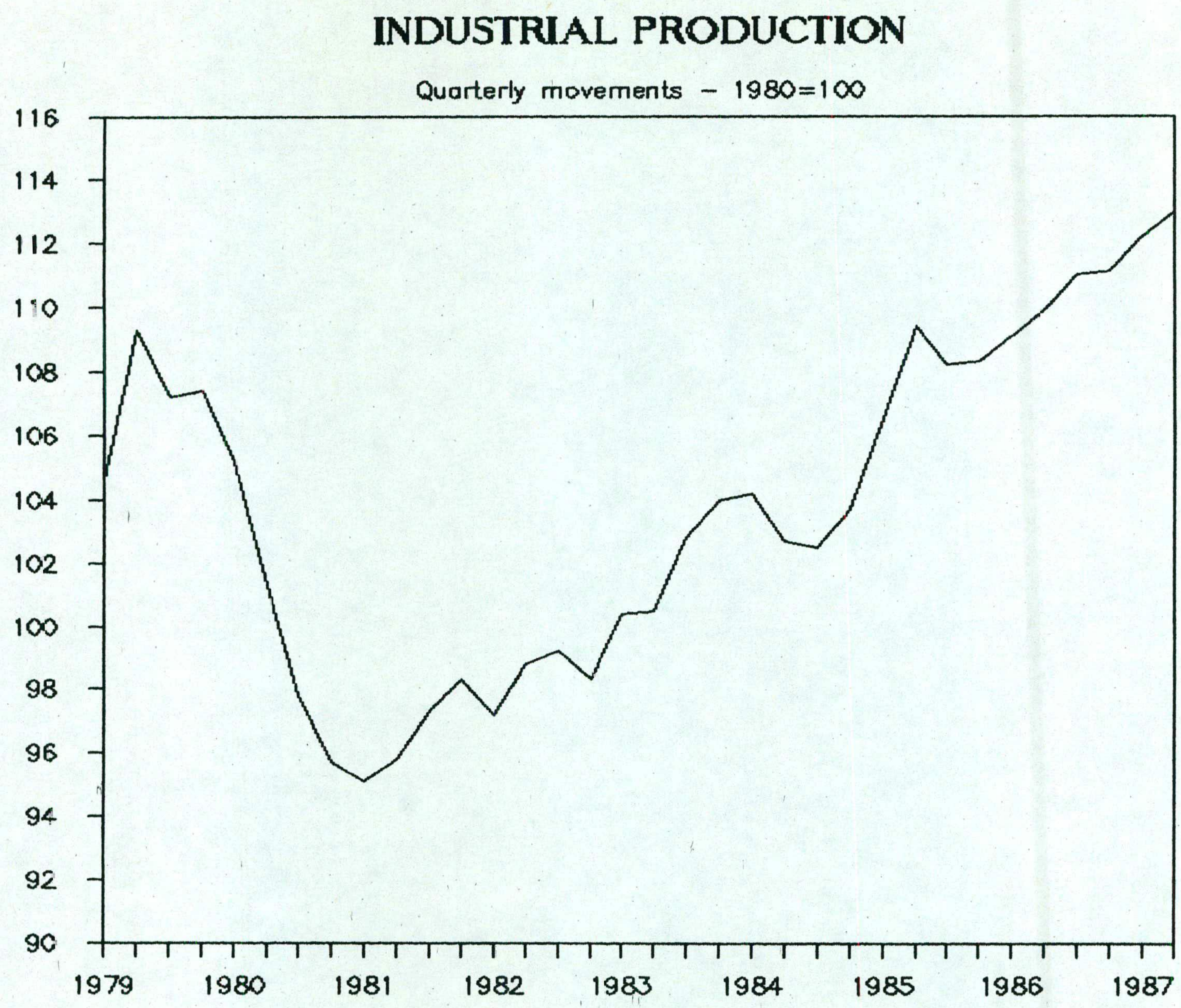
7. Energy sector output bounced back well following the drop in output in June caused by the unusually high level of maintenance work. Although the recovery didn't fully compensate the loss of output in June the underlying trend over the last few months looks broadly flat, but North Sea production levels over the spring and summer do seem to be down somewhat from the same period last year.

8. The increase in the index of production between June and July is accounted for by the unusually large rise in seasonally adjusted manufacturing output on top of the recovery in energy sector output. In the 3 months to July the index of production was 3.5 per cent higher than the same period a year earlier and the CSO regard this as a reasonable guide to the underlying trend.

9. Although not part of the index of production, the press notice will contain figures for second quarter construction industry output (the GB component of this was released by the Department of Environment on Friday). The figures do not seem to have been revised significantly from those implicit in the GDP(0) figures that were released last month. The output of the construction industry is estimated to have fallen by 3.6 per cent between the first and second quarters following 4.5 per cent growth in the previous quarter and continuous growth since 1986Q1. Thus, growth in the year to 1987Q2 is 4.1 per cent, but in the year to 1987H1 is 7.5 per cent.

Peter. S. Curwen

PETER S CURWEN


INDUSTRIAL PRODUCTION
Quarterly movements - 1980=100
116
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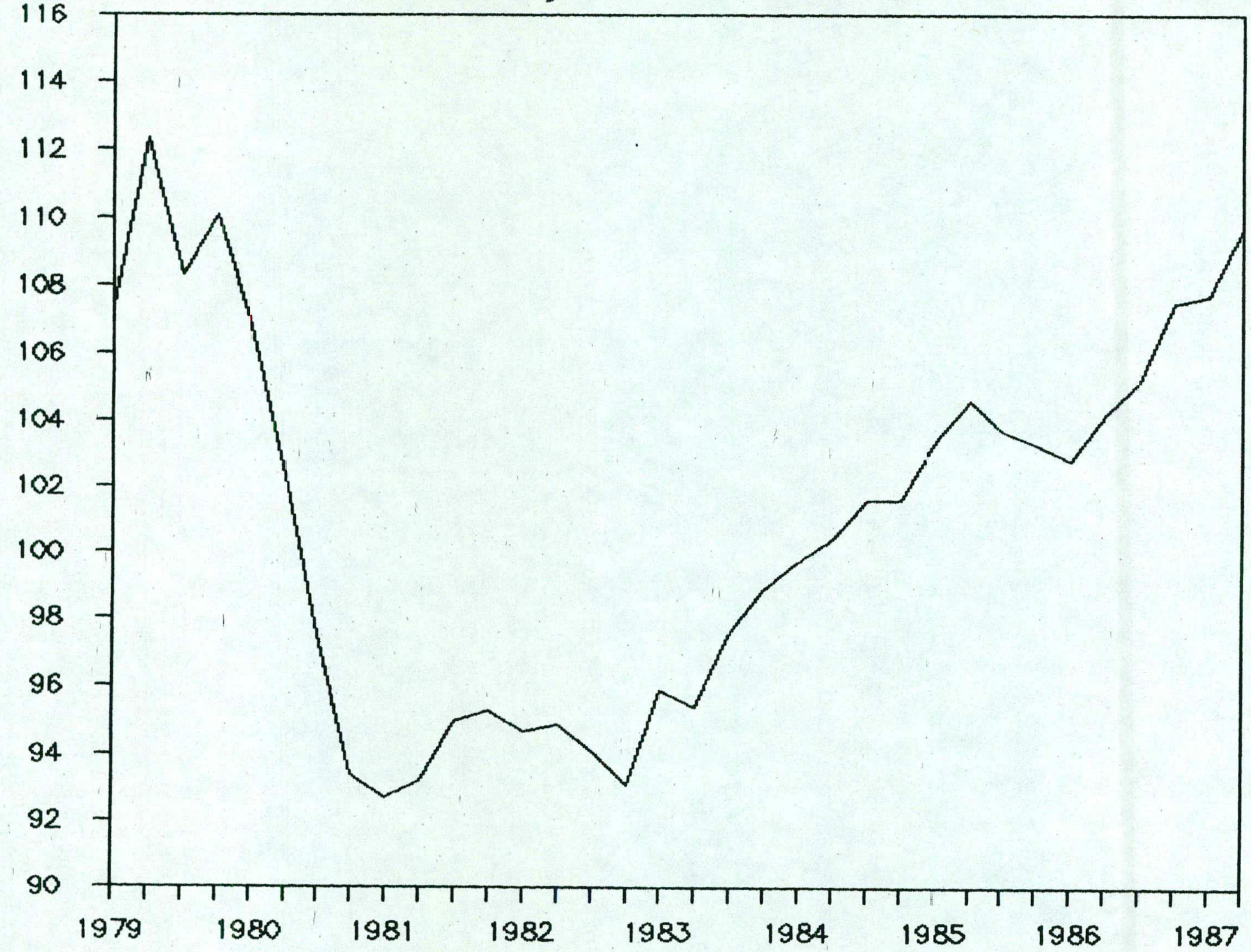
1987

MANUFACTURING OUTPUT

Quarterly movements - 1980=100



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Ch
(You've made it
— see X !)

JO832

COPY NO 2

MR D NORGROVE
Prime Minister's Office

Ref: F1/18

AA

INDEX OF OUTPUT OF THE PRODUCTION INDUSTRIES - JULY 1987

The provisional index of the output of the production industries for July 1987 will be published at 11.30 am tomorrow, Wednesday 16 September. A copy of the Press Notice is attached.

Latest figures

The July 1987 index of the output of the production industries - energy and manufacturing - is provisionally estimated at 114.8 (1980=100, seasonally adjusted), an increase of 2 per cent on June. For manufacturing the index was 111.6, an increase of $1\frac{1}{2}$ per cent on June (see also paragraph on bias adjustment below).

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

Assessment

Manufacturing output reached a temporary peak in the second quarter of 1985 and then declined by over $1\frac{1}{2}$ per cent by the first quarter of 1986. Since then manufacturing output has grown steadily with the exception of a slackening in growth in the first quarter of this year, which was largely a reflection of severe weather in January. The provisional figure for July shows a sharp rise compared with June. However this figure is seasonally adjusted and it seems that in July manufacturers reduced their output by less than usual for this holiday month, leading to a high figure for this time of year. As a result, in the three months to July, manufacturing output was 6 per cent higher than a year ago; but a fairer representation of the recent underlying growth rate in manufacturing would be slightly lower, perhaps 5 or $5\frac{1}{2}$ per cent per year. In the three months to July, manufacturing output was at a similar level to the previous peak (numerically $\frac{1}{2}$ per cent higher), which was in the first half of 1979.

X

(cyclical peak (1973-4 was higher still)

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

Since 1985 the output of production industries has grown steadily, reflecting the growth in manufacturing. (Published figures were almost flat between the third and fourth quarters of last year and depressed in June this year because of interruptions to oil extraction.) The provisional figure for July shows a sharp rise on June because of the increase in manufacturing and the recovery of oil extraction from its depressed level in June. In the three months to July, the output of production industries was $3\frac{1}{2}$ per cent higher than a year ago, and this is probably a fair representation of recent underlying growth for production industries (contained within this is a low figure in June for oil extraction and a rather high figure in July for manufacturing).

Bias adjustment for manufacturing output

In line with revised procedures introduced in January last year, figures for manufacturing output in the latest six months include adjustments to try to allow for underestimation in the provisional estimates (see also Note 10 of Notes to Editors of Press Notice).

Figures for August 1987

Figures for August 1987 are scheduled for publication on Wednesday 14 October.

SKingaby

S D Kingaby
15 September 1987

Central Statistical Office

Table A

Copy No.

++ PERSONAL AND CONFIDENTIAL until release of Press Notice at 11.30 am on September 16 1987 and thereafter unclassified ++

Index of output of the production industries 1980=100

SUMMARY		Total production industries	Energy and water supply	Total manufacturing industries	Metals	Other minerals and mineral products	Chemicals and man-made fibres	Engineering and allied industries	Food, drink and tobacco	Textiles, footwear, clothing and leather	Other manufacturing
1985		108.1	120.1	103.8	113.4	94.6	119.2	104.0	101.0	101.9	99.0
1986		110.3	125.2	104.9	111.3	96.9	120.8	103.4	102.5	103.8	103.8
1986	1	109.1	126.7	102.8	109.6	93.6	118.5	101.5	100.9	103.1	100.4
	2	109.9	125.8	104.2	110.3	97.1	119.0	103.0	101.6	104.3	102.4
	3	111.0	127.2	105.2	109.2	97.9	120.9	103.6	102.8	103.3	104.8
	4	111.1	121.2	107.5	116.0	99.2	124.8	105.6	104.5	104.7	107.5
1987	1	112.2	124.8	107.7	114.7	98.1	126.7	106.2	103.8	102.4	108.2
	2	113.0	122.3	109.7	120.8	102.0	127.4	107.7	105.8	104.3	110.7
1987	M	113.8	124.6	109.9	121	102	128	108	107	104	110
	J	112.3	119.1	109.8	125	103	125	108	105	104	111
	J	114.8	123.6	111.6	121	103	131	110	107	106	113
Percentage change latest 3 months on:											
previous 3 months		+0.7	-1.6	+1.5	+3.7	+2.3	+0.1	+1.3	+1.2	+1.9	+2.2
a year earlier		+3.5	-2.0	+5.9	+10.6	+5.9	+7.1	+5.5	+4.3	+1.6	+8.1
1st quarter 1981(a)		+19.5	+20.4	+19.1	+23.2	+15.4	+32.8	+20.9	+6.7	+15.2	+19.4
1st half 1979(b)		+6.2	+23.7	+0.5	-6.1	-4.6	+17.8	-1.1	+6.4	-12.4	+0.5

DETAILED ANALYSIS		Coal and coke	Extraction of mineral oil and natural gas	Mineral oil processing	Other energy and water supply		Metals	Other minerals and mineral products	Chemicals	Man-made fibres	Metal goods not elsewhere specified
1985		67.2	150.3	98.6	105.9		113.4	94.6	120.5	74.0	99.4
1986		79.3	153.0	99.9	111.8		111.3	96.9	122.3	67.9	97.7
1986	1	80.1	154.3	96.3	114.6		109.6	93.6	119.7	74.6	96.2
	2	79.6	152.9	103.1	113.1		110.3	97.1	120.5	68.9	97.7
	3	78.3	157.8	101.0	111.2		109.2	97.9	122.5	65.8	97.9
	4	79.1	147.1	99.0	108.2		116.0	99.2	126.6	62.4	98.9
1987	1	75.9	153.0	95.7	112.8		114.7	98.1	128.7	59.4	101.1
	2	75.7	148.2	98.1	111.5		120.8	102.0	129.2	65.8	101.1
1987	M	76	155	100	109		121	102	130	67	101
	J	77	137	97	117		125	103	127	59	101
	J	76	150	97	113		121	103	133	59	103
Percentage change latest 3 months on:											
previous 3 months		+1.1	-4.0	+2.8	+1.7		+3.7	+2.3	+0.1	-1.5	+0.3
a year earlier		-2.9	-4.4	-4.9	+3.7		+10.6	+5.9	+7.4	-9.0	+5.0
1st quarter 1981(a)		-21.7	+37.3	+2.0	+16.9		+23.2	+15.4	+34.6	-31.5	+15.2
1st half 1979(b)		-20.1	+56.1	-13.1	+7.8		-6.1	-4.6	+20.6	-55.1	-17.1

DETAILED ANALYSIS continued		Mechanical engineering	Electrical and instrument engineering	Motor vehicles and parts	Other transport equipment	Food	Drink and tobacco	Textiles	Clothing, footwear and leather	Paper, printing and publishing	All other manufacturing
1985		91.8	131.0	87.4	94.4	103.9	95.0	98.3	105.0	98.3	99.8
1986		92.8	130.1	82.6	96.5	105.4	96.4	98.9	108.1	102.2	105.6
1986	1	92.5	126.0	81.4	94.4	103.7	95.1	98.4	107.1	99.3	101.7
	2	94.7	126.7	82.1	96.0	104.2	96.4	99.3	108.5	101.4	103.7
	3	92.1	131.5	81.3	97.9	105.7	96.6	97.8	108.1	102.4	107.6
	4	91.9	136.1	85.6	97.8	107.8	97.7	100.2	108.6	105.8	109.4
1987	1	91.1	139.1	83.7	97.1	106.6	98.0	98.9	105.4	104.1	112.9
	2	91.7	141.4	88.0	98.2	108.2	100.8	98.7	109.2	107.9	114.0
1987	M	91	141	88	99	109	102	98	110	108	114
	J	93	140	92	98	107	100	99	109	108	115
	J	94	140	96	100	109	103	101	111	110	117
Percentage change latest 3 months on:											
previous 3 months		+1.8	-0.6	+8.8	+1.3	+0.8	+2.2	-	+3.4	+2.7	+1.7
a year earlier		-0.9	+10.4	+10.9	+2.4	+3.8	+5.3	+1.3	+1.8	+6.7	+9.5
1st quarter 1981(a)		+6.3	+51.9	+19.4	-6.4	+9.9	+0.3	+9.5	+20.1	+14.4	+25.4
1st half 1979(b)		-15.7	+36.2	-25.5	+5.3	+8.9	+1.4	-20.6	-4.8	+1.7	-0.7

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

Personal numbered copies of the minute and attachment to:

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

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CSO(87)85
16 September 1987

INDEX OF OUTPUT OF THE PRODUCTION INDUSTRIES - JULY 1987

Output of the production industries in the three months to July 1987 is provisionally estimated to have increased by ½ per cent from the level of the previous three months; manufacturing output rose by 1½ per cent.

Output of the production industries (to July 1987)

The July index of the output of the production industries - energy and manufacturing - is provisionally estimated at 114.8 (1980=100, seasonally adjusted). In the three months to July 1987, production industries' output was ½ per cent higher than in the previous three months and 3½ per cent higher than in the same period a year earlier.

Manufacturing output in the latest three months was 1½ per cent higher than in the previous three months and 6 per cent higher than in the same period a year earlier (see also note 10 of Notes to Editors). Within manufacturing, the output of the metals industry increased by 4 per cent and that of other minerals, of textiles and clothing and of 'other manufacturing' industries by 2 per cent between the two latest three-month periods. The output of the engineering and allied and of the food, drink and tobacco industries increased by 1 per cent. There was little change in the output of the chemicals industry.

The output of the energy sector in the latest three months was 1½ per cent lower than in the previous three months and 2 per cent lower than in the same period a year earlier.

By market sector, the output of the consumer goods industries increased by 2 per cent between the two latest three-month periods and that of the investment goods industries by 1 per cent; the output of the intermediate goods industries was little changed.

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

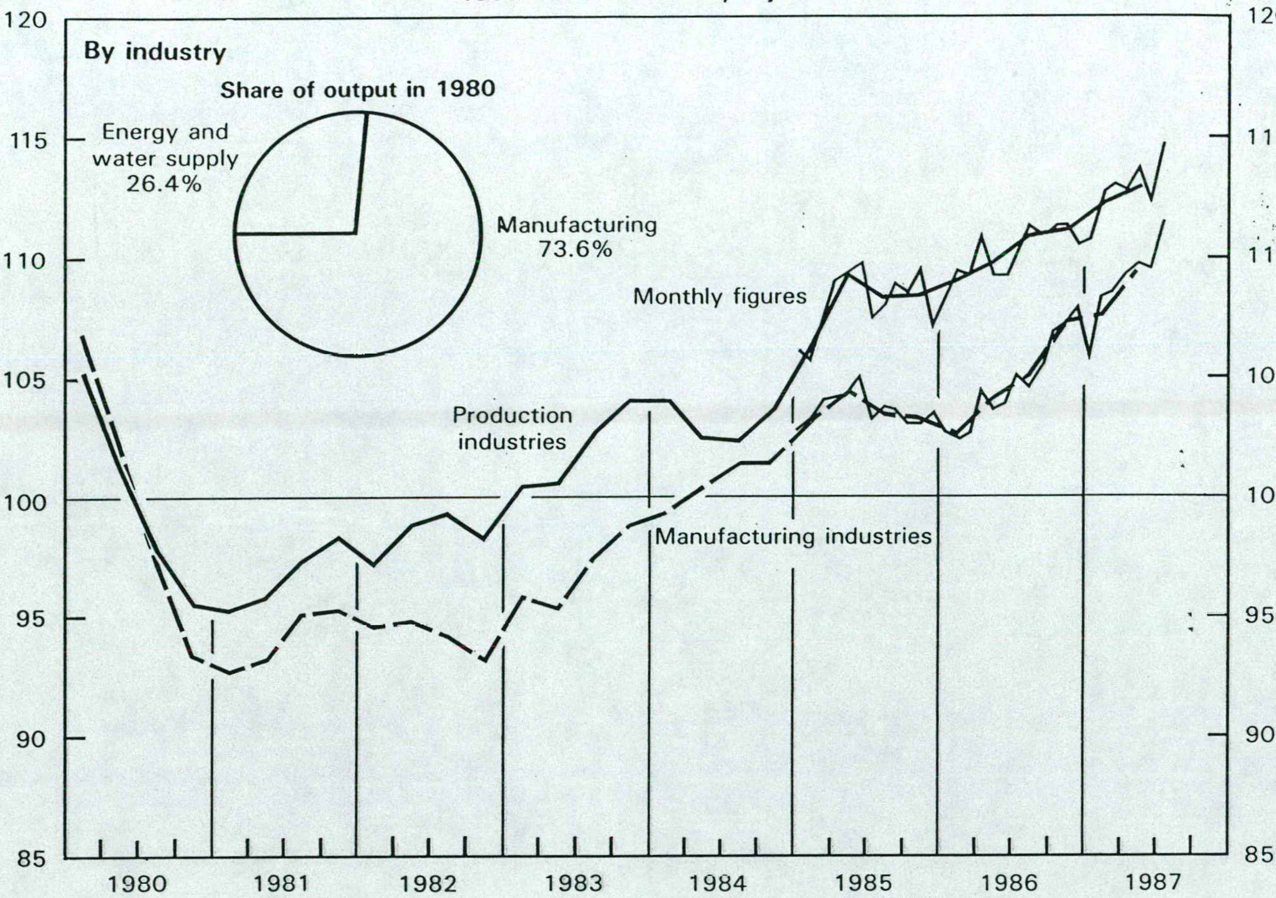
Output of the construction industry in the second quarter of 1987 is estimated to have been $3\frac{1}{2}$ per cent lower than in the previous quarter but 4 per cent higher than in the same period a year earlier; output of the production and construction industries in the second quarter was little changed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

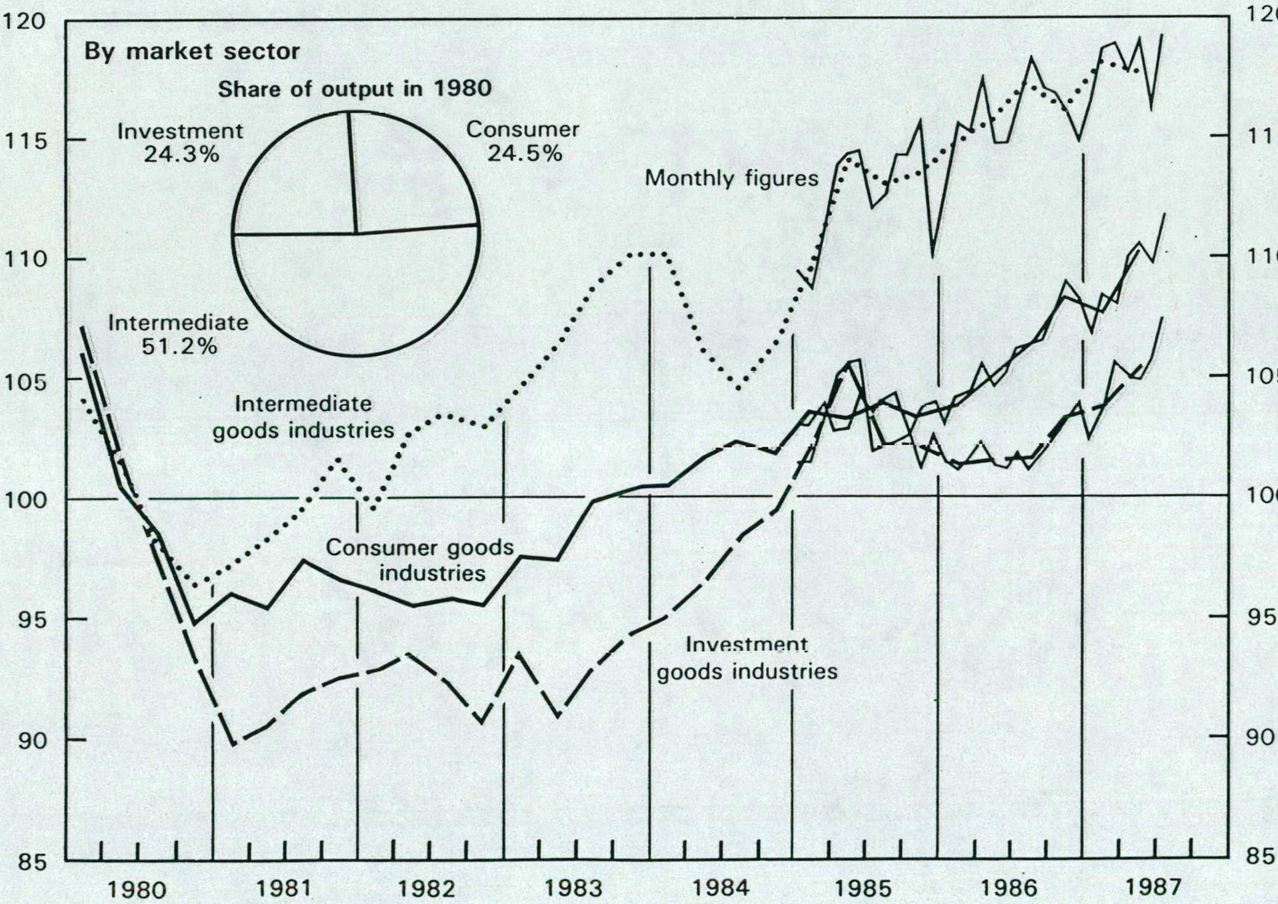
Revisions

The index of production has been revised upwards by around $\frac{1}{2}$ per cent in both the first and second quarters of 1987; the index of manufacturing output has been revised upwards by around $\frac{1}{2}$ per cent and 1 per cent respectively in the same periods.

INDEX OF OUTPUT OF THE PRODUCTION INDUSTRIES

1980 = 100 Seasonally adjusted





OUTPUT OF THE PRODUCTION INDUSTRIES(1)

(1980=100)

TABLE 1

	Broad industry groups			Market sectors		
	Production industries Division 1-4	Energy(2) Division 1	Manufacturing Division 2-4	Consumer goods	Investment goods	Intermediate goods
Weights	1000	264	736	245	243	512
	DVIM	DVIN	DVIS	DVJP	DVJV	DVJZ
1981	96.6	103.8	94.0	96.4	91.3	99.2
1982	98.4	110.0	94.2	95.8	92.4	102.3
1983	101.9	115.9	96.9	98.8	93.0	107.6
1984	103.3	110.2	100.8	101.7	97.4	106.8
1985	108.1	120.1	103.8	103.6	103.0†	112.6
1986	110.3†	125.2†	104.9†	106.0	102.0	116.1
Seasonally adjusted						
1981 3	97.3	103.8	95.0	97.4	92.0	99.6
4	98.3	106.6	95.3	96.7	92.7	101.7
1982 1	97.2	104.1	94.7	96.1	92.9	99.7
2	98.8	110.0	94.9	95.7	93.7	102.9
3	99.2	113.2	94.1	95.9	92.4	103.7
4	98.3	112.8	93.1	95.6	90.6	103.0
1983 1	100.4	112.8	95.9	97.7	93.6	104.7
2	100.5	114.9	95.4	97.4	90.9	106.6
3	102.8	117.4	97.6	99.9	93.0	108.9
4	104.0	118.3	98.9	100.4	94.4	110.2
1984 1	104.2	116.8	99.7	100.7	95.0	110.2
2	102.7	109.1	100.4	101.8	96.6	106.1
3	102.5	104.9	101.6	102.4	98.3	104.5
4	103.7	109.8	101.6	101.9	99.6	106.6
1985 1	106.5†	114.9	103.4	103.6	102.2	109.6†
2	109.4	122.7	104.6	103.4	105.6	114.2
3	108.2	120.6	103.7	104.0	102.2	113.1
4	108.3	122.2	103.3†	103.4	102.2†	113.6
1986 1	109.1	126.7†	102.8	103.9	101.4	114.9
2	109.9	125.8	104.2	105.3	101.7	115.8
3	111.0	127.2	105.2	106.4†	101.7	117.4
4	111.1	121.2	107.5	108.4	103.4	116.1
1987 1	112.2	124.8	107.7	107.8	103.9	118.1
2	113.0	122.3	109.7	110.2	105.3	117.9
1985 J	107.6	119.1	103.5	103.6	102.0	112.2†
A	108.0	119.4	103.9	104.1	102.2	112.7
S	109.0	123.4	103.8	104.4	102.3	114.3
O	108.6†	123.8	103.1†	102.7	102.7†	114.3
N	109.3	126.6	103.1	103.6	101.3	115.9
D	107.0	116.3	103.6	104.0†	102.5	110.5
1986 J	108.4	123.8†	102.9	103.0	101.6	113.9
F	109.5	128.7	102.6	104.2	101.2	115.8
M	109.4	127.6	102.8	104.5	101.5	115.1
A	111.1	129.0	104.7	105.8	102.3	117.7
M	109.3	124.5	103.8	104.8	101.5	114.9
J	109.3	123.9	104.0	105.2	101.2	114.9
J	110.7	126.4	105.1	106.2	101.9	116.9
A	111.3	129.3	104.8	106.4	101.1	118.3
S	111.0	125.9	105.6	106.7	102.0	117.1
O	111.3	123.2	107.0	107.9	102.7	117.0
N	111.3	122.2	107.4	109.0	103.4	116.2
D	110.7	118.3	108.0	108.2	104.0	115.0
1987 J	110.8	124.4	105.9	106.9	102.3	116.5
F	112.7	124.5	108.4	108.5	103.8	118.8
M	113.1	125.5	108.7	108.0	105.7	119.0
A	112.9	123.1	109.3	110.0	105.1	117.9
M	113.8	124.6	109.9	110.6	105.0	119.3
J	112.3	119.1	109.8	109.9	105.8	116.4
J	114.8	123.6	111.6	111.8	107.5	119.4
Percentage change latest 3 months on:						
1. previous 3 months	+0.7	-1.6	+1.5	+1.8	+1.2	-0.2
2. a year earlier	+3.5	-2.0	+5.9	+5.1	+4.5	+2.4

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

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

TABLE 2

OUTPUT OF MANUFACTURING INDUSTRIES

(1980=100)

		Metals	Other minerals and mineral products(1)	Chemicals and man-made fibres	Engineering and allied industries	Food, drink and tobacco	Textiles, clothing footwear and leather	Other manufacturing
		Class 21-22	Class 23-24	Class 25-26	Class 31-37	Class 41-42	Class 43-45	Class 46-49
Weights		25	41	68	325	99	52	126
		DVIT	DVIU	DVIV	DVIY	DVJE	DVJH	DVJK
1981		106.0	89.0	99.5	91.8	98.3	92.7	93.2
1982		103.2	90.9	99.6	92.9	99.8	91.3	90.8
1983		104.7	93.9	107.1	94.9	100.9	94.7	93.8
1984		107.9	95.1	113.9	99.5	101.9	98.1	97.8
1985		113.4	94.6†	119.2†	104.0	101.0	101.9	99.0
1986		111.3†	96.9	120.8	103.4†	102.5	103.8†	103.8†
Seasonally adjusted								
1981	3	107.4	90.0	102.3	93.1	98.1	93.4	93.1
	4	113.3	88.6	101.4	93.0	98.5	94.3	92.9
1982	1	110.3	89.8	99.7	93.7	99.1	91.9	91.0
	2	108.1	91.8	99.5	93.6	100.2	91.3	91.2
	3	100.4	91.3	99.2	92.7	100.4	91.6	90.8
	4	93.9	90.8	99.8	91.6	99.6	90.3	90.2
1983	1	98.6	93.0	103.8	94.8	99.9	92.7	92.9
	2	104.8	91.4	106.5	93.1	98.7	93.4	92.8
	3	105.6	95.6	108.5	95.1	103.0	95.2	93.7
	4	109.9	95.4	109.8	96.7	101.9	97.4	95.7
1984	1	111.5	94.3	111.3	97.7	101.8	96.8	97.3
	2	104.5	95.4	112.1	98.8	102.8	97.7	98.4
	3	109.0	96.5	115.6	100.8	101.8	99.0	97.5
	4	106.8	94.3	116.4	100.9	101.2	99.1	98.1
1985	1	110.2†	93.0	120.4†	103.8	101.8	100.0	98.1
	2	115.5	95.0†	120.7	106.1	100.4	101.7	97.8
	3	115.7	94.7	118.4	103.4	100.4	103.0	100.3
	4	112.1	95.6	117.2	102.6†	101.3	102.9	99.8
1986	1	109.6	93.6	118.5	101.5	100.9	103.1	100.4†
	2	110.3	97.1	119.0	103.0	101.6†	104.3†	102.4
	3	109.2	97.9	120.9	103.6	102.8	103.3	104.8
	4	116.0	99.2	124.8	105.6	104.5	104.7	107.5
1987	1	114.7	98.1	126.7	106.2	103.8	102.4	108.2
	2	120.8	102.0	127.4	107.7	105.8	104.3	110.7
1985	J	116	95	119	103	100	103	100
	A	118	94	118	104	100	102	101
	S	114	95	119	103	101	103	100
	O	112	96	117	103	102	102	99
	N	113	96	118	102	100	105	100
	D	112	95	117	103†	102	103	100
1986	J	111	96	121	102	99	102	100
	F	108	92	119†	101	102	104	100
	M	110	93	116	102	102	103	101
	A	109	97	119	104	102	106†	102†
	M	111	96	118	103	102	103	102
	J	111†	98	120	102	101†	104	103
	J	110	97	120	104	103	103	105
	A	108	98	121	103	103	104	104
	S	110	98	122	104	103	104	105
	O	113	99	126	105	104	105	107
	N	117	99†	123	106	105	106	108
	D	118	100	126	106	105	103	108
1987	J	107	93	126	105	102	103	107
	F	121	100	127	106	105	103	109
	M	116	101	127	108	104	102	108
	A	117	101	129	107	105	105	110
	M	121	102	128	108	107	104	110
	J	125	103	125	108	105	104	111
	J	121	103	131	110	107	106	113
Percentage change latest 3 months on:								
1 previous 3 months		+3.7	+2.3	+0.1	+1.3	+1.2	+1.9	+2.2
2. a year earlier		+10.6	+5.9	+7.1	+5.5	+4.3	+1.6	+8.1

(1) Mainly building materials

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

OUTPUT OF PRODUCTION AND CONSTRUCTION INDUSTRIES (1)

(1980=100)

TABLE 3

	Production and construction Division 1-5	Construction Division 5	Production industries Division 1-4	Energy(2) Division 1	Manufacturing Division 2-4	Oil and gas extraction Class 13
Weights (parts per thousand of GDP(O))	424	63	361	95	266	44
	DVJN	DVJO	DVIM	DVIN	DVIS	DVIP
1981	95.6	89.9	96.6	103.8	94.0	110.3
1982	97.4	91.6	98.4	110.0	94.2	125.6
1983	101.0	95.3	101.9	115.9	96.9	137.6
1984	102.6	98.5	103.3	110.2	100.8	147.1
1985	106.9	99.8	108.1	120.1	103.8	150.3
1986	109.1†	102.1	110.3†	125.2†	104.9†	153.0
Seasonally adjusted						
1981 3	96.4	90.9	97.3	103.8	95.0	111.4
4	96.6	86.9	98.3	106.6	95.3	114.5
1982 1	96.0	89.1	97.2	104.1	94.7	113.1
2	97.6	90.6	98.8	110.0	94.9	126.6
3	98.2	92.6	99.2	113.2	94.1	131.2
4	97.7	94.3	98.3	112.8	93.1	131.6
1983 1	99.4	93.7	100.4	112.8	95.9	131.3
2	99.3	92.1	100.5	114.9	95.4	132.6
3	102.1	97.7	102.8	117.4	97.6	141.5
4	103.1	97.8	104.0	118.3	98.9	145.2
1984 1	103.3	97.8	104.2	116.8	99.7	147.7
2	102.1	98.3	102.7	109.1	100.4	146.1
3	102.1	99.6	102.5	104.9	101.6	142.8
4	102.9	98.2	103.7	109.8	101.6	151.8
1985 1	105.6†	100.3	106.5†	114.9	103.4	153.9
2	107.9	99.5†	109.4	122.7	104.6	152.6
3	106.8	98.7	108.2	120.6	103.7	145.0
4	107.2	100.8	108.3	122.2	103.3†	149.7
1986 1	107.6	98.9	109.1	126.7†	102.8	154.3
2	108.7	101.7	109.9	125.8	104.2	152.9†
3	109.8	102.8	111.0	127.2	105.2	157.8
4	110.2	105.1	111.1	121.2	107.5	147.1
1987 1	111.9	109.8	112.2	124.8	107.7	153.0
2	112.0	105.9	113.0	122.3	109.7	148.2

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

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

NOTES TO EDITORS

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

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

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

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

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

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

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

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

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

10. Bias adjustments for the index of manufacturing output

In an attempt to allow for understatement in the provisional figures, an improved system of adjustments to manufacturing output was introduced in January last year. Some detail was included in note 12 of Notes to Editors in the January 1986 Press Notice and a fuller note on the methodology of the adjustment procedure is available on request from the CSO. The adjustment procedure makes use of smoothed monthly CBI figures on expectations of growth in output. The bias adjustments, which are additive, included in the manufacturing figures this month are:

1987					
February	March	April	May	June	July
+0.2	+0.3	+0.4	+0.6	+0.7	+1.4

ps7/32L

UNCLASSIFIED

FROM: N G FRAY
DATE: 17 September 1987

RMP

MR PATTERSON

COMBINED RELEASE OF LABOUR MARKET STATISTICS ON 17 SEPTEMBER

The Chancellor has seen and was grateful for your minute of 16 September.

Nigel Fray

N G FRAY

27:2

PERSONAL AND CONFIDENTIAL
Until 11.30am on Thursday 17 September
thereafter CONFIDENTIAL

FROM: P L PATTERSON
DATE: 16 September 1987

1. MR S J DAVIES 880
2. CHANCELLOR

Nigel

Thanks

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Cassell
Mr Monck
Mr Sedgwick
Mr Scholar
Mr Culpin
Miss O'Mara o/r
Mr Pickford o/r
Mr Dyer (+1 for No.10)
Mr Hudson
Mr Mills
Mr MacAuslan
Mr Call
Mr Cropper
Mr Tyrie
HB/001

COMBINED RELEASE OF LABOUR MARKET STATISTICS ON 17 SEPTEMBER

Summary Statistics (seasonally adjusted GB unless otherwise stated)

Thousands	Level	Change on previous period	Change on previous year
Unemployment (UK)			
Total (excl. school leavers) August	2,833	-43	-376
Total (not seasonally adjusted) August: 'Headline Total'	2,866	-41	-414
Vacancies (UK) August	238	+3	+36
Employed labour force 1987Q1	24,229	+112	+265
Manufacturing employment July	5,068	-17	-63

	Percentage change on previous year
Index of average earnings	
Whole economy July, underlying (actual)	7¾ (8.1)
Wage and salary costs per unit of output	
Whole economy 1987Q1	4.1
Manufacturing 3 months to July	1.2
Output per head	
Whole economy 1987Q1	3.4
Manufacturing 3 months to July	7.2

Unemployment

2. Seasonally-adjusted adult unemployment (excluding school leavers) fell between July and August, by 43,000 to 2.833 million (10.2 per cent). The average monthly fall in the seasonally adjusted total is 39,000 over the last six months.

3. The headline total fell by 41,000 to 2.866 million, 10.3 per cent of the working population. There was a fall of some 33,000 adults and 8,000 school leavers.

4. The stock of vacancies at Jobcentres (seasonally adjusted) increased in August by nearly 3,000 to 237,500.

5. Points of interest:

(a) Seasonally adjusted total now at lowest level for nearly 4½ years (since March 1983).

(b) Seasonally adjusted total has fallen for fourteen months in succession since June 1986, by 380,000 in total.

(c) Fallen by 376,000 over past year, largest twelve-month fall since records began.

(d) Fall in 'headline' total of 414,000 compared with year ago, also largest on record.

(e) Male unemployment (seasonally adjusted, adult) has fallen in each of the last fourteen months, and now falling slightly faster than female unemployment. Male unemployment (both seasonally adjusted and unadjusted measures) now below 2 million for first time since November 1982. [NB DE will probably not use this in their public statement, as they are concerned that the unadjusted figure for male unemployment may rise over 2 million again in September.] Female unemployment fell in August for the seventh month running.

(f) Unemployment fell in all regions in August. Over past twelve months unemployment rate has fallen throughout the UK, and by more than one percentage point in all regions of England and Wales. Largest falls in West Midlands, Wales, and North West. More recently, the downward trend has been strongest in the West Midlands and the North. There has been a marked improvement in Scotland, where the rate of decline over the past six months is now similar to other GB regions.

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

(h) Fall in long-term unemployment of 110,000 in year to July (latest figures), largest on record. Biggest falls in Wales, North and West Midlands.

(i) Youth unemployment (under 25s) rate now 16 per cent. Fall of 200,000 over past year.

(j) The stock of vacancies increased by nearly 3,000 in July to 237,500, 18 per cent higher than a year ago, and remains the highest level since the current series began in 1980. Inflows of notified vacancies have been growing less quickly and have fluctuated over the past few months; in August they were only slightly higher than a year earlier. [NOT FOR USE: DE do not wish to give these figures too high a profile in the light of reduced MSC activity in following up placings.]

(k) There is normally a sharp seasonal rise in the headline total in September among adults as well as school leavers. Even with continuation of the downward trend, the headline total is likely to rise considerably, possibly by up to 50,000.

Assessment

6. [NOT FOR USE: Although increasingly difficult to quantify, DE say that availability testing and the activity of claimant advisers are still contributing significantly to the fall in unemployment. The effect of Restart interviews is particularly uncertain because it was introduced more than a year ago, but the more recent extension to six monthly interviewing is probably still having some effect. There has been some build up in the effects of the new Job Training Scheme, but to offset this there has been some decline in the numbers helped by traditional employment measures, especially the Community Programme. Overall, DE's judgement is that the strength of economic activity accounts for at least half the current downward trend in unemployment, which seems to have stabilised recently at around 40,000 a month.]

7. Taking the claimant and non-claimant school leaver figures together, there continues to be a significant improvement in school leaver unemployment compared with a year ago, partially attributable to the extension of YTS to a 2 year programme. DE expect to be able to assess this improvement more easily next month when summer school leavers enter the count.

Employment

8. The new employment figures available this month are for employees in manufacturing industries in July. The figures for the whole economy employed labour force in 1987Q1 have been revised upwards by 8,000.

9. Manufacturing employment is estimated to have fallen by 17,000 in July. Together with the increases in May and June, this produces no change over the three month period between April and July. This compares with average decreases of 1,000 per month in the three months ending April 1987, and 21,000 per month in the three months ending July 1986.

10. DE say that the monthly figures are based on small samples and can move erratically. End-quarter figures are more firmly based. The high level of overtime working continues to lend support to the message from the second quarter figures that the downward trend in manufacturing employment may be slowing.

Other features

11. The underlying increase in average earnings in the year to July was 7¾ per cent, the same as in each of the previous three months. Within this total, the underlying increase in manufacturing earnings rose to 8¼ per cent while that in services fell to 7½ per cent. (The June figures were also revised to 8¼ and 7½ per cent respectively.) DE estimate that in the twelve months to July, higher overtime working added ¾ per cent to average earnings in manufacturing, and ½ per cent for the economy as a whole. Bonus payments are also tending to increase faster than earnings as a whole. However, lower settlements this year than last in manufacturing and in the private services sector have acted to keep down the underlying increase. The same is true for the whole economy figures to a rather lesser extent because of the adverse effects of higher public services settlements this year. [NOT FOR USE: DE statisticians are currently projecting no change in the 7¾ per cent rate of increase of underlying earnings in August and September. They now think it less likely that it will rise to 8 per cent, but the higher figure is still possible if overtime or bonus payments increase further, especially in September when the second stage of the civil servants' deal and higher pay and London weighting for bank employees will come through.]

12. The level of overtime working in manufacturing fell a little in July but remains very high (still above the peak level of some 12 million hours a week sustained through much of 1985).

13. Upward revisions to the figures for manufacturing output (published at 11.30am Wednesday 16 September) result in a level of manufacturing output per head in the

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PERSONAL AND CONFIDENTIAL
Until 11.30am on Thursday 17 September
thereafter CONFIDENTIAL

three months to July 1987 7.2 per cent higher than a year earlier. Unit wage and salary costs in manufacturing rose by 1.2 per cent over the same period. The CSO warn that the July figure for manufacturing output may be erratically high; DE warn similarly that the fall in manufacturing employment in July may be erratically large. The figure for manufacturing productivity should therefore be treated with caution.

MANUFACTURING: PERCENTAGE INCREASE OVER PREVIOUS 12 MONTHS

	Average Earnings	Output per head	Wages and salaries per unit of output
1986 Q1	7.9	0.4	7.4
Q2	7.5	1.4	6.0
Q3	7.1	4.0	3.0
Q4	8.0	6.8	1.2
1987 Q1	7.8	7.4	0.5
Q2	7.7	7.0	0.7
3 months to July	8.4	7.2	1.2

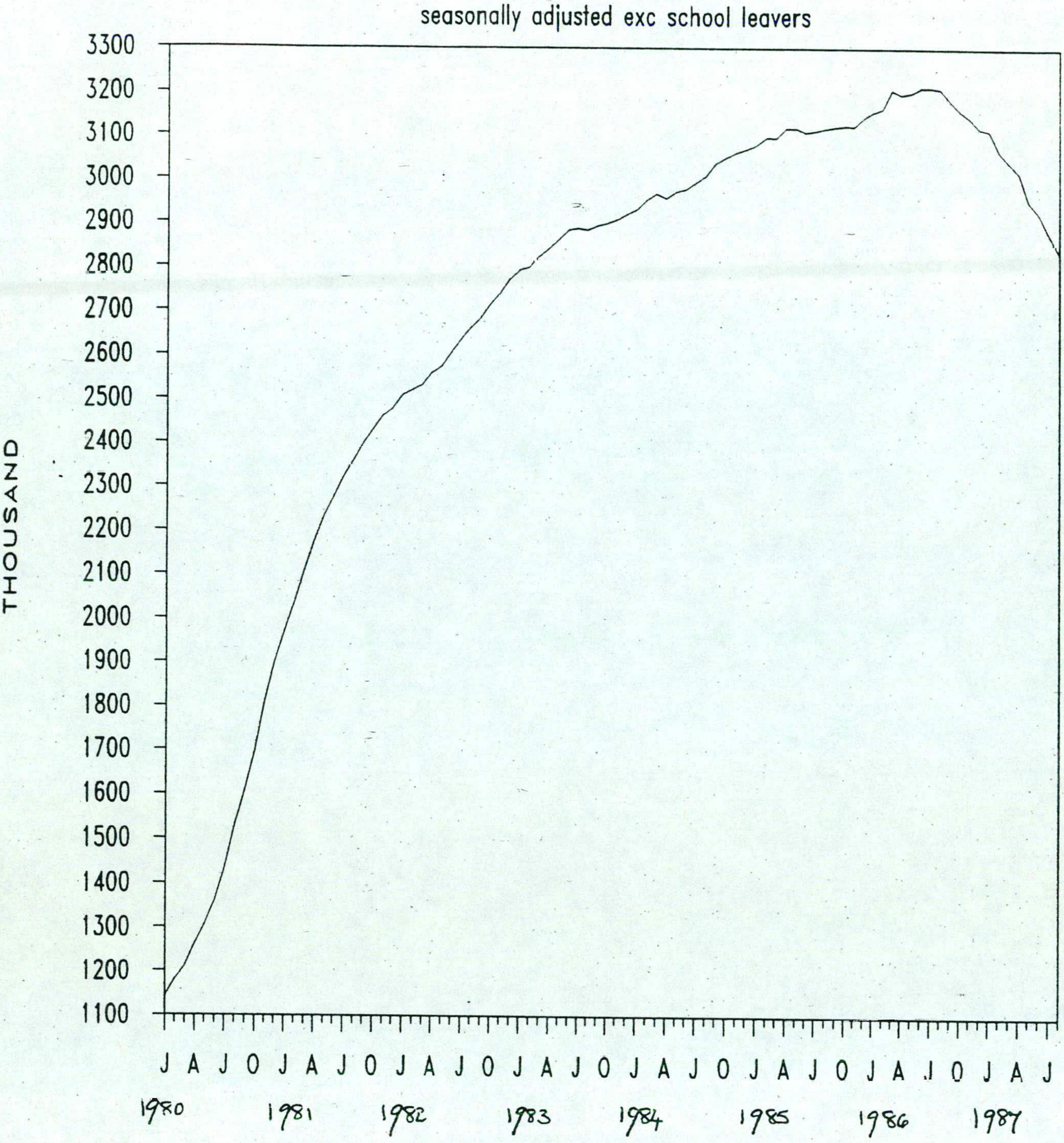
14. The strong increase in unit wage and salary costs in the three months to July is largely a reflection of the increase of 9.1 per cent in actual manufacturing earnings in the year to July. However, underlying earnings in July are estimated to have risen by only 8¼ per cent over the previous 12 months.

15. Figures for whole economy productivity and unit wage costs have been revised slightly to reflect new CSO Blue Book figures for GDP(0) and wages and salaries.

Peter Patterson

P L PATTERSON

UNEMPLOYMENT: UK



SECRET AND PERSONAL until release of press notice at 11.30 am
on 24 September 1987 and thereafter unclassified

Ch
No obvious excuses/special factors here
AA

To: MINISTER FOR TRADE

Copy No. (3) 28

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

18 September 1987

Rec'd 10-30 21/9 AM

Ch
I have protested to Mr Stibbard, who apologises & will launch investigation into what went wrong.
AA

OVERSEAS TRADE FIGURES AUGUST 1987

On 15 September I reported the August export figures. The corresponding import figures are now available. They are at a record level, and the current account balance for August (£0.9 bn) is a record deficit. [The previous record deficit was for August last year (£0.7 bn) - when particularly low exports was the main reason.] Clearly in the press briefing it will be more important than usual to play down the significance of one month's figures.

The impact of the August figures is softened to some extent by the upward revision to the invisible balance in the first six months of this year, announced in yesterday's CSO press notice. Incorporating these revisions, the current balance for the first eight months of the year is a deficit of £0.7 bn.

The usual analysis of the figures follows.

THE CURRENT ACCOUNT

In August, the value of exports was £6.5 billion and imports £8.1 billion, so that visible trade, seasonally adjusted on a balance of payments basis, shows a record deficit of £1.5 billion compared with a deficit of £0.9 billion in July.

The Central Statistical Office continue to project a surplus on invisibles of £0.6 billion for months in the third quarter so that the current account is provisionally estimated to have been in deficit by £0.9 billion, compared with a provisional deficit of £0.3 billion in July.

SECRET AND PERSONAL until release of press notice at 11.30 am on 24 September 1987 and thereafter unclassified

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

Seasonally adjusted
Balance of Payments
Basis
£ million

	Current Account Balance	Visible Trade Balances			Invisibles Balance
		Total	Oil	Non-oil	
1985	+2919	-2178	+8104	-10282	+5097
1986	- 980	-8463	+4056	-12519	+7483
1987 Mar-May	+ 22	-2038	+1242	- 3280	+2060
Jun-Aug	-1249A	-3178	+ 903	- 4081	+1929A
1987 June	- 11	- 740	+ 245	- 985	+ 729
July	- 310A	- 910	+ 284	- 1194	+ 600A
Aug	- 929A	-1529	+ 374	- 1903	+ 600A
1987 Jan-Aug	- 741A	-5935	+2856	- 8791	+5194A

A = Projection or part projection

In the three months ended August there was a deficit on visible trade of £3.2 billion - a surplus on trade in oil of £0.9 billion, offset by a deficit on non-oil trade of £4.1 billion. Between the three months ended May and the latest three months, the visible trade deficit increased by £1.1 billion; the surplus on oil fell by £0.3 billion, while the deficit on non-oil trade rose by £0.8 billion.

EXPORTS

The value of exports in August was £232 million (3½ per cent) lower than in July. Exports of oil increased by £102 million between the two months and exports of the erratic items decreased by £200 million. Excluding oil and the erratic items, exports decreased by 2½ per cent between July and August.

In the three months ended August, total export volume was ½ per cent lower than in the previous three months although 5 per cent higher than in the same period last year. Excluding oil and the erratic items, export volume increased by 3 per cent between the three months ended May and the latest three months to stand 7½ per cent up on a year ago. The underlying level of non-oil export volume continues to remain close to the high level reached at the end of last year.

SECRET AND PERSONAL until release of press notice at 11.30 am
on 24 September 1987 and thereafter unclassified

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

Bop Basis, Seasonally Adjusted

	VALUE (£m)		VOLUME (1980 = 100)	
	Total	Total Less Oil and erratics	Total	Total less Oil and erratics
1985	78111	57685	118.7	114.9
1986	72843	59238	123.1	117.7
1987 Mar-May	19411	15750	127.4	121.9
Jun-Aug	19720	16298	127.1	125.5
1987 June	6399	5303	123.5	122.1
July	6776	5564	131.3	129.3
Aug	6545	5430	126.4	125.1

By value, total exports rose by 1½ per cent between the three months ended May and the latest three months; the rises in exports to the developed countries, to the rest of the European Community, and to North America are 2 per cent, 1 per cent and 3 per cent respectively.

IMPORTS

The value of imports in August was £387 million (5 per cent) higher than in July. Imports of oil were little changed from the July level; imports of the erratic items fell by 21 per cent. Excluding oil and the erratic items, imports grew by 6½ per cent between July and August.

In the three months ended August, total import volume was 7 per cent higher than in the previous three months and 8 per cent higher than in the same period last year. Excluding oil and the erratic items import volume rose by 7 per cent in the latest three months to stand 10 per cent up on a year ago. The underlying level of non-oil import volume has been increasing [strongly] in recent months, and is above that reached at the end of last year.

I have asked P Sedgwick to try to get this out of press notice.

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

Bop Basis, Seasonally Adjusted

	VALUE (£m)		VOLUME (1980 = 100)	
	Total	Total less oil and erratics	Total	Total less oil and erratics
1985	80289	68719	126.0	142.8
1986	81306	73491	134.2	150.9
1987 Mar-May	21449	19391	137.7	156.7
Jun-Aug	22898	20778	147.2	167.5
1987 June	7139	6420	139.1	156.9
July	7686	6954	147.6	167.5
Aug	8073	7404	154.9	178.0

By value, imports rose by 7 per cent between the three months ended May and the latest three months. Increases over that period in the main categories of manufactures were mostly in the 5 to 10 per cent range; a notable exception was passenger cars, which increased by 26 per cent: in absolute value terms this represented one-sixth of the increase in total imports.

Again in value terms, imports from the developed countries rose by 8 per cent over the latest three months, with arrivals from the European Community countries up 7 per cent, from North America up 6½ per cent and from the other developed countries (dominated by Japan) by 21 per cent. Imports from the developing countries increased by 19 per cent between the two three month periods.

TRADE IN MANUFACTURES

Figures showing trade in manufactures on a balance of payments basis will be published in the October edition of the Monthly Review of External Trade, Statistics following the release of the press notice. On present estimates they show a deficit in the three months ended August of £2.4 billion compared with a deficit of £1.7 billion in the previous three months. The deficit on trade in manufactures in the first eight months of this year stands at £4.5 billion compared with a deficit of £3.2 billion in the first eight months of 1986.

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

£ million
Seasonally Adjusted
Balance of Payments Basis

	Exports	Imports	Balance
1985	52271	55273	-3002
1986	54486	59977	-5491
1987 Mar-May	14662	16332	-1670
Jun-Aug	15016	17436	-2420
1987 June	4919	5430	- 512
July	5203	5828	- 625
Aug	4894	6178	-1284

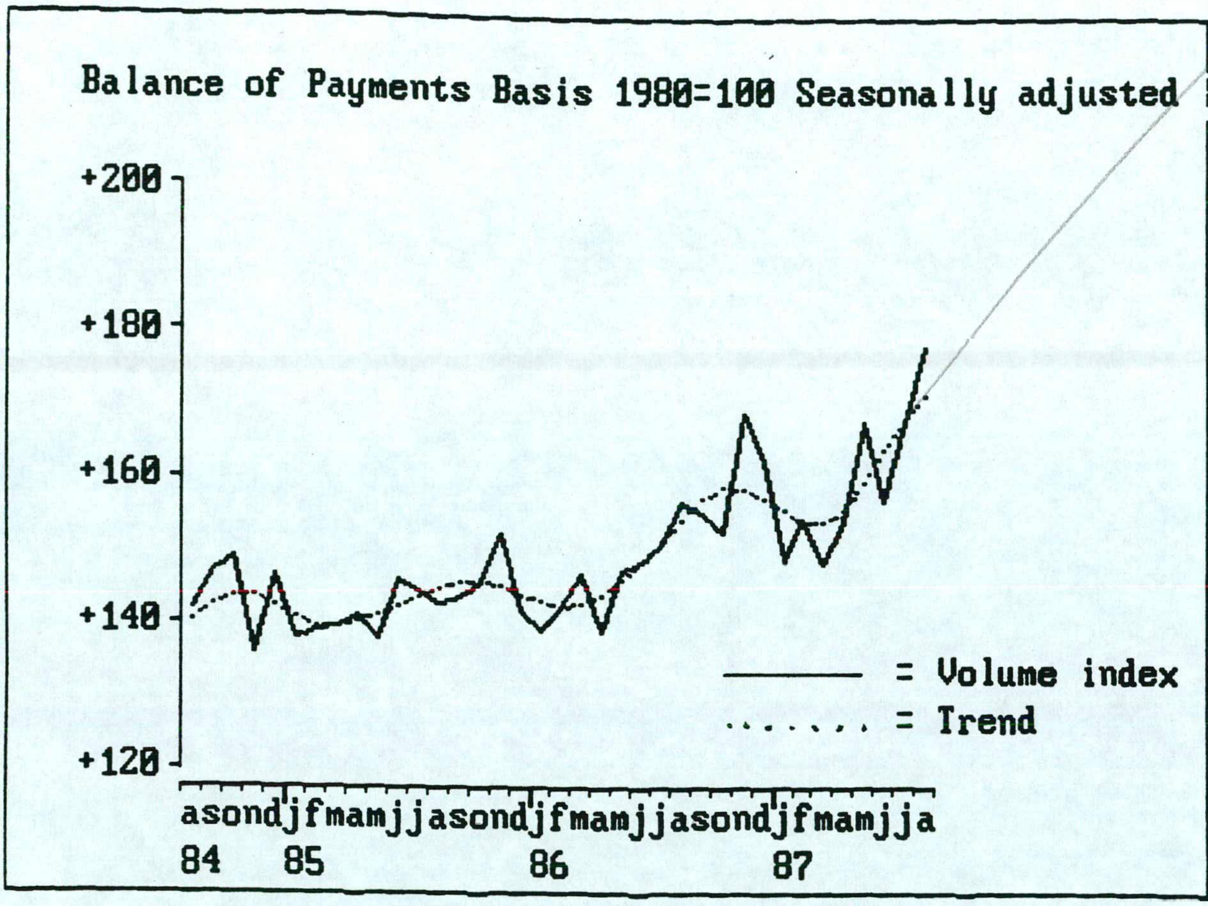
PUBLICATION

The press notice containing the August figures is scheduled for release at 11.30 am on Thursday 24 September 1987.

P J STIBBARD

999-80

IMPORTS LESS OIL AND ERRATICS



SECRET & PERSONAL UNTIL RELEASE OF PRESS NOTICE ON 24.9.87

CIRCULATION LIST

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

CHANCELLOR OF THE EXCHEQUER

Ch

DTI have failed to deliver comport note tonight, & both Lord Young's office & Alan Clark's office have sent their copies off in boxes.

Will have to get it first thing Monday morning (& give DTI officials a rocket).

AA

NL 22.

Mr Barnell

SECRET AND PERSONAL

UNTIL 11.30 AM THURSDAY 24 SEPTEMBER.

CONFIDENTIAL until release of CSO press notice
17/9/87 at 11.30am and thereafter unclassified

Copy No. 13. (   )

THE CURRENT ACCOUNT - TABLE 2

Balance of payments basis
£ million; seasonally adjusted

	CURRENT BALANCE fob	EXPORTS fob	IMPORTS fob	VISIBLE BALANCES: TOTAL	OIL	NON-OIL	INVISIBLE BALANCE
85	2919	78111	80289	-2178	8104	-10282	5097
86	-980	72843	81306	-8463	4056	-12519	7483
86 Q2	146	17786	19393	-1608	765	-2372	1753
Q3	-910	17553	20444	-2891	621	-3512	1981
Q4	-960	19340	22065	-2725	785	-3510	1765
87 Q1	671	19637	20772	-1135	1164	-2300	1806
Q2	-174	19381	21742	-2361	1033	-3395	2187
86 NOV	-472	6569	7630	-1061	329	-1390	589
DEC	-323	6477	7388	-911	256	-1167	588
87 JAN	85	6235	6752	-517	383	-900	602
FEB	400	6973	7174	-202	328	-529	602
MAR	185	6429	6846	-417	454	-870	602
APR	203	6610	7136	-526	423	-949	729
MAY	-367	6372	7467	-1096	365	-1461	729
JUN	-11	6399	7139	-740	245	-985	729
JUL	-310	6776	7686	-910	284	-1194	600
Aug	-929	6545	8073	-1529	374	-1903	600
N-AUG 86	-774	17677	19987	-2670	606	-2064	1896
AR-MAY 87	21	19411	21449	-2039	1242	-3280	2060
N-AUG 87	-1250	19710	22898	-3179	903	-4082	1929

RCENTAGE CHANGES:-

		EXPORTS	IMPORTS
TEST 3 MONTHS ON EVIOUS 3 MONTHS		1.5%	6.8%
HE 3 MONTHS E YEAR AGO		11.5%	14.6%

$\boxed{\text{year so far} = -£3/4\text{ bn}}$

Ch
This has to be the worst we've had in Barlades.

N-AUG 87	-744	52339	58273	-5935	2855	-5664	5193

AA

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RP

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PRIME MINISTER

OPTING OUT OF ILEA: MAINTAINED FURTHER EDUCATION

E(EP)(87) 4th meeting invited me to circulate proposals for dealing with further education colleges in boroughs likely to opt out of ILEA. Polytechnics and higher education (HE) colleges in ILEA are already to be removed from ILEA control under my proposals for higher education. This minute considers the implications for both further education and adult education in inner London.

FURTHER EDUCATION (FE)

2. Excluding the polytechnics and HE colleges, ILEA currently sponsors 14 general and 2 specialist colleges catering predominantly for about 30,000 full-time equivalent FE students. FE is administered centrally from County Hall, not on a divisional or borough basis. Many students cross borough boundaries to study.

3. LEAs generally are already under a duty to secure the provision of adequate facilities for further education - defined to include adult education - suitable to meet the needs of their area, but not necessarily to provide it themselves. They are empowered, but not obliged, to provide further education also for students from outside their area. This position will continue essentially unchanged under my plans for maintained further education.

PROVISION FOR EACH BOROUGH

4. On the basis of the principle - set out in the consultation paper - that boroughs would inherit institutions located (or mainly located) within their area, the provision for each borough is in summary:

Good Provision	Adequate	Inadequate	None
Wandsworth	Westminster	Greenwich	Kensington & Chelsea
Islington	Hammersmith & Fulham		Tower Hamlets
Lambeth	Camden		City of London
	Hackney		
	Lewisham		
	Southwark		

Of the boroughs which have so far made clear the intention to apply to opt out from 1990, therefore, Westminster and Wandsworth are adequately supplied, while Kensington & Chelsea and the City have no provision.

5. It will be open to those boroughs applying to opt out without adequate provision to set up new establishments (although we would not wish to encourage this because it would entail additional expenditure when our policy is designed to reduce spending). They are more likely, however, to seek co-operative arrangements with neighbouring LEAs. Over Inner London as a whole there should be sufficient provision for the projected numbers of students to find places. LEAs are obliged under Section 51(5) of the Education (No 2) Act 1986 to admit most categories of FE students from other LEAs unless doing so would deprive a student from their own area of a place. I do not therefore propose to seek additional arrangements to safeguard students resident in opting-out boroughs.

6. Conversely there may be short-term financial consequences for opting-out boroughs with over-generous FE provision, who will become net 'importers' of FE students. Where a student from one LEA attends a course in another, recoupment is mandatory for full-time FE courses and most work-related part-time courses. For other part-time day courses, it is a matter for agreement between the home and providing LEAs. Mandatory recoupment is set at standard rates, which may be well below the unit costs in Inner London (particularly at lavishly funded ILEA establishments) although not necessarily below the marginal cost of taking additional students from another LEA. However, pressure on opting out boroughs

to reduce the unit cost of FE is healthy. I shall scrutinise boroughs' plans for FE particularly carefully, but see no reason to exempt inner London from the general rules.

7. There is also a range of specialist NAFE provided by ILEA, both in specialist colleges (Cordwainers, Merchant Navy College) and in specialised departments within general colleges, eg construction in Vauxhall, pharmacy in Kingsway Princeton. Such establishments provide an important service to London as a whole and this provision should be retained. LEAs elsewhere in the country, including small authorities, have successfully maintained specialist colleges or departments to serve a wide area. There seems therefore to be no reason why inner London boroughs should not be responsible for specialist FE. The guidance I propose to issue will make it clear that applications to opt out should include plans for taking over such provision, with a commitment to continue to provide places in important minority subjects.

8. Particular issues arise in the case of two institutions: the London Institute and the Merchant Navy College. The London Institute has sites in 6 ILEA Boroughs, and 49% of its 6,400 full-time equivalent students are on higher education courses. We are considering three options:

(i) ILEA continues to run it: this may not be practical if a significant number of boroughs opt out.

(ii) Splitting up the Institute: this may not be desirable educationally or organisationally.

(iii) Transfer to the new polytechnics and colleges sector: although the Institute does not meet the present criteria for selection - 55% higher education students - it has over 3,100 such students, many more than any other college excluded from the new sector. We have checked with the House authorities that an additional criterion based solely on higher education student numbers and which only caught the London Institute would not be hybrid. ILEA might try to frustrate such transfer, and the place of the Institute's non-advanced further education students - over 3,000 full-time equivalent - in the new higher education sector could be a problem. We are considering these points further.

I do not need to make a decision before the Bill is in Committee. This will allow time for the picture of opting-out boroughs to become clearer and for a fuller assessment of the Institute's further education work.

9. The Merchant Navy College is run by ILEA but located in Kent. In the short term, it should continue to be funded and administered by ILEA; in the longer term I intend to ensure that it could be transferred to Kent LEA if this became necessary.

ADULT EDUCATION

10. ILEA maintains (or in a few cases grant-aids) the following establishments providing adult education:

- 17 "area" Adult Education Institutes (AEIs)
- 4 "Community Education Centres"
- 5 non-territorial or specialised institutions

11. The AEIs essentially provide a local service. Each AEI has a headquarters and between 8 and 18 satellite branches, many of the buildings being shared with schools. I propose that opting-out boroughs should inherit all the sites within their area. This will require some reorganisation of the Institutes, but I foresee no major problem. Under these arrangements, individual boroughs would inherit accommodation varying somewhat in quantity and quality but none would be inadequately endowed by national standards.

12. The Community Education Centres, of which there are 2 in Tower Hamlets and 1 each in Camden and Southwark, provide a local service and should go to the boroughs if they choose to opt out.

13. Of the specialised or non-territorial institutions, four are grant-aided (not maintained) by ILEA. In the case of the Working Men's College and the Royal School of Needlework, ILEA's financial contribution is modest; and, while

the Mary Ward Centre (in Camden) receives rather more from ILEA, the scale of its provision is small enough that the Centre should look to Camden if it opts out and perhaps one or two neighbouring LEAs, for future funding. But the City Lit(erary Institute) and Morley College are very large establishments offering a range of specialised and sometimes unique provision. They recruit very widely, and their reputations are national. The City Lit is maintained by ILEA as part of Central London AEI and Morley receives the bulk of its funds from the Authority. Very strong representations are likely to be made for special arrangements (perhaps involving central funding) to secure the future of these institutions.

14. For the moment, however, we should give the institutions no encouragement to hope for this. If the relevant boroughs - Camden in City Lit's case and Lambeth in Morley's - propose to opt out, they will need to declare their intentions in relation to the institutions. Should the boroughs be unwilling to assume sole financial responsibility, there are other options not involving central funding, including continued support by ILEA or joint maintenance/funding arrangements involving two or more LEAs. Moreover Morley at least, as an independent institution, might be well placed to raise quite substantial sums of money by public appeal. Should it become apparent that none of these means would be sufficient to secure the institutions' future, they are likely to look to central government. But even to hint at the possibility of a "rescue" at this stage would be seen as a signal and would be likely to make this outcome inevitable.

CONCLUSION

15. For both further and adult education, the requirement on LEAs is to secure adequate provision. There is a strong tradition of meeting reasonable needs, in inner London as elsewhere across the country. Admittedly LEAs are free to change the nature of institutions or to reorganise provision without any requirement for consultation such as applies to schools. But, while in theory a borough inheriting a specialist establishment could swiftly either close it or transform it into a 'generalist' institution, it is unlikely any would want to do so or, if it did, would drive through against public opinion. I propose merely

to reinforce these prospects by seeking undertakings from boroughs applying to opt out.

16. I do not therefore foresee any major difficulties with the provision of further and adult education, however opting-out proceeds. I should be be glad to know if colleagues are content with the approach described.

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

K.B.

KB

Department of Education and Science

17 September 1987

CONFIDENTIAL

B/F with advice

CH/EXCHEQUER |
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PRIME MINISTER

OPTING OUT OF ILEA: RESERVE POWERS

1. In July E(LF) broadly endorsed my proposals for implementing our policy on opting out of ILEA (E(LF)(87) 11th Meeting Minutes). Only one aspect produced significant disagreement. The Sub-Committee took the view that my proposal to take a power to compel a borough which had not aplied to become an LEA to submit plans for doing so could not be justified by the likely scale of the problem.

2. While I do not dissent from that general judgement, I do not believe that we can leave the legislation completely open-ended. The situation looks different if one considers what might happen if the majority of inner London boroughs successfully apply to opt out. I do not altogether discount the possibility that this could happen in 1990; but in any event, since we have made it clear that the offer will remain open, it is quite likely that by the mid-1990s we shall be faced with this situation. That is to be welcomed, but it does create its own difficulties.

3. In my view, we could not sensibly defend a situation in which ILEA lingered on with responsibility for a handful of, perhaps scattered, boroughs, particularly as it might well be picking up residual assets as a consequence of opting out. A very small and fragmented ILEA would certainly make no educational sense, and the direct election of its members would become increasingly hard to justify.

4. I believe therefore that the legislation must make reserve provision for ILEA to be broken up <u>in the last resort</u>. Without such a provision, we shall have no convincing answer in Parliament when our opponents ask us whether we are prepared to contemplate

an ILEA with no more than, say, three, two or even one borough in membership. We should have to explain that we would be prepared to introduce fresh primary legislation if the situation arose. But that would be portrayed as a striking lack of confidence in the attractiveness of our proposals. Better, in my judgement, to tackle this problem head-on now, when it will add comparatively little to the opposition which the ILEA vested interests will mount in any case, than the probability of having to go over this ground yet again in a few years' time.

5. Nonetheless, I think we must signal that it is not our intention to force the break-up of ILEA on a majority of unwilling boroughs. It would in my judgement be right to take a reserve power which would be available to the Secretary of State only when ILEA shrinks to or below a certain size - five boroughs is probably the right level to choose. There would be no requirement to use this power, which would be exercisable under an Order subject to the affirmative resolution procedure, even at that stage. If the remaining ILEA offered a reasonable prospect of effective operation, it could remain in being. But if that were not the case, I consider it only prudent to be in a position to require the boroughs remaining within ILEA to be under a duty to submit plans for assuming LEA responsibilities.

6. On the assumption that the majority of boroughs will not opt out initially, ILEA can at first act in effect as its own residuary body in relation to staffing and property matters. But if ILEA as a whole is wound up - whether forcibly or as a consequence of the choice of each borough - it will be necessary to establish a separate residuary body to deal with the consequent problems arising from residual assets and to make arrangements for the staff who will not have been block transferred to the boroughs. I therefore propose that the power I have described above should be accompanied by a reserve power to establish and finance a residuary body for these purposes. The nature of the residuary body and the scale of its operation would of course depend on the size

of ILEA at the time of its dissolution, and on the timing of that dissolution. It is in the nature of the case that that cannot be predicted. On the basis of boroughs' current statements, it looks unlikely that such a power would need to be triggered before the mid-1990s.

7. There would plainly need to be close consultation between Departments before the use of either of these reserve powers could be contemplated. But I believe that both are essential to the coherence of our proposals. I should therefore be glad to know whether you and other colleagues are content that we should include provisions along these lines in the Education Bill. In view of the deadlines to which we are working, it would be helpful if this matter could be agreed in correspondence. But if colleagues wish to discuss, I should of course be ready to do so.

8. I am copying this minute to other members of E(LF) and E(EP), to the Attorney General and to Sir Robert Armstrong.

KB.

KB

18 September 1987

Department of Education and Science

2327/21

CONFIDENTIAL

Rup

FROM: M C BETENSON

DATE: 18 September 1987

1. MR INSTONE

2. CHIEF SECRETARY

cc Chancellor
Sir P Middleton
Mr F E R Butler
Mr Anson
Mr Hawtin
Mr Scholar
Mr Turnbull
Mr Cropper
Mr Call
Mr Tyrie

HOUSING BILL: PRIORITIES

Mr Ridley's letter of 17 September (copy attached) responds to E(LF)20th's request to put some of the candidates for the Housing Bill in order of drafting priority in consultation with you. Housing Action Trusts and deregulation of new private lettings have already been given overall priority. E(LF) sought a ranking for: housing association grants, home improvement grants, right to buy improvements, and right to transfer landlords.

RECOMMENDATION

2. Mr Walker has already written to Mr Ridley (copy of 14 September attached) pressing the need to legislate now on home improvement grants. You too have an interest in home improvement grant changes in order to restrain expenditure through the introduction of means testing. But Mr Ridley has placed this, albeit reluctantly, at the bottom of his list of priorities, behind right to transfer, on which further consultation with us is still needed (especially on the terms of transfer between local authorities and private landlords). There would be a risk of the right to transfer proposals leading to increased public expenditure if they were rushed through before they had been properly worked up so it would be helpful if their inclusion were seen as the lowest priority. Mr Ridley also ranks home improvement grants behind right to buy changes, which we expect

to have little impact on the level of capital receipts and which are not a Treasury priority.

3. In the circumstances, I recommend you write to Mr Ridley to say that you could not accept his proposal to rank right to transfer or right to buy above home improvements. You can, however, accept the need to press ahead as quickly as possible on all elements of the Bill. You can also agree to rank housing associations above home improvement grants because of the potential for substantial medium term savings through private finance.

Should Mr Ridley not accept your position and write again, you could then suggest as a fallback dropping all but the means testing clauses, which are the most straightforward, from the home improvement proposals. I attach a draft reply.

BACKGROUND

4. Means testing of home improvement grants is already assumed in the Survey baseline so failure to proceed will add to spending pressures. This might not lead to immediate increases because local authorities have already effectively to operate a queuing system for grant within limited existing resources (the queues would simply get longer). But the benefits of additionality from concentrating grant on those who would not otherwise make improvements with their own money would be lost. Mr Walker draws attention to the importance of better targeting and the fact that it is already over two years since broadly the present proposals for reform were floated in a Green Paper.

5. The housing association grant proposals will allow an increasing proportion of the Housing Corporation programme to be devoted to private finance schemes. For a given public investment, outputs should be at least doubled. And in the medium term, as housing associations displace local authorities as the main providers of new rented accommodation, substantial savings should be possible on the local authority side. Mr Ridley has already cited this as the main reason he can afford to reduce local authority new provision by £170 million over the Survey period. The potential for savings here makes housing associations the priority for both you and Mr Ridley; but there should be little difficulty in including both this and home improvements in the final Bill if the other two candidates are given lower priority.

6. There is nothing between Treasury and DOE on right to buy improvements. But we do not expect the changes to have a significant impact on capital receipts so you can afford to give the changes low priority and leave Mr Ridley to argue for them.

7. The right to transfer is an important political priority for Mr Ridley. But further work is needed on the terms of transfer and these will affect the cost of the proposals. In principle, public expenditure savings should be available, particularly in the longer term. But there may be short and medium term pressures on public expenditure if the valuation approach agreed leads to significant negative valuations of estates and 'dowries' paid to new landlords. It is in the Treasury's interest to give as much time as possible to work up the details of right to transfer in negotiation with DOE, to get the best public expenditure bargain possible. So making Mr Ridley work for inclusion in the present Bill by placing right to transfer at the bottom of our list would seem the right approach. Mr Ridley already has considerable practical difficulties in working-up sensible arrangements for transfers to minority landlords and although this does not create problems for us it is a further argument for seeing these proposals as the least ready for implementation.

Mark Betenson

M C BETENSON

CONFIDENTIAL

DRAFT LETTER TO:

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

HOUSING BILL: PRIORITIES

Thank you for your letter of 17 September.

2. I agree that you should press ahead with all the candidates for inclusion in the Bill, and that if possible all should be included. But I cannot accept your conclusion that home improvement policy changes should be the item to exclude if that proves necessary. I agree with Peter Walker that we must seek to obtain the benefits of better targeting of grant as soon as possible and that it would be damaging to add further to the delay since the Green Paper.

3. My own priorities would be to take housing associations first and home improvements second. I have no strong views on the ranking of right to buy and right to transfer. But we have some way to go on working up the terms of the right to transfer and the details of valuations. We need to get this right and, if necessary, we should be willing to accept delay until the second Bill. You yourself have highlighted the difficulties of making sensible arrangements for transfer to minority landlords in blocks of flats, and this is a further argument for viewing the right to transfer as the least ready of the components of the Bill.

4. I am copying this letter to Willie Whitelaw, Peter Walker, First Parliamentary Counsel and Sir Robert Armstrong.

JOHN MAJOR

CONFIDENTIAL

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

CHIEF SECRETARY
REC. 17 SEP 1987
ACTION: Mr Instone
COPIES TO: Cx Mr Butler, Mr Anson Mr Gilmore, Mr Hawtin Mr Turnbull, Mr Potter Mr Beterson, Mr Tyrie Mr Call

The Rt Hon John Major MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1

17 September 1987

Dear Chief Secretary,

HOUSING BILL: PRIORITIES

I was asked at E(LF)(87)20th to put various candidates for the Housing Bill in order of drafting priority, in consultation with you.

I remain strongly of the view that the housing policy package as a whole coheres together, and we ought to do everything we can to get as much of it drafted for this Session's Bill as possible. I am grateful to Willie Whitelaw, and First Parliamentary Counsel, for the help they have given in terms of additional drafting resources during this month. I am sure we can make good use of them.

I also note that E(LF) gave absolute priority to HATs and the private rented sector. Drafting is proceeding on these and clearly they must be completed for inclusion in the Bill. I do not think there is much work to be done in respect of provisions for housing benefit in this Bill.

The remaining principal items are four in number: namely, housing associations, right to buy, home improvement policy, and right to transfer. These are all important topics. In particular, our new financial regime for housing associations is basic to many elements of the policy; housing associations must take on the new role we envisage for them if policies such as HATs and right to transfer are to work.

The only part of the package that in my view (reluctantly) might be deferred is home improvement policy, and I believe that would be a mistake given the public expenditure and efficiency advantages of the new system. I would be very disappointed to postpone it for a year as indeed I read would be Peter Walker.

I hope therefore we can agree to press ahead on all fronts.

I am copying this letter to Willie Whitelaw, Peter Walker, First Parliamentary Counsel and Sir Robert Armstrong.

Yours sincerely,
Deborah Lamb

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

CONFIDENTIAL

PA

Y SWYDDFA GYMREIG
GWYDYR HOUSE
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From The Secretary of State for Wales

The Rt Hon Peter Walker MBE MP

14 SEP 1987

Mr Instone
Mr Butler Mr Anson
Mr Hartin
Mr Betenson

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CONFIDENTIAL

11 September 1987

TENANTS' RIGHT TO TRANSFER

Thank you for your letter of 4 September.

I agree that the right to buy should be preserved as a statutory, rather than a contractual, right. In practice, however, the effect of a statutory right to buy on the willingness of new landlords to enter the right to transfer market will depend to a very large extent on the valuation basis which is under discussion between your officials and mine. So while I can agree to the principle of a statutory right to buy, this must be subject to satisfactory resolution between us of the outstanding points of operational detail.

I think the proposal to require charitable housing associations to operate right to buy in this context will meet fierce opposition in the Lords and we run a significant risk of defeat. But I am content to go with you on this if you believe it worthwhile.

As for flats, I am content with all your proposals. No doubt your officials will involve mine in the further work on the preferred option for individual tenants of flats.

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

The Rt Hon Nicholas Ridley MP
Secretary of State for the Environment

SP

CONFIDENTIAL

4

CH/EXCHEQUER
REC. 18 SEP 1987
ACTION CST
COPIES TO

PMP

PRIME MINISTER

MONITORING THE NATIONAL CURRICULUM

1. Following discussions at E(EP) of my proposals for the national curriculum on 22 July, I revised our consultation document to enable us to consider further and in more detail the arrangements for monitoring the delivery of the national curriculum in maintained schools. I undertook to send you a further paper in September.

2. We cannot rely upon parental pressure alone to secure the effective delivery of the national curriculum. We shall also need effective and widespread monitoring:

- to check that the national curriculum is being reasonably applied and operated in every school;

- to monitor quality so that effective education and good standards of work are being achieved; and

- as an instrument to improve quality by direct intervention so that weaknesses can be eradicated and delivery made more effective.

That requires a system of frequent and systematic inspection in all its different forms of the 24,000 maintained primary and secondary schools in England.

3. We start from a position where we have available for this work 485 HMI and a force of about 2,000 inspectors and advisers employed by LEAs. The attached paper by my officials examines in detail the principal options. They are:

(i) to make HMI the sole monitoring agency: We already envisage HMI having the responsibility for inspecting grant maintained schools which have opted out of LEA control. If in addition HMI were to inspect systematically and regularly all LEA maintained schools that would require in practice an increase in HMI's complement from 485 to 2,000 Inspectors. That would increase HMI's annual cost from under £20m a year to over £84m a year. We could not expect substantial countervailing savings in local authority manpower. Since under our proposals LEAs will be under a duty to secure the delivery of the national curriculum, they will continue to require professional advisers to carry out that duty and to investigate complaints. I rule out this option on grounds of cost and because it would add substantially to Civil Service manpower.

(ii) Creating a regional second tier inspectorate alongside HMI: But this would require some 1,750 new Inspectors for England alone and, while they could be paid less than HMI, their salaries would have to compete with what good teachers can earn in schools; the cost could be of the order of an additional £60m a year. Again, this would inevitably sit alongside a local authority employed force with whom a regional tier would have to work to secure the changes which monitoring showed to be necessary.

(iii) Using HMI with a regulated LEA Inspectorate: While LEAs may require additional inspectors for full coverage of the subjects in the national curriculum, perhaps 800 at an annual cost of some £25m when all were in place, most LEAs already have enough inspectors for the day-to-day monitoring role.

CONFIDENTIAL

4. I am persuaded that we can best secure our objectives by redirecting and redefining the role of the LEA inspectorate locally in support of that of HMI nationally. In my view that represents the most purposeful use of available resources. Within the local authority education inspectorates we already have a large reservoir of professional expertise. Much of that has been badly directed in the past or been allowed to ride its own hobby-horses regardless of the needs of the schools, the aspirations of parents and the requirements of employers. We shall need both to improve their overall calibre and to make them more effective. That means establishing clear objectives for the LEA inspectorates; widening their experience to include management and industrial experience ; regulating how they work so that they carry out systematic inspections of the authority's schools and report to their LEAs - and through them to me - on what they have observed; and ensuring that the standards they apply when inspecting bear comparison nationally. I propose that this should be done in the Education Bill by taking powers to make regulations to control their functions and methods of operation, and by giving HMI the additional statutory duty of monitoring their work. These arrangements would ensure that the local inspectorates worked within nationally determined priorities and policies and at the same time were better equipped to give the professional advice needed by LEAs to carry out their duties in relation to the national curriculum. As paragraph 21 of my officials' paper explains, these changes will be accommodated within our plans for public expenditure.

5. If these provisions are to be included in the Education Bill when it is introduced in November, as I believe they must, I need to initiate <u>very quickly</u> the discussions with the local authority associations promised in paragraph 61 of the consultation document. In view of the need for an early decision so that instructions can be given to Parliamentary Counsel and consultations begun, I hope you will agree to my proceeding in the way I have described and that we can settle this remaining issue by the end of next week.

CONFIDENTIAL

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

KB

18 September 1987

Department of Education and Science

MONITORING THE NATIONAL CURRICULUM

1. As the national curriculum is introduced progressively from the school year 1989-90 the Secretary of State, LEAs, governing bodies and headteachers will need to be satisfied that it is securely in place and providing an education of quality in all schools. This requires:

i. operational monitoring to check that:

a. attainment targets, programmes of study, and assessment and testing are being used by all schools;
b. schemes of work are in place for all foundation subjects and are consistent with the requirements of the national curriculum;
c. (a) and (b) are being reasonably applied and operated.

ii. the monitoring of quality, to be sure that effective education and good standards of work are being achieved by all schools, and by all pupils according to their ability;

iii. an instrument to maintain and improve quality, which provides advice and guidance to schools and teachers wherever it is required and shows locally and nationally how the delivery of the national curriculum can become more effective.

2. Among the means for doing so will be the returns which schools and LEAs make about the results of test and other assessments. These will for the first time ensure that a range of data is available locally and nationally at 7, 11 and 14, as well as what exists already from entries to public examinations at 16+. From these the performance of individual schools can

be judged and the weakest identified, so that remedial action can be taken. The opportunity for parents and others to complain to the Secretary of State about what they see as a school's failure to deliver the national curriculum will be another important check on delivery, and will provide opportunity for intervention to correct anything that has gone wrong.

3. But these mechanisms will not of themselves be enough for the Secretary of State and others to be satisfied about the quality of what is being delivered, or that the right help is available for schools and teachers when it is needed. Data about schools can be used as a reliable measure of quality only by those who have first hand knowledge of those schools, their problems and opportunities and can intepret the results; and if that interpretation shows that a school is not achieving as well as it could, means are needed to provide the right sort of remedial action.

4. Many parents are reluctant or slow to complain, fearing perhaps repercussions for their child, so there can be no guarantee that the Secretary of State will be alerted <u>whenever</u> a school is failing to deliver or where a school is not achieving the quality it should be capable of. Some complaints will be made, however, and these will need to be investigated and, where they are justified, action will be required to correct what has gone wrong. And all schools will benefit from time to time from professional help by those who can see what is a developing weakness, or is not being fully achieved; who can offer advice and draw attention to good practice; and who can help schools to find solutions to their problems, and teachers to recognise their need for in-service training or other forms of professional development.

THE TYPE OF MONITORING REQUIRED

5. Consequently, effective arrangements for overseeing the delivery of the national curriculum will need to

include:

i. systematic and (initially, at least) frequent monitoring of all maintained schools;

ii. oversight of the local arrangements and procedures for assessment and testing and for the reporting of the results;

iii. a first line local facility to examine complaints by parents and others about curricular provision in the area and/or that assessment and testing have not been properly conducted or have operated unfairly or unreasonably in individual cases;

iv. wide-ranging inspection, the findings of which should provide much of the information and judgement about the efficiency or effectiveness of the system that underpin and inform the development of educational policy and action nationally and locally; provide the DES, the Government, LEAs and schools with professional advice about what needs to be improved; good practice that should be spread more widely; and suggestions of what action is needed for these ends to be achieved;

v. national oversight of the arrangements under i., ii. and iii. above for day-to-day monitoring.

POSSIBLE MODELS

6. Essentially there are three possible vehicles for carrying out these tasks:

i. Her Majesty's Inspectorate;

ii. HMI plus a second tier regional inspectorate, either newly created or built up from an existing non LEA agency.

iii. HMI plus a re-jigged and closely regulated LEA inspectorate.

HMI

7. A note about the functions, organisation and activities of HMI is at Annex A. If HMI were to carry out all the tasks set out in paragraph 5 above, there is a range of quantitative and qualitative difficulties that would need to be surmounted.

8. HMI's complement for England is 485, about two-thirds of which is for schools inspection. The other third is mainly concerned with inspection in higher and further education. Within that establishment HMI are able to visit in a year only one-sixth of all maintained primary schools and something over a half of all maintained secondary schools. Only a fraction of those visits lead to formal inspection reports being published. Many were carried out by a single HMI and often lasted less than a day. In addition much inspection is planned and conducted to provide the information and judgement needed by the Government in respect of its policies, both those in place and those under consideration, and not on a basis of inspecting every school in England on a regular timetable.

9. Were HMI to do nothing else but inspect schools, with some 280 schools HMI available for that work for all their time, and with over 28,000 schools, each HMI would be responsible for something over 100 schools. But it would not work out so neatly given the breakdown of types of school into primary, secondary, sixth form colleges, independent and special schools. In addition if a crude approximation of 2 HMI for 3 days was assumed for each inspection visit each school could expect to be visited once every 3 to 4 years. Realistically, given that HMI need time to plan inspections and to

write their reports; that secondary school inspection require more than 2 HMI and more than 3 days; and that there are sizeable proportions of the school year when inspection is not possible, the frequency of inspection visits would be close to once every 6-8 years, <u>provided HMI were doing nothing else</u>.

10. To inspect all maintained schools in England systematically and with reasonable frequency, and to do all else set out in paragraph 2 above, an increase in complement to around 2,000 HMI would be required. The basic grade of HMI is Civil Service Grade 6 under unified grading and such an increase of the complement would require a massive increase in the Department's manpower vote. Currently there is provision for £19.8m for HMI pay and non-pay items for 1987-88, covering some 470 HMI and 225 support staff. An increase of HMI to 2,000, with a proportionate increase in support staff, would cost over £84m on the same basis. The costs of this expansion could not for the most part be offset against reductions at local authority level: as paragraph 14 below explains in more detail, since LEAs will continue to exercise important functions in relation to the national curriculum, they will require to retain a continuing body of professional advisers to inform and support the exercise of those functions.

11. Qualitatively, an increase of the HMI complement to 2,000 would put at risk the high standards of entry currently demanded. It would not be possible to find sufficient people with the intellectual calibre and the successful, wide-ranging experience that have always been key characteristics of those recruited to the Inspectorate. Any drop in standards would damage the quality of HMI's collective advice and judgement; the influence of that advice on the education world; and, therefore, the value of HMI's professional advice to Ministers and the Department.

HMI PLUS A NEW REGIONAL INSPECTORATE

12. Taken together, these factors suggest that it would be preferable to have a two-tiered inspection system within which an HM Inspectorate of its present size retains the roles of national inspection and of providing the Secretary of State and DES with professional advice. A local or regional second tier inspectorate, which could be subject to regulations made byby the Secretary of State and monitored by HMI, would then carry out the day-to-day regular inspection of maintained schools, including the monitoring of the national curriculum and the initial handling of complaints.

13. A second tier inspectorate of this type could be created from scratch and might be organised regionally to cover the seven divisions into which HM Inspectorate is currently deployed in England. But each regional inspectorate would need some 250 inspectors in order to cover its schools and the range of school subjects; this would require a total of 1,750 new inspectors for England alone. As the second tier inspectorate would not be involved in national inspection or in policy advice it could be recruited at a lower level than HMI and paid correspondingly lower salaries; but taking account of the need to compete with what good teachers can expect to earn in schools, and the need for sufficient support staff, pay and non-pay costs could be of the order of £60m a year. Like the option of increasing HMI, this would also be a net addition to Civil Service manpower. And the need for DES to take up the findings of inspection with LEAs could add to the number of senior administrative staff required to support the inspectorate's work.

14. Costs apart there are a number of problems about the day-to-day local monitoring if they are carried out by either HMI or a nationally recruited second tier inspectorate. These revolve around the relationship

of the day-to- day monitoring and those carrying it out, and the LEAs who will continue to have direct responsibility for educational provision in their maintained schools. The Education Bill will require authorities to secure the delivery of the national curriculum in the schools they maintain, and to consider complaints from parents and others. Authorities will need professional advice to help them discharge these functions effectively, to satisfy themselves about the quality of education in their schools, to operate an effective system of teacher appraisal, to plan and provide INSET, to respond to initiatives such as TVEI, and to advise governing bodies and headteachers - including those of financially delegated schools. They will also require a corps of professionals who can work in support of schools and teachers in order to improve quality and remedy weakness. All these functions will require LEAs to continue to employ a body of advisers or inspectors, and the Government would therefore be unable to justify making compensating savings on public manpower by preventing LEAs from employing their own inspectors and advisers. And, while the Government could directly control the quality and functions of a second-tier inspectorate, those inspectors would still have to work with the professional staff in LEAs to secure the changes which their monitoring had shown to be required.

15. Arguably, an existing regional organisation like the network of TVEI advisers could form the basis of a regional inspectorate without creating an entirely new body. But this would not avoid the difficulties just described, or substanially reduce the increase in public service manpower that would be required. The TVEI advisers, for example, already have a full time job to do, and would lack experience across the full range of the curriculum, particularly in primary education. The only existing bodies with a full range

of experience across the whole of primary and secondary education are HMI and the inspectorates employed by local education authorities.

HMI PLUS THE LEA INSPECTORATES

16. The third possibility is, therefore, to rely on LEAs' own inspectorates to provide the second-tier of inspectors for local authority maintained schools: inspection of grant maintained schools would be by HMI. This has the advantage of starting with a force that is already largely there. There are some 2,000 inspectors or advisers employed by LEAs in England; a note about their current numbers, organisation and functions is at Annex B.

17. But the Government's objectives for monitoring the national curriculum could not be secured without some changes to the way in which all or almost all local inspectorates operate. Historically their role has been more advisory than inspectorial, although there are welcome signs of change as LEAs recognise their need for regular information about the quality of education in their schools, and there is wider recognition that monitoring is most effective when done in the context of also giving advice and guidance to schools about what is seen.

18. The local inspectorates' relationship with their employing authorities, and the heavy emphasis over the years on curriculum development as distinct from inspection of what goes on, have led some LEA inspectorates to push their own or their LEAs' particular lines rather than to report as they find from inspection conducted with no particular axes to grind. Some are lacking in the experience and qualities needed for an effective inspector rather than one who only offers advice and guidance to schools and teachers. Most also lack management and industrial experience and will need to remedy this through future recruitment;

attachments to and from industry; their own training; and enhanced contacts at local level between inspectors and employers. Many LEAs have substantial gaps in the subject and other specialisms of their inspectorates that would be required for inspection across the foundation subjects and the rest on the curriculum. However, most have sufficient inspectors to carry out the day-to-day monitoring set out in paragraph 5(i)-(iii).

19. Taken together, this means that for LEA inspectorates to serve the local purposes described in paragraphs 1-5 above.

i. There needs to be a major shift in most LEAs towards inspection in all its forms, including "dipstick" and full inspections, and towards reporting publicly on the findings of inspections of schools.This is too big a change to be achieved effectively and quickly by a Circular of guidance. A regulation-making power would be needed in the Education Bill so that the Secretary of State could lay down the minimum inspection and reporting arrangements which each LEA should adopt, and HMI would need to be given the additional function of monitoring and reporting on local arrangements for inspection.

ii. While the major focus of the LEA inspectorate would be on inspection, it would continue to have the other important functions described in paragraph 14 above so that some additional staffing would become necessary. The present gaps in subject and other specialist cover would also need to be filled over time. As a result initially some 800 additional inspectors might be required by LEAs in England, at a cost of an additional £25m a year when all were in place. To the extent that the

the size of a local inspectorate is determined by the number of schools in an authority as distinct from subject and phase coverage, the numbers required would fall if a number of schools were to achieve GM status. Discussion with the local authority associations would be needed in order to arrive at a firm estimate, but the cost is bound to be much less than either of the other two possibilties.

20. Developing LEA inspectorates on these lines is therefore the least expensive option for securing the efficient monitoring of the national curriculum, and for contributing to the improvement of school education which the Government seeks. Using the local inspectorate in this way would ensure that each LEA recognised that it was accountable for what its schools achieved, and that it received objective professional assessments of the quality of education provided in its schools. The local inspectorate would draw its LEA's attention to those aspects on which policy decisions were required in order to improve delivery, and would be one of the authority's main agents to secure that those improvements were achieved.

21. Most LEAs already have sufficient inspectors to carry out the day-to-day monitoring role described in paragraph 5(i)-(iii) above. LEAs would be well-placed to add to the number of their inspectors by recruiting from the 1,500 advisory teachers they now employ to support schools, or by using these teachers more extensively for advisory work and thus releasing their inspectors' time for inspection. It would be for LEAs to provide for the development of their local inspectorates within the resources available to them. Such development could be phased in from 1989-90 as attainment targets, programmes of study etc for each foundation subject are introduced in schools. Assistance with start-up

costs and expenditure on training in inspection might be offered through ESGs and the LEA training grant scheme. Where small LEAs were unable to provide a full inspectorate cost-effectively, the arrangements prescribed by the Secretary of State could permit them to share inspectors with another LEA in a way designed to avoid the difficulties which such sharing arrangements have caused in the past.

CONCLUSION

22. The successful implementation of the national curriculum, and the improvement in standards which the Government seeks, requires the systematic and effective inspection of what schools provide and of the quality of what their pupils learn. The findings from such inspection need to be backed up by action to secure all necessary improvements. The LEA inspectorates are a resource that already exists, albeit in need of improvement: and much work has already been done recently by the Department, HMI and LEAs to persuade them that inspection is one of their central functions and is needed to make their other functions of advice and support as effective as possible. There are other options but they are more expensive, add to Civil Service manpower, and face formidable obstacles which could reduce their effectiveness. The conclusion is, therefore, that:

i. LEA inspectorates should be used in addition to HMI to monitor the introduction and continued implementation of the national curriculum in order to secure the purposes described in paragraph 1-5;

ii. numbers of LEA inspectors should be increased as resources permit, their functions controlled under regulations made by the Secretary of State, and their work monitored by HMI;

iii. there should be immediate discussion with the local authority associations and other interested organisations so that the necessary legislation can be included in the Education Bill.

Department of Education and Science
September 1987.

ANNEX A

HM INSPECTORATE

FUNCTIONS: the 1983 Policy Statement described its main functions as:

i) to assess standards and trends and advise the Secretary of State on the performance of the education system nationally;

ii) to identify and make known more widely good practice and promising developments, and to draw attention to weaknesses requiring attention;

iii) to advise and assist those with responsibilities for, or in, the institutions in the system through its day-to-day contacts, its contribution to training and its publications.

ORGANISATION AND MANAGEMENT: the complement of 485 is to be reached by April 1988, and 471 HMI are now in post. The Inspectorate's senior management team is headed by the Senior Chief Inspector (Grade 2), supported by seven Chief Inspectors (Grade 4) with broad responsibilities in managing work and personnel for the inspection of, and policy matters related to, particular types of institution (eg primary schools); for curriculum matters (eg educational disadvantage); and for management (eg of the Inspectorate's work programme). For broad planning purposes the Inspectorate is divided into phase (eg secondary), aspect (eg special educational needs) and curriculum subject teams each headed by one of the 59 staff inspectors (Grade 5) who works to one or more Chief Inspectors. Most of the 397 basic grade HMI (Grade 6) work outside Elizabeth House in one of seven divisions each headed by a divisional staff inspector (Grade 5), to provide territorial cover throughout England; they will also work in one or more of the staff inspectors' teams.

About two-thirds of the Inspectorate's work is in schools and the remainder in NAFE, HE (including teacher training), adult education and activities such as the youth service. The Inspectorate's operations in the divisions and in Elizabeth House is supported by some 224 administrative staff; about two-thirds of these are secretaries and typists, and the rest mainly in the AO and AA grades.

PLANNING THE INSPECTORATE'S WORK: HMI's remit covers over 28,000 maintained and independent schools, some 550 establishments of further and higher education, about 4,000 adult education institutions and a range of other educational provision including the youth service. In choosing targets for inspection the Inspectorate has to give priority to those matters of most concern to the government of the day - for example, to improving standards of achievement for all pupils across all school activities: but at the same time it has to maintain a coverage sufficient to keep itself and DES informed of, and to offer advice on, the state of all parts of the system. 7,594 HMI days were centrally programmed in 1986-87 for full and short inspections, and 3,163 days were given to inspections directly related to Government initiatives, although the Government's main concern and priorities also featured in most of the other inspections and visiting.

WORK OTHER THAN INSPECTION: each year DES organises a national programme of short in-service courses for teachers, under the direction of HMI; in 1986-87, there were 95 courses attended by 5,978 teachers. The Inspectorate publish a wide variety of material on educational matters including the results of surveys, guides to good practice, and contributions to the discussion of curriculum matters; 15 have been published since 1986. HMI's reports following their formal inspections of individual institutions are also published (250-300 per year). HMI have a range of other duties which include participating in aspects of the department's work, international relations, acting as assessors or points of contact for a wide variety of official and other bodies (over 2,000 in all), and inspecting provision in a variety of establishments for which the Secretary of State is not directly responsible eg education in prisons, the schools of the Service Children's Education Authority, and DHSS establishments such as community homes.

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ANNEX B

LOCAL EDUCATION AUTHORITY INSPECTORS

FUNCTIONS: In 1985 a joint group from DES, HMI and the local authority associations agreed that the functions of LEA inspectors or advisers were:

i) to monitor and evaluate the work of the authority's education service by a variety of means, including inspection, so that LEAs are informed of the strengths and weaknesses of the schools and other institutions they maintain;

ii) to work in support of schools and other educational establishments acting as agents for charge, initiating action or prompting it from others, in order to raise the quality of what is provided;

iii) supporting and developing teachers, and advising on their management, in order to respond to the specific needs and requirements that arise particularly through critical phases of a teacher's career such as probation, first headship or senior posting.

iv) to work on local and national initiatives in developing the LEA's plans, in the subsequent detailed work needed for implementation, and in advising on their management and effectiveness once they have been put in place.

ORGANISATION AND MANAGEMENT: Practice varies between LEAs, particularly as to how functions are divided between inspectors and education officers, and in lines of accountability between the inspectorate and the authority; in some LEAs the CEO or his deputy will act as Chief Inspector, while in others there will be a separate Chief Inspector or senior member of the Inspectorate in charge of the service.

NUMBERS: THE CIPFA estimates for 1986-87 show a total number of 2,160 LEA inspectors in England: but their numbers range from 149 in ILEA to 7 in Sutton. There are considerable variations in the coverage of specific subject areas. HMI returns for 1985-86 indicate that 93% of LEAs had specialist cover for physical education, 92% for science, 90% for English and mathematics, 84% for modern languages, 55% for history and 42% for geography. Only 45% of LEAs have more than one inspector or adviser for the primary phase. Even where an LEA has a designated inspector for a subject it does not follow that it is his or her only or main specialism. There is also considerable disparity between LEAs in the ratios of the number of their inspectors to the numbers of schools, teachers and pupils in an authority's area.

ADVISORY TEACHERS: There are in addition some 1,500 advisory teachers, separate from the LEA inspectors but usually working under their management. These are growing in number and are used most commonly as curriculum developers and support staff, sometimes to undertake work associated with ESGs. In 1985-86 75 English LEAs employed advisory teachers; 21 did not.

INSPECTION AND PUBLIC REPORTING: HMI returns for 1986 suggest that 52 LEAs mount inspections of various kinds, although only 14 arrange anything equivalent to HMI's full or formal inspections. 47 use a "dipstick" approach, and others arrange some monitoring of the work of different subject departments in schools. Only one LEA (ILEA) makes its Inspectors' reports publicly available (via divisional officers), although Hampshire has experimented with public reporting and Cleveland publishes surveys that do not name institutions. No LEA has arrangements comparable with those for the publication of HMI reports.

COVERAGE OF SCHOOLS: 73 LEAs organise their inspectors so that each has a group of schools, enabling each school to be known in some depth by at least one member of the local inspectorate. 92 of the 96 English LEAs allow inspectors free access to schools and lessons.

OTHER FUNCTIONS: Local inspectorates are usually heavily involved in the effective and systematic planning of in-service training, in developing arrangements for the appraisal of teacher performance and the effective management of the teaching force, in advising on staffing and curriculum issues when schools are to be reorganised or amalgamated, and in advising governing bodies to help them to fulfil their statutory responsibilities for the curriculum. LEA inspectors may also have responsibilities in further, higher and adult education.

3

CONFIDENTIAL

DRAFT CONSULTATION PAPER

MAINTAINED FURTHER EDUCATION: FINANCING, GOVERNANCE AND LAW

PART 1: INTRODUCTION AND BACKGROUND

1.1 This consultation paper concerns local authority maintained further education - maintained FE. It sets out the Government's proposals for reforming the sector in England, and in particular the way colleges are financed, the composition and role of their governing bodies, and the legal basis of FE provision. Comments on the proposals are invited from all interested parties.

Background

1.2 The recent White Paper, "Higher Education: Meeting the Challenge" (1), announced the Government's intention to transfer from local education authorities (LEAs) in England responsibility for the 29 polytechnics and 28 of the larger colleges whose courses are wholly or mainly of advanced level (2). These, with 25 other colleges at present directly funded by the DES, will be brought together to form a new sector of higher education, to be funded and planned through a new Polytechnics and Colleges Funding Council (PCFC). A further 11 LEA maintained and assisted colleges will be able to enter the new sector if they and their LEAs so choose (3). The PCFC will also be given national responsibility for funding and planning certain categories of advanced courses in those colleges which remain in the local authority sector. Conversely, LEAs will contract with institutions in the PCFC sector for them to provide such non-advanced courses as LEAs wish to commission.

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(1)"Higher Education: Meeting the Challenge". Cm 114. HMSO. April 1987.

(2)"Advanced" courses can be broadly defined as those leading to a qualification of a standard higher than GCE A level.

(3)The White Paper's list of the 82 colleges which will, and the 11 colleges which may, transfer to the new sector is reproduced in Annex A.

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1.3 These changes will leave LEAs responsible for maintaining or assisting over [400] colleges in England catering for over [1.7] million students, [ ]% of them on non-advanced courses. In addition, there are an estimated [ ] million other students enrolled on courses, mostly evening classes, in adult education centres. The annual cost to the public of this provision is some [£1.2] billion.(4)

1.4. This maintained FE sector is of great importance to the nation. It meets a wide range of needs: vocational courses to prepare school leavers for jobs; up-dating and retraining courses for adults; A level and GCSE courses for those wanting to continue their general education; social, physical and recreational education and training; leisure-time courses in colleges and adult education centres; courses in basic literacy and numeracy; and so on. The sector has a key part to play in equipping young people with the skills, knowledge and qualities needed for adult and working life, and in producing the highly-trained, adaptable workforce on whom continuing prosperity depends. The Government is accordingly concerned that it should be as effective and efficient as possible.

1.5 Important changes and developments are already underway in the sector. These include:

- changes in existing provision designed to reflect shifts in the occupational structure of the labour force and the changing needs of employers;

- the operation of new types of provision, including the Youth Training Scheme, the Certificate of Pre-Vocational Education and the Technical and Vocational Education Initiative;

- the introduction of new funding arrangements whereby the Manpower Services Commission contracts with LEAs for the provision of work-related non-advanced FE.

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(4)More detailed figures are given in Annex B.

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Development will inevitably continue as a result of further changes in the needs of employers and students, and of the lower numbers of 16-19 year olds in the population - due to fall by one third between 1983 and 1994.

1.6 The Government recognises the achievements of the maintained FE sector, and the extent to which it has already adapted to meet new needs among both students and employers. But it believes that there is still scope for further reform, particularly in the way colleges are managed. In 1985 the Government established, jointly with the Local Authority Associations, a study group to review the scope for improving efficiency in non-advanced further education (NAFE). The group's report, "Managing Colleges Efficiently", was issued recently (5); its findings point the way to some important improvements in efficiency and good management practice. But the Government believes that there is also a need for some broader, structural reforms, notably in the areas of financial delegation and the composition and role of college governing bodies. These would apply to FE the same principles which underlie some of the reforms in other sectors of the education service.

1.7. The Government therefore proposes to include in the Education Bill which it intends to bring before Parliament this Autumn provisions to:

i. require LEAs to delegate extensive financial powers to their FE colleges; and

ii. reform the composition and role of FE college governing bodies so as to make them more independent and effective.

In order to provide a sound legal basis for these reforms, the Government proposes that the Bill should also include provisions to:

iii. clarify the law of further education.

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(5) "Managing Colleges Efficiently: Report of a Study of Efficiency in Non-Advanced Further Education for the Government and the Local Authority Associations." HMSO, July 1987

1.8 The subsequent sections of this paper explain in more detail what is proposed.

Wales

1.9 This paper applies only to England. The Government intends that the same reforms should be introduced in Wales. But there they will need to reflect the decision not to transfer from local authorities, at least for the time being, responsibility for the polytechnic and the colleges of higher education. A paper setting out the Government's proposals for Wales will be issued separately.

Invitation to Comment

1.10. The Government recognises that, if its proposed reforms are to achieve the benefits intended, they will need to reflect the diversity of the maintained FE sector, and to draw on the experience and expertise of those involved. It invites all those with an interest to submit comments on the proposals. These should be sent to Mr John Perryman, Room 6/2, Department of Education and Science, Elizabeth House, York Road, London SE1 7PH. Comments about the legislation should be submitted as soon as possible, and certainly by 30 September 1987 so that they can be taken into account before the legislation is introduced in Parliament. Discussion of other aspects of the proposals and their implementation will continue as the Bill proceeds through Parliament.

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PART 2: FINANCIAL DELEGATION

Background

2.1 The Government believes that LEA maintained schools and colleges should be given as much freedom as possible to manage their own affairs and decide their own priorities for spending the resources allocated to them. The Government's plans for requiring LEAs to delegate financial powers to schools have already been announced (1). FE colleges are normally larger institutions than schools; their financing is more complex; they have greater experience in raising funds and handling their own finances; and they have a greater need to be able to react quickly to the changing demands of students and employers. It follows that they should have at least as much control as schools over their own budgets.

2.2 At the same time, the Government recognises the importance of proper planning and co-ordination of further education provision both between colleges and in relation to neighbouring schools. The need for LEAs to review the pattern of their provision for 16-19 year olds (2) was emphasised in the recent DES circular, "Providing for Quality: The Pattern of Organisation to Age 19" (3). The provision offered in each secondary school, at least for pupils of compulsory school age, largely conforms to a standard pattern, and is not much influenced by the types of provision available in neighbouring schools. Not so with colleges: if gaps and wasteful duplication are to be avoided, each college's portfolio of courses must be planned in a way that takes account of the provision which already exists or is expected to be developed in other institutions in the college's catchment area. Already a substantial proportion of college classes could accommodate more students without jeopardising standards. The falling number of 16-19 year olds will tend to increase that

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(1)"Financial Delegation to Schools: Consultation Paper". DES July 1987.

(2)Throughout this paper "16-19" denotes those who have reached the age of 16 but not yet reached the age of 19.

(3)"Providing for Quality: The Pattern of Organisation to Age 19": DES Circular 3/87, issued 6 May 1987.

proportion, making proper strategic planning of provision in each area all the more important. Responsibility for this planning must lie with LEAs, with collaboration as necessary between them.

2.3 The Government therefore proposes that each LEA should be placed under a duty to devise and submit to the Secretary of State a scheme for delegating to its FE colleges extensive financial powers and responsibilities within a continuing framework of strategic planning by the LEA. As with the school delegation proposals, the Secretary of State would be empowered by the legislation to approve schemes, to reject them, or to approve them with modifications after consultation with the LEA. In the light of experience with the operation of its scheme, an LEAs might wish to propose variations, and these also would need to be submitted for the Secretary of State's approval; or the Secretary of State might wish to take the initiative in amending schemes after consultation with the LEA or LEAs. Should an LEA fail to submit an appropriate scheme, the Secretary of State would be empowered to introduce a scheme for the area on the authority's behalf.

Calculation of College Budgets

2.4 It is fundamental to increasing efficiency and effectiveness that college budgets should be directly related to the LEA's view of the pattern of provision needed in its area. It will therefore be a key element in delegation schemes that each LEA should review each year what changes should be made to the existing pattern of provision so as to keep it in line with changing student and employer needs, and should work out what each college should contribute. This might most conveniently be expressed in terms of the number and type of students each college should accommodate. The Government expects that, as with the school delegation proposals, each delegation scheme would also provide for the LEA to calculate each year the total resources to be spent by or on behalf of its FE colleges, and should include a formula to be used in calculating what proportion of those resources should be allocated to each college.

2.5 The Government recognises that there will have to be scope for delegation schemes to vary according to local needs and circumstances. It does not wish to prescribe in detail, at least at this stage, how college budgets should be

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calculated. But in order to clarify the Government's intentions, one possible approach is described in Annex C. The Government does not expect that all the elements mentioned there would necessarily need to be specified in delegation schemes.

The Delegated Budget

2.6 The Government intends that, once each college's annual budget has been set, the governing body should be given maximum freedom to determine how it should be spent. Colleges have traditionally had substantially greater discretion than schools to manage their own affairs, and many already have flexibility in some of the areas mentioned below. The Government wishes to generalise and extend this good practice. In particular, it considers that:

i. Governing bodies should be free to vire across all current expenditure headings, including between teaching and non-teaching staff headings and between staff and non-staff headings.

ii. Governing bodies should not be obliged either to make use of LEA common services and common purchasing arrangements or to participate in common service and supply contracts negotiated by the LEA with a private contractor after the introduction of the delegation regime. However, it is to be expected that governing bodies would decide to make their own arrangements only where they could thereby obtain a better deal. The implications of this for the legislation on local authority tendering are recognised.

iii. Governing bodies should have as much freedom to carry forward from one financial year to the next surpluses and deficits as the practice of each local authority allows.

iv. Colleges should be able to retain a sufficient proportion of income earned through, for example, full-cost courses, consultancy or services such as hairdressing and catering to ensure that there is an incentive to maximise such income.

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2.7 At the same time, however, delegation schemes would need to incorporate certain constraints on the governing body. These might include a general duty to manage the budget efficiently, and to avoid committing the LEA to significant additional expenditure in future years without the LEA's prior approval.

Staff

2.8 The Government intends that as an integral part of delegation, governing bodies should be given greater powers over the appointment and dismissal of teaching and non-teaching staff. Except in cases where a college obtains corporate status (see paragraph 2.17 below), the LEA will remain the employer of the staff. But the Government considers that governing bodies should be free, subject to the constraints imposed by their budget, to determine how many and which staff they wish be employed.

2.9 To this end, the Government proposes that, consistent with its intentions for financial delegation to schools, governing bodies should have power to select new college teaching and non-teaching staff for appointment by the LEA. Most governing bodies already have extensive powers - normally delegated in large part to the Principal - to select staff. However, the appointment of senior staff is generally subject to confirmation by the LEA; and in many cases staff, and particularly non-teaching staff, are appointed within an approved establishment of identified posts and grades. The Government's proposals would extend the powers of governing bodies so they would have full responsibility for the selection of senior staff, including the Principal and any Vice-Principals. Provision would, however, be made under which the LEA could require governing bodies to consult it before arriving at their decisions in respect of the selection of senior staff; the Government expects that this would normally be exercised only in the cases of the Principal, Vice-Principal and Chief Administrative Officer. Financial delegation would not affect agreements, national or local, currently in force on pay and conditions for college staff. But subject to such agreements, and to the overall constraints of their budgets, the Government proposes that governing bodies would be free to determine the numbers and grading of teaching and non-teaching staff posts without reference to the LEA.

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2.10 Governing bodies would also decide on any reductions in staffing without being required to obtain the confirmation of the Authority. Where appointments had not been made against the advice of the LEA and the LEA had no good reason to dissent from the decisions of the governing body, the LEA would be required to meet any costs arising from premature retirement or dismissal. In other cases, the governing body would meet the cost from the college budget.

2.11 The Government expects that these arrangements would mean that in the great majority of cases, while decisions on the appointment and removal of staff would rest with the governors, they would be made within a framework agreed with the LEA. Where the LEA considered that a member of staff could suitably be redeployed from one institution to another, it would be free to recommend such a move to the governing bodies concerned, but would have no power to require it.

2.12 Governing bodies would be expected normally to meet the cost of staff absences from their own finances. But exceptional costs (for example those arising from prolonged sick leave) might be reimbursed by the LEAs.

2.13 By comparison with schools, colleges often take much of the responsibility for making arrangements for the professional development of their staff, including in-service training and appraisal of staff performance. Funds supported by specific Government grant will continue to be assigned by LEAs for in-service training, in the light of the particular needs of each college and the lecturers serving in it. In cases where LEAs allocate a budget to each college for such training, colleges will not be free to vire that budget to expenditure for other purposes; the LEA will have to be able to account to the Department as now for the proper use of such grants. LEAs, in particular through their inspectorates, will wish to give colleges what other help they can in the development of their staff, including the establishment of effective and consistent arrangements for the appraisal of lecturers' performance.

Monitoring and Accountability

2.14 In order to ensure proper accountability, the Government proposes that all delegation schemes should include a requirement on governing bodies to supply the LEA with such information as it needs to be able to monitor the college's progress. This information would include expenditure returns and student and staff data. The report of the Joint Efficiency Study of NAFE, "Managing Colleges Efficiently", (4) provides guidance on the sort of data which might most usefully be collected. Such information would be taken into account when assessing each college's performance for the purpose of setting the following year's budget (see paragraph 3 of Annex 5).

2.15 The Government proposes that each LEA should also be placed under a duty to publish each year information relating to the working of its delegation scheme. This might include information on the formula used to calculate college budgets. Depending on the type of formula used, it might also include information on the student numbers allocated to each college and the basic budget derived from them; and on any additional allocations and their purpose.

2.16 College budgets would be subject to audit by the LEA's internal auditors. The legislation would provide for LEAs to be able to withdraw delegated powers where there was evidence that a governing body was not managing its budget properly, or was in some other way failing in its duties. In such cases the governing body would have a right of appeal to the Secretary of State. Where an LEA had withdrawn delegation it would be obliged to review the position at the beginning of every financial year and to restore delegation as soon as it judged this possible.

Corporate Status

2.17 The Government believes that, in addition to having the delegated powers outlined above, it would be appropriate for some colleges to have corporate status - while still remaining within the local authority FE sector. As the White Paper, "Higher Education: Meeting the Challenge" (5) recognised, corporate status cannot guarantee greater independence for colleges from inappropriate

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(4) "Managing Colleges Efficiently: Report of a Study of Efficiency in Non-Advanced Further Education for the Government and the Local Authority Associations." HMSO, July 1987.

(5) "Higher Education: Meeting the Challenge". Cm 114, HMSO, April 1987

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controls. But in the right circumstances, it can facilitate greater independence by enabling institutions directly to employ their staff, own their premises, enter into contracts, and generally to take greater responsibility for their own actions. The Government will therefore be considering ways to encourage the incorporation of FE colleges.

Coverage of the Proposals

2.18 The foregoing proposals are designed to meet the needs of the great majority of FE colleges. But as the graphs in Annex D show, colleges vary greatly in size. The Government recognises that some may be too small to be able to discharge effectively the responsibilities of delegation. It therefore intends to adopt the same dividing line as will be used in school delegation schemes: all colleges with more than 200 FTE students (as measured by the latest available FESR data) would be included in FE delegation schemes. LEAs would be free also to include smaller colleges where they think that appropriate. In addition, the Secretary of State would be empowered to make regulations requiring the extension of delegation to some or all smaller colleges if in the light of experience that seemed desirable.

2.19 Delegation may also be appropriate for some adult education centres. As with the smallest colleges, the Government proposes that LEAs should be free to include adult education centres within delegation schemes where they think that appropriate; special provisions might need to be made in schemes to accommodate the particular characteristics and needs of centres. The Secretary of State would again be empowered to issue regulations requiring the extension of delegation to specified types of centres if that seemed desirable. The Government would expect decisions about the suitability of centres for inclusion in delegation schemes to be based on judgements about the scale of their operations and their coherence and solidity as institutions. In all cases where centres were to be included they would have to have properly constituted governing bodies to take responsibility for the delegated budget (see paragraph 3.18)

2.20 For the purposes of the legislation, centres may need to be distinguishable from colleges. One means would be to classify as colleges all

FE establishments providing full-time education and training. This would mean that any adult education centre with full-time enrolments would be classified as a college.

Implementation and Timing

2.21 The Government intends that the legislation should provide only a framework of duties and powers. More detailed guidance on the content and nature of delegation schemes would be reserved for subsequent circulars and regulations which would draw on the views and experience of LEAs and colleges, and allow flexibility for schemes to reflect differing needs and circumstances.

2.22 As to timing, the Government proposes that, as with school delegation schemes, LEAs should submit proposals to the Secretary of State by September 1989. Each scheme would need to include a timetable for phased implementation.

PART 3: THE REFORM OF COLLEGE GOVERNING BODIES

Background

3.1 The Government attaches great significance to the role of governing bodies in all sectors of education. They provide a means of bringing together those groups with the strongest interest in the quality of the institution's provision. They enable institutions to benefit from a wide range of experience and expertise, and to gain the active support of the local community. At their best governing bodies can provide a powerful impetus for higher standards and better performance. But to be fully effective they need to be independent; their membership needs to be properly balanced; and they need to be assured a worthwhile and clearly defined part to play in determining the conduct and direction of the institution.

3.2 The composition and powers of school governing bodies are already being reformed by the Education (No 2) Act 1986. The governing bodies of institutions in the new polytechnics and colleges sector will be regulated in the forthcoming Bill. Parallel reforms of FE college governing bodies are needed to bring them into line with other sectors. Moreover, financial delegation will greatly increase the responsibilities and importance of college governing bodies, making reform the more necessary.

Composition of Governing Bodies

3.3 The Government therefore intends that the Bill should include provisions regulating the size and broad composition of college governing bodies. On size, it proposes that the governing bodies of all LEA maintained colleges with more than 200 FTE students should number between 20 and 25 members. This should be sufficient to allow an appropriate balance of the main interests to be represented, while still keeping governing bodies small enough for effective debate and decision-making. As to composition, the Bill would provide that at least half of the members should represent business, industrial, professional and other employment interests, including trade unionists and practitioners in areas relevant to the work of the college. In order to ensure that the governing body was, and was seen to be, properly independent of the maintaining

LEA, the proportion of members representing the LEA would be limited to at most one-fifth.

3.4 The Education (No 2) Act 1968 made maintained college Articles of Government (which allocate responsibilities between the LEA, the governing body, the Principal and the Academic Board) subject to the approval of the Secretary of State. The Government subsequently issued guidance in Circular 7/70(1) on what Articles should contain. The Circular also offered guidance on the composition of governing bodies. Much of it remains valid. But since 1970 significant variations in practice have developed, and circumstances have changed. In order to achieve the reforms which it now considers necessary, the Government proposes that the Bill should provide that Instruments of Government (which regulate the composition and conduct of governing bodies) should also require his approval. The Secretary of State would further be empowered to take the initiative in amending, individually or collectively, both Instruments and Articles; these powers would extend to assisted as well as maintained colleges.

3.5 The composition of governing bodies will need to be able to reflect the particular circumstances of different colleges. The Government does not, therefore, intend to specify in primary legislation whence the remaining governors - that is, the non-LEA and business/professional governors - should be drawn. But in approving Instruments of Government the Secretary of State would expect most governing bodies to include representatives of students, of parents (in colleges where a substantial proportion of students are aged 16-19), and of staff. The governing body would also normally include members drawn from neighbouring educational institutions (schools, other colleges, polytechnics or universities depending on the balance of the college's work) and the Principal.

3.6 So a typical governing body might be composed of:

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(1) Circular 7/70: Government and Conduct of Establishments of Further Education: DES, April 1970.

12 representatives of business, industrial, professional and other employment interests, including not more than 2 from trade unions
4 representatives of the LEA
2 representatives of parents
2 members drawn from neighbouring educational institutions
2 representatives of the staff (teaching and non-teaching)
1 representative of the students
1 Principal
24 Total

Selection

3.7 In the case of institutions in the new polytechnics and colleges sector, the legislation will provide for the first generation of governors representing business and professional interests to be appointed by the Secretary of State on the basis of advice from relevant bodies. The local nature of FE colleges would make central appointment of individual governors inappropriate, even were it feasible. Instead, the Government proposes to place a duty on each LEA to draw up, in close consultation with appropriate local interests, a list of bodies which would nominate governors to represent business, industry, the professions and other employment interests. When considering Instruments of Government for approval the Secretary of State would expect to be told which those bodies were and how they had been selected.

3.8 Other governors would be selected as follows:

i. LEA representatives would be nominated by the maintaining LEA (which would be free to nominate, if it so wished within the available total, one or more governors to represent neighbouring authorities within the college's catchment area);

ii. the student representative would be elected by and from the students;

iii. the method of selecting the parent representative(s) would be for local decision. They might be elected or appointed by the other governors;

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iv. the staff representative(s) would be elected by and from whichever constituency the LEA and the college wished them to represent - the Academic Board, the teaching staff, the non-teaching staff, or all staff together;

v. those drawn from neighbouring educational institutions would be appointed by the other governors.

3.9 Once the first generation of new governors had been selected, subsequent vacancies would be filled either by the nomination or election of a replacement by the relevant constituency or by appointment by the remaining governors as appropriate.

Chairmanship

3.10 The chairman of each governing body would be appointed by the governors from amongst those representing business, industrial, professional and employment interests or parents. Given the importance of bolstering the position of governing bodies as an independent force clearly distinct from both the LEA and the college, it would not be appropriate for an LEA nominee or a representative of the staff or the students to chair the governing body. Nor would it be appropriate for a member drawn from a neighbouring, and conceivably competing, educational institution to take the chair.

Term of Office

3.11 The term of office of governors would normally be four years. LEAs and colleges may, however, wish to provide that where, for example, a parent representative ceases to have a child at the college before the expiry of his or her term, membership of the governing body would lapse. In order to provide continuity some initial staggering of the terms of office of different governors would be needed. It would be for local discretion whether to set a limit on the number of terms an individual might serve.

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Responsibilities

3.12 The Government proposes that college Articles of Government should provide that the primary responsibilities of the new governing bodies would be:

i. Responsibility for the general direction of the college. This would be in the context of the LEA having responsibility for the strategic planning and co-ordination of provision in its area (see part 2), although the Government would expect governing bodies to be closely involved in the formulation and progressive development of the LEA's strategy.

ii. Responsibility for the efficient management of the college within the sort of financial delegation regime sketched in part 2. Responsibility for the day-to-day running of the college would normally be sub-delegated to the Principal.

iii. Responsibility for the selection and dismissal of staff within the framework outlined in paragraphs 2.8 - 2.11. Again, responsibility for the appointment and dismissal of all save the most senior staff would normally be sub-delegated to the Principal.

Training

3.13 Governors will need suitable training if they are to be able to undertake these responsibilities effectively. In particular, they may, depending on the experience and expertise of individual members, need training in financial management.

Coverage of the Proposals

3.14 The foregoing proposals are designed to meet the needs of the great majority of maintained FE colleges. But the Government recognises that they would not suit all colleges in all respects. The legislation will therefore provide for two categories of exceptions.

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3.15 First, the governing bodies of maintained colleges with fewer than 200 FTE students would be exempted from the requirement to have between 20 and 25 members. It will be for the LEA and the college between them to decide how many members there should be. But in all cases the proportions of business/professional, LEA and other representatives should be the same as for larger colleges. And their Instruments and Articles of Government would still require the approval of the Secretary of State.

3.16 The second exception relates to LEA-assisted colleges. Excluding those institutions which are to be transferred to the polytechnics and colleges sector, there are [7] assisted FE colleges in England. Four of these are amongst the eleven colleges which may transfer to the polytechnics and colleges sector if they or their LEA choose. In view of the varying circumstances of these colleges and their small number, the Government proposes that the legislation should not directly regulate the size or composition of their governing bodies. Instead, it would empower the Secretary of State to make, after consultation with the LEA and the college, regulations governing their size and composition. Again, their Instruments and Articles of Government would be subject to the approval of the Secretary of State. In making regulations and approving Instruments and Articles the Secretary of State would seek to ensure that the composition, conduct and role of the governing bodies of assisted colleges were as consistent as possible with those of maintained college governing bodies.

3.17 The acquisition of corporate status by some colleges (see paragraph 2.17) would entail their transferring from maintained to assisted status. The Government does not intend that this should affect the size or composition of their governing bodies.

3.18 Paragraph 2.19 proposes that where adult education centres are to be included in delegation schemes, they should have governing bodies. Some centres already have governing bodies or managing boards. Some of these may be appropriately constituted to carry the responsibilities of delegation; others may not. The Government recognises that the proposed composition of maintained college governing bodies would not necessarily suit adult education centres. Their governing bodies would therefore be excluded from the scope of the relevant provisions of the legislation. But centres included in delegation schemes would be required to have Instruments and Articles of Government which would need to be approved by the Secretary of State in the same way as those of colleges. The Government would issue guidance on what such Instruments and Articles might and should contain. But LEAs and centres would naturally wish to draw up for submission Instruments and Articles which reflected each centre's particular circumstances.

Timing

3.19 The Government considers the reform of governing bodies to be a necessary concomitant of financial delegation. It therefore proposes that the two initiatives should be introduced simultaneously.

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PART 4: THE LAW OF FURTHER EDUCATION

Background

4.1 Parts 2 and 3 outlined the Government's proposals for introducing financial delegation in further education and for reforming the composition and role of college governing bodies. The necessary legal provisions would be incorporated in the Education Bill which the Government will introduce in Parliament in the Autumn. But at the same time the apparently unsatisfactory state of the existing legal basis of further education will need to be put right.

4.2 The main legal basis of FE is provided by sections 7, 41 and 42 of the Education Act 1944. These are reproduced in Annex E. Together they impose a duty on each LEA to secure the provision of adequate facilities to meet the needs of its area for further education. But section 41 states that such provision may be secured only in accordance with schemes of FE which have been approved by the Secretary of State. Section 42 regulates how schemes should be prepared.

4.3 It is thought that all the LEAs then in being did have schemes approved in the years following 1944. But, as further education developed and circumstances changed, schemes were not always kept fully up-to-date, and the schemes procedure fell into general disuse. This led to concern that FE provision might become ultra vires. A Working Group was therefore set up representing the DES, the Welsh Office, the Local Authority Associations and the Welsh Joint Education Committee to review the legal basis of further education. The Group's report was issued in June 1981(1). It concluded that, although the issue had never been considered by the courts, much FE provision was "almost certainly" ultra vires.

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(1)"The Legal Basis of Further Education: A Review by Officers from the Department of Education and Science, the Welsh Office and the Local Authorities". DES June 1981.

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4.4 The apparently insecure state of the law, while undesirable, has to date not given rise to serious practical problems. But it would not be sensible to introduce important new legislation affecting further education if existing legislation is no longer providing a satisfactory basis for provision. One option would be to enforce the requirements of the 1944 Act on FE schemes so as to bring provision unambiguously back intra vires. But this would not be a lasting solution. Further education is and ought to be continuously changing. Schemes would therefore have to be regularly re-submitted and re-approved if they were to be kept up-to-date. This would not be a good use of either LEA or DES manpower. And the likelihood is that sooner or later the procedures would lapse again, and the problem would reappear.

4.5 The forthcoming Bill provides an opportunity to set matters right, which the Government considers should be taken. It therefore proposes that the provisions of the 1944 Act relating to FE schemes should be repealed, together with the obsolete provisions relating to county colleges. The duty of each local education authority to secure the provision of adequate facilities for further education, suitable to the needs of its area, would remain; and it would be made clear that authorities retained the power to secure such provision also for those from outside their area. The duty currently laid on authorities, when deciding what provision should be made in performing this duty, to have regard to any facilities for further reduction provided for their area by other educational institutions would also be retained.

4.6 Repeal of the provisions for FE schemes will entail a consequential amendment in the definition of secondary education in section 8 of the 1944 Act. Local education authorities will retain their duty to secure the availability for their area of sufficient schools for providing secondary education, defined (as now) as full-time education suitable for the requirements of senior pupils (ie those aged 12 to 18) and those junior pupils aged 10½ and 11 whom it is expedient to educate with them. In performing this duty authorities will be allowed to take into account such provision as is made for senior pupils in their area by way of further education.

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ANNEX A

POLYTECHNICS AND COLLEGES TO BE TRANSFERRED FROM LOCAL AUTHORITIES AND TO COME WITHIN THE AMBIT OF THE PCFC

a. **Polytechnics (29)**	b. **Other LEA Institutions (28)**
Portsmouth	Edge Hill CHE
North East London	Worcester CHE
Sheffield	Bulmershe CHE
Trent	North Riding College
Leicester	West Midlands CHE
Wolverhampton	Garnett College
Hatfield**	Royal Northern College of Music
Oxford	Charlotte Mason College of Education
Newcastle	Crewe & Alsager CHE
Liverpool	Rolle College
Middlesex	West Sussex IHE***
Bristol	Bretton Hall College
Kingston	Dorset IHE
Coventry, Lanchester	Bath CHE
North London*	Bolton IHE
Leeds	West London IHE*
Birmingham	Humberside CHE
Brighton	Ealing CHE
North Staffordshire	Derbyshire CHE*
Lancashire	Essex IHE
Thames*	West Surrey College of Art and Design
Huddersfield	Ravensbourne College of Design and Communication
Plymouth	Southampton IHE
Sunderland	Loughborough College of Art and Design
Teesside	Slough CHE
Manchester	Kent Institute of Art and Design
South Bank*	Nene College
Central London*	South West London College
City of London*	

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* Assisted institution; other institutions are maintained by LEAs

** includes Hertfordshire CHE student numbers - merging in 1987

*** joint LEA assisted/DES grant-aided institution

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VOLUNTARY AND OTHER GRANT-AIDED COLLEGES TO COME WITHIN THE AMBIT OF THE PCFC

a. Voluntary Colleges (17)

Bishop Grosseteste College (Lincoln)
Chester CHE
Christ Church College (Canterbury)
College of Ripon & York St John
College of St Mark & St John (Plymouth)
College of St Paul & St Mary (Cheltenham)
Homerton College (Cambridge)
King Alfred's College (Winchester)
La Sainte Union CHE (Southampton)
Liverpool IHE
Newman College (Birmingham)
Roehampton IHE
S Martin's College (Lancaster)
St Mary's College (Twickenham)
Trinity and All Saints College (Leeds)
Westhill College (Birmingham)
Westminister College (Oxford)

b. Other Grant-Aided Colleges (8)

Goldsmiths' College*
Harper Adams Agricultural College
Royal Academy of Music
Royal College of Music
Royal College of Nursing
Seale Hayne College**
Shuttleworth Agricultural College
Trinity College of Music

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* unless London University accepts Goldsmiths' as a School of the University
** merger with Plymouth Polytechnic under consideration

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ANNEX A (cont)

INSTITUTIONS WHICH MAY TRANSFER FROM LOCAL AUTHORITIES

Camborne School of Mines*

Rose Bruford College of Speech and Drama*

Kent College for the Careers Service

Dartington College of Arts*

Norwich School of Art

Exeter College of Art and Design

Central School of Speech and Drama*

Winchester School of Art

Wimbledon School of Art

Falmouth School of Art

Writtle Agricultural College

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* assisted institution; other institutions are maintained by LEAs

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ANNEX C

THE CALCULATION OF COLLEGE BUDGETS: A POSSIBLE APPROACH

1. The LEA would start by considering, in consultation with colleges and other relevant bodies, what provision would be needed in its area in the year ahead for post-16 year olds. This would entail looking at the existing pattern of post-16 provision, and working out what changes needed to be made in the light of factors such as demographic trends; the changing needs of employers; the tendency of students from other LEAs to seek to attend the institutions it maintains, and of students from its area to attend colleges maintained by other Authorities; developing initiatives such as the CPVE or TVEI; planned institutional changes; and information about changes in their provision which are planned by non-maintained institutions in the vicinity (both in the schools sector and in the polytechnics and colleges sector, as well as private institutions). This annual exercise might be placed within the framework of strategic development plans covering several years ahead. It would need to be compatible with existing procedures for drawing up and submitting to the MSC work-related NAFE development plans. The Government expects that the work LEAs already do and the information they collect in order to prepare plans for the MSC will provide a good foundation for the broader plans now envisaged; indeed, some LEAs have already extended their development plans to cover non-work-related provision.

2. Having worked out what post-16 provision will be needed, the LEA would decide what part of that provision should be made by the maintained FE sector. Factors informing this allocation might include the preferences of students to attend one type of institution rather than another, and the authority's assessments of educational effectiveness and value for money.

3. The LEA would then divide the FE sector aggregate between its colleges, taking into account whatever non-advanced provision it commissions from institutions in the polytechnics and colleges sector, and whatever contracts it enters into with the PCFC for the provision of advanced work in colleges which it maintains or assists. Each college's performance in previous years (as measured by indicators such as unit costs, demand for courses, wastage rates,

examination success rates and first destinations) should be an important factor underpinning this division. The allocation mechanism might be based on that used in recent years by the National Advisory Body, which entails determining how many students each college should accommodate in each broad subject area in the year ahead. Given the difficulty of predicting demand in FE, colleges would need to be given maximum room for manoeuvre within these student allocations. This would mean, among other things, that the subject groups should not be too finely disaggregated and that the college should have full discretion to alter the existing pattern of courses within groups. Students on full-cost, fee-earning courses would not be included in these calculations; it would be for the college to decide how much of this type of provision it should make.

4. The student number allocations would be weighted according to the relative cost of each subject area, and the weighted total for all colleges divided into the net pool of available resources (see 5 below) to produce a unit cost. Multiplying the unit cost by the weighted student number allocation for each college would determine the college's basic budget for the year ahead.

5. All delegation schemes would provide for the LEA to identify each year the total resources to be spent by or on behalf of its FE colleges. From that total it would deduct, as with the school delegation proposals, certain items to be treated as centrally-determined expenditure. These might include: administration currently carried out by the LEA; provision of advisory, inspection and other centrally organised services; provision of financial and other advice; redundancy payments where the need for redundancies is agreed between the LEA and the college (see paragraph 2.8); and expenditure supported by central government specific grants. Capital expenditure on substantial building projects would also be treated as centrally-determined. It is for consideration whether a fixed upper limit for capital expenditure on equipment and small building projects should be included in delegated budgets; such expenditure would fall within existing capital controls. An LEA contingency reserve would be needed. The LEA would also have discretion to hold back a small specified proportion of the total resources available for FE to fund developmental activities and local priorities which could not appropriately be

accommodated within the student unit funding mechanism. Allocations for items such as work supported by central government grant would be added to each college's basic budget to produce its total budget.

6. Finally, the LEA would draw up a formal statement for each college setting out its student number allocations and its basic budget, together with any additional allocations and their purpose. The statement might also specify objectives for the college in addition to those implied by the student number allocations, such as that the college should earn a specified amount from full-cost courses, or that it should reduce its wastage rate.

CONFIDENTIAL

ANNEX E

THE LEGAL BASIS OF FURTHER EDUCATION

Extracts from the Education Act 1944 (as amended)

Section 7:

Stages and purposes of statutory system of education: The statutory system of public education shall be organised in three progressive stages to be known as primary education, secondary education, and further education; and it shall be the duty of the local education authority for every area, so far as their powers extend, to contribute towards the spiritual, moral, mental, and physical development of the community by securing that efficient education throughout those stages shall be available to meet the needs of the population of their area.

Section 41:

General duties of local education authorities with respect to further education: Subject as hereinafter provided, it shall be the duty of every local education authority to secure the provision for their area of adequate facilities for further education, that is to say:

a. full-time and part-time education for persons over compulsory school age; and

b. leisure-time occupation, in such organised cultural, training and recreative activities as are suited to their requirements, for any persons over compulsory school age who are able and willing to profit by the facilities provided for that purpose:

Provided that the provisions of this section shall not empower or require local education authorities to secure the provision of facilities for further education otherwise than in accordance with schemes of further education or at county colleges.

MR 3/54

RELEASE DATES IN SEPTEMBER

B/F 14/9

Series	Date we get them	Date published
Reserves	-	Wed 2
Blue Book	-	Fri 4
RPI	Wed 9	Fri 11
Producer Prices	Thurs 10	Mon 14
Retail Sales (prov)	Fri 11	Mon 14
Output of Prod Inds	Mon 14	Wed 16
CGBR	Wed 2	Wed 16
PSBR	Wed 9	Wed 16
Unemployment	Mon 14	Thurs 17
Q2 BOP	Tues 15	Thurs 17
Money supply first guess	Wed 9	-
provisionals	Wed 16	Fri 18
CBI Survey	Fri 18	Mon 21
GDP(A)	Fri 18	Mon 21
BOP exports	Tues 15	Thurs 24
imports	Fri 18	Thurs 24

PWP

Series	Date we get them	Date Published	
Blue Book	4/9	F	12
Q2 BoP	17/9	Th	11

MR 3/54

RELEASE DATES IN ~~JUNE~~ September

Series	Date we get them	Date published	
CBI Survey	Fri ~~29/5~~ 28/8	Mon 1 Tues	1
Reserves	~~Fri 29/5~~ Tues	~~Tues~~ Wed 2	2
Producer Prices	~~Fri 5~~ Thu 10	Mon ~~8~~ 14	6
RPI	Wed ~~10~~ 9	Fri ~~12~~ 11	4 5
Retail Sales (prov)	Fri ~~12~~ 11	Mon ~~15~~ 14	7
CGBR	Tues 2 Wed	Tues 16 Wed	8
PSBR	Tues 9 Wed	Tues 16 Wed	9
Unemployment	Mon ~~15~~ 14	Thurs ~~18~~ 17	12
Output of Prod Inds	Tues ~~16~~ 14 Mon	Thurs 18 Wed 16	10
Money supply			
first guess	Tues 9 Wed	-	
provisionals	~~Tues~~ 16 Wed	Thurs 18 Fri	13
CBI Survey	Fri ~~19~~ 18	Mon ~~22~~ 21	14
GDP(A)	Fri ~~19~~ 18	Mon ~~22~~ 21	15
BOP exports	Tues ~~16~~ 15	Thurs ~~25~~ 24	16
imports	Fri ~~19~~ 18	Thurs ~~25~~ 24	17

MR 3/53

RELEASE DATES IN MAY

Series	Date we get them	Date published
Producer Prices	Mon 11	Tues 12
Unemployment	Fri 8	Thurs 14
RPI	Wed 13	Fri 15
Retail Sales (prov)	Fri 15	Mon 18
Output of Prod Inds	Fri 15	Tues 19
CGBR	*	Tues 19
PSBR	Tues 12	Tues 19
GDP(0)	Tues 19	Wed 20
Money supply		
first guess	Mon 11	-
provisionals	Mon 18	Wed 20
BOP exports	Mon 18	Thurs 28
imports	Wed 20	Thurs 28

* already known

CHANCELLOR OF THE EXCHEQUER

Mr Kerley

I should be grateful if you would produce a version of this table for September.

Cathy Ryding

MR 3/54

RELEASE DATES IN JUNE

Series	Date we get them	Date published
CBI Survey	Fri 29/5	Mon 1
Reserves	Fri 29/5	Tues 2
Producer Prices	Fri 5	Mon 8
RPI	Wed 10	Fri 12
Retail Sales (prov)	Fri 12	Mon 15
CGBR	Tues 2	Tues 16
PSBR	Tues 9	Tues 16
Unemployment	Mon 15	Thurs 18
Output of Prod Inds	Tues 16	Thurs 18
Money supply		
first guess	Tues 9	-
provisionals	Tues 16	Thurs 18
CBI Survey	Fri 19	Mon 22
GDP(A)	Fri 19	Mon 22
BOP exports	Tues 16	Thurs 25
imports	Fri 19	Thurs 25

MR 3/53

RELEASE DATES IN MAY

Series	Date we get them	Date published
Producer Prices	Mon 11	Tues 12
Unemployment	Fri 8	Thurs 14
RPI	Wed 13	Fri 15
Retail Sales (prov)	Fri 15	Mon 18
Output of Prod Inds	Fri 15	Tues 19
CGBR	*	Tues 19
PSBR	Tues 12	Tues 19
GDP(0)	Tues 19	Wed 20
Money supply		
first guess	Mon 11	-
provisionals	Mon 18	Wed 20
BOP exports	Mon 18	Thurs 28
imports	Wed 20	Thurs 28

* already known

GDP(A) Fri 19 Mon22

BH 2015

Cathy
Please take this on.
Alex

CHANCELLOR OF THE EXCHEQUER

HONI SOIT QUI MAL Y PENSE

Ch

I thought attached card giving dates we get various statistics might be a useful innovation. If you find it helpful we can update it every month.

AA

Thanks.
Most useful.
Pse update as you suggest.

BIF 9/6

<u>May</u>

Expats	Mon 18 ~~May~~	Thurs ~~8~~ 28 ~~May~~
Imports	Wed 20 May	28 May

<u>June</u>

Expats	Tues 16 June	Thur 25 June.
Impats	Frid ~~19~~ 19 June	

+ 2963

CHANCELLOR OF THE EXCHEQUER

MR 3/51

RELEASE DATES IN MAY

Series	Date we get them	Date published
Reserves		
Retail Sales (prov)		
Producer Prices		
Unemployment		
RPI		
Output of Prod Inds		
BOP exports		
imports		
CGBR*		
PSBR		
Money supply		
*first guess		
provisionals		

MR 3/54

RELEASE DATES IN JUNE

Series	Date we get them	Date published
CBI Survey	Fri 29/5	Mon 1
Reserves	Fri 29/5	Tues 2
Producer Prices	Fri 5	Mon 8
RPI	Wed 10	Fri 12
Retail Sales (prov)	Fri 12	Mon 15
CGBR*	Tues 2	Tues 16
PSBR	Tues 9	Tues 16
Unemployment	Mon 15	Thurs 18
Output of Prod Inds	Tues 16	Thurs 18
Money supply		
*first guess	Tues 9	-
provisionals	Tues 16	Thurs 18
CBI Survey	Fri 19	Mon 22
GDP(A)	Fri 19	Mon 22
BOP exports	Tues 16	Thurs 25
imports	Fri 19	Thurs 25

RELEASE DATES IN May / June

Series	Date we get them	Date published
Reserves		
~~Unemployment~~ (Fri evening before)		
Retail Sales (prov) prov		
Producer Prices		
Unemployment		
RPI (wed evening before)		
Output of Prod Index.		
BOP exports imports		
CGBR *		Money supply final figures provisional *
PSBR		*

MR 3/51

RELEASE DATES IN MAY

Series	Date we get them	Date published	
~~Reserves~~	~~Already Available~~	~~Monday 4~~	
Retail Sales (prov)	Friday 15	Monday 18	11
Producer Prices	Monday 11	Tuesday 12	1
Unemployment	Friday 8 ~~Monday~~ 11	Thursday 14	2
RPI	Wednesday 13	Friday 15	3
Output of Prod Inds	Friday 15	Thu Tuesday 19	5
BOP exports imports		Thursday 28	4 10
CGBR*	Already available	Tuesday 19	6
PSBR	Tuesday 12	Tuesday We 19	7
GDP(o)	Tuesday 19	Wednesday 20	8
Money supply			
*first guess ✓	Monday 11	–	
provisionals	Monday 18	Wednesday 20	9

~~* Current account. Exports Monday 25, imports Tuesday~~ 19

May be delayed

MR 3/51

RELEASE DATES IN ~~MAY~~ JUNE

Series	Date we get them	Date published	
CBI survey	~~Friday~~ 29 May	Monday 1	1
Reserves	Friday 29 May	Tuesday 2	2
Retail Sales (prov)	Friday 12	Monday 15	5
Producer Prices	Friday 5	Monday 8	3
Unemployment	Monday 15	Thursday 18	8
RPI	Wednesday 10	Friday 12	4
Output of Prod Inds	Tuesday 16	Thursday 18	9
BOP exports	Tues 16	Thursday 25	13
imports	Friday 19	Thursday 25	
CGBR*	Tuesday 12	Tuesday 16	6
PSBR	Tuesday 9	Tuesday 16	7
CBI survey	Friday 19	Monday ~~Wednesday~~ 22	11
Money supply			10
*first guess	Tuesday 9	—	
provisionals	Tuesday 16	Thursday 18	10
GDP(A)	Friday 19	Monday 22	12

~~* Current account. Exports Monday 22, imports Tuesday 16~~

CBI May Pub 1 June (29 May)

June Pub 22 June (19 June)

save
CHILD BENEFIT

c/o 4th Floor
1-5 Bath Street
London
EC1V 9PY
Telephone: 01-253 3406

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

21 September 1987

Dear Chancellor

I enclose a copy of a letter which I have today sent to the Chief Secretary to the Treasury on behalf of Save Child Benefit.

I have also sent a copy to the Secretary of State for Social Services and will be releasing the text of the letter to the press.

Yours sincerely

Ruth Lister

Ruth Lister
Director, Child Poverty Action Group
On behalf of Save Child Benefit

SAVE CHILD BENEFIT IS SUPPORTED BY OVER 70 NATIONAL ORGANISATIONS

save CHILD BENEFIT

c/o 4th Floor
1-5 Bath Street
London
EC1V 9PY
Telephone: 01-253 3406

Rt Hon John Major MP
Chief Secretary to the Treasury
HM Treasury
Parliament Street
London
SW1P 3AG

21 September 1987

Dear Chief Secretary.

I am writing on behalf of Save Child Benefit, which as you know is a coalition of over seventy national organisations representing the interests of women, families and children. (A list of members is attached.)

It was with surprise and great disappointment that we read reports in yesterday's and today's papers that the Treasury is arguing for child benefit to be either made taxable or frozen at its current level. We believe that for the Government to take either course would be widely seen as a contradiction of its recent statements that "the responsibilities of all families with children should be recognised" and that the Government wishes to "bring more help to low income families".

It was suggested in the press that the plans either to tax child benefit or to reduce its real value are part of a Government strategy to reduce public expenditure in order to make room for further tax cuts. Yet in the past the Government has itself recognised that increases in child benefit are equivalent to a reduction in taxation for families with children. Since 1979, the real value of child benefit has fallen by 3%, whereas the real value of the single person's tax allowance has risen by 14%, and the married man's tax allowance by 17%. To cut child benefit, either by taxing or freezing it, would be to penalise one group of taxpayers - those with children, and therefore with a reduced taxable capacity - in favour of the childless.

This would worsen the long-term trend against families with children in the fiscal system. Child benefit is now worth less on average than the combined value of family allowances and child tax allowances in 1955. To tax child benefit, or to freeze it at its current level, would directly exacerbate this trend, which in previous years Conservative spokespersons have themselves deplored.

The case against taxing child benefit was made two years ago in the Green Paper, The Reform of Social Security. After a supposedly comprehensive examination of benefits for children, the Green Paper rejected the taxation of child benefit on the grounds that it 'would result in an unacceptable degree of "churning" (where the same people receive money through the benefit system and pay it back through the tax system).....' It was clear that the idea of making child benefit taxable had been examined in detail by the

cont/.....

Rt Hon John Major MP
[illegible] September 1987

2/..

Treasury, and had been rejected on a number of grounds. We are therefore very surprised that it appears to have been resurrected at this juncture.

The Green Paper also concluded that taxing child benefit would 'go against the Government's belief that the responsibilities of all families with children should be recognised'. As Norman Fowler stated when Social Services Secretary, "child benefit is the only recognition in the tax or social security systems of the extra cost of having children and bringing them up". (House of Commons Hansard, 22.10.86, col 1179) We believe that it would be a nonsense to tax a benefit which had replaced a tax allowance explicitly recognising the reduction in taxable capacity caused by the presence of dependent children - a point made earlier by Patrick Jenkin when he was Social Services Secretary.

Moreover, to tax child benefit under the current tax system - under which many low income families pay tax, and about 95% of taxpayers pay tax only at the standard rate - would result in a real cut of about £1.96 per week per child for virtually all working families. This, we believe, would be widely seen as incompatible with the Government's declared aim, in its 1987 manifesto, 'to bring more help to low income families'.

Similarly, we were very concerned to see that the Treasury was quoted as pressing for a freeze in child benefit as an alternative to its being made taxable. As you know, families with children have already been affected by the 35p cut in the real level of child benefit imposed in November 1985. Low income families are disproportionately affected by cuts in the value of child benefit, as it represents a larger proportion of their disposable income.

It has, of course, been suggested that priority should be given to family credit, the new means-tested benefit to replace family income support for low paid families with children from April 1988. In the view of many organisations, however, the new family credit scheme is no substitute for maintaining the real value of child benefit. Even on your own estimate of a 60% takeup rate - which we regard as optimistic - two out of five of those families deemed poor enough to receive family credit will not claim it; and many more families of modest means will find themselves just the wrong side of the qualifying income level. Unlike family credit, of course, child benefit is not reduced or withdrawn when the family's income increases; it thus provides a floor for families to build on by their own efforts, and represents a secure income for mothers who still have the main day to day responsibility in many families for caring for children.

Given your own earlier recognition of the importance of child benefit and the widespread support for it inside and outside Parliament, plus the Government's declaration in its 1987 Manifesto that child benefit "will continue to be paid as now" we trust that you will repudiate publicly the current rumours.

In view of the urgency of the situation, we should appreciate an early opportunity to bring a delegation of Save Child Benefit members to meet you to put our case to you directly.

We are copying this letter to the Chancellor of the Exchequer and to the Secretary of State for Social Services, and will also be releasing it to the press today.

Yours sincerely
Ruth Lister

Ruth Lister
Director, Child Poverty Action Group
On behalf of Save Child Benefit

S A V E   C H I L D   B E N E F I T

M E M B E R S

Action for Benefits
A P E X
Association of Breastfeeding Mothers
Association of County Councils
Association of Metropolitan Authorities
Association of Women's Guilds (member of Association of Jewish Women's Organisations)
B A S W
Catholic Child Welfare Council
Central Council for Jewish Social Service
Child Care - National Council of Voluntary Child Care Organisations
Child Poverty Action Group
Children's Legal Centre
Church Action on Poverty
Church of England Children's Society
C O H S E
Co-operative Women's Guild
C O S L A
C P S A
Fair Play for Children
Family and Social Action
Family Forum
Family Rights Group
Family Service Units
Family Welfare Association
Fawcettt Society
Federation of Independent Advice Centres
Gingerbread
Gingerbread (Scotland)
G M B A T U
Health Visitors Association
London Diocesan Board for Social Resposibilitiy
Low Pay Unit
Maternity Alliance
Mothers Union
N A L G O
National Association for the Welfare of Children in Hospital
National Childcare Campaign
National Childminding Association
National Children's Bureau
National Children's Centre
National Children's Home
National Council for One Parent Families
National Council of Women of Great Britain
National Federation of Sub-Postmasters
National Federation of Women's Institutes
National Out of School Alliance
National Union of Students
Northern Ireland Council for Voluntary Action
Northern Ireland Poverty Lobby
N C V O
N U P E
N U T G W
Pre-School Playgroups Association
R A D A R
Royal Scottish Society for Prevention of Cruelty to Children
Salvation Army
Save the Children Fund
Scottish Convention of Women
Scottish Council for Community and Voluntary Organisations
Scottish Council for Single Parents
Scottish Spina Bifida Association
Scottish Women's Aid
S C P S
Spastics Society
T A S S
T G W U
Union of Communication Workers
Union of Shop, Distributive and Allied Workers
United Reformed Church
Wages for Housework
Wales Council for Voluntary Action
Wales Women's Rights Committee
Welsh Women's Aid
Women's Aid Federation
Youthaid

744/32

FROM: ROBERT CULPIN
DATE: 21 SEPTEMBER 1987

Ch. Agree with 'X'? 21/9

V. much so. v.

I sh'd have so. v.

CHANCELLOR

1990 NON-DOMESTIC RATING REVALUATION

V odd.

You don't seem to have been sent this Revenue note of 18 September. (Nor was I.)

2. Paragraphs 3 and 4, helpfully annotated by Mr Butler, seem to imply that some rating revaluation forms may hit businessmen

a. before the explanatory press notice goes out, and

b. during the Party Conference.

Can this be wise?

3. I have checked briefly with the author. He says that few forms will actually reach businessmen on this timetable, because of delays in the post; but he confirms that some may. He says the Revenue don't want to make the press notice any earlier, because it would be daft to issue it in Conference week.

X 4. None of this is of earth-shattering importance. But wouldn't it be sensible to ask the Revenue to put back by a few days the release of the forms?

RC

ROBERT CULPIN

RC2.82

SECRET

FROM: CATHY RYDING
DATE: 21 September 1987

PS/CHIEF SECRETARY

cc Mr F E R Butler
Mr Anson
Mr Gieve
Mr Tyrie
Mr Call

PROGRESS OF SURVEY DISCUSSIONS

The Chancellor has seen Mr Gieve's minute to the Chief Secretary of 18 September.

2. The Chancellor has commented that while many difficulties clearly remain, it is helpful that the list in paragraph 2 of Mr Gieve's minute contains four potential members of Star Chamber (Messrs MacGregor, Parkinson, Fowler and Clarke), of whom we shall need three (preferably Messrs MacGregor, Parkinson and Clarke, with Mr Fowler as 12th man).

CR

CATHY RYDING

L/025

SECRET

FROM: JOHN GIEVE

DATE: 18 September 1987

1. MR F E R BUTLER

2. CHIEF SECRETARY

cc Chancellor
Mr Anson
Mr Monck
HEGs
Mr Hansford
Mr Hoare
Miss Walker
Mr Kalen
Mr Tyrie
Mr Call

While many difficulties remain, it is helpful that the list in para 2 contains ~~all~~ four potential members of Star Chamber (Messrs MacGregor, Parkinson, Fowler and Clarke), of whom we shall need three (originally Messrs M, P & C, with Mr F as 12th man). M..

PROGRESS OF SURVEY DISCUSSIONS

You have now held a first round of bilaterals with most of your colleagues and have subsequently spoken to a number of them privately. I attach a brief note setting out the stage that negotiations have reached on each programme and the likely next steps.

2. Although you have as yet only agreed figures for one department, the Lord Chancellor's Department, you have made good progress on a number of other departments and we are as far advanced as we could hope to be at this stage. Looking forward, we have a reasonable prospect of settling the following programmes before the Party Conference:

Environment/PSA
— MAFF
Home Office
— Energy (I presume this relates to Energy NIs)
— Employment
Transport
FCO
Arts and Libraries
— Trade and Industry

We should also be in a position to settle the Chancellor's Departments early in October.

3. Although there is still a chance of agreements on the major problems of Defence, Social Security, Health, Education, and Scotland, it seems improbable that they will be settled bilaterally. If these are the only subjects for Star Chamber, the list will be shorter than in recent years but, in practice, you will be very lucky to land all the fish in paragraph 2.

4. In procedural terms, the main problems arise on regional policy and social security.

(i) On regional policy ideally you would hope to reach agreement next week with Lord Young on a cash envelope for his programme and then to get agreement to the regional policy proposals it embodies at the quadrilateral on Wednesday week. If the Scots or Welsh will not accept the proposals (or not without further study) the handling of their and DTI bids could become difficult.

(ii) Social Security. Mr Moore has written today making proposals both on the timetable for decisions and on the rates for the new benefit structure. You are due to meet him for a second bilateral on Wednesday but he is proposing to minute colleagues on the new rates immediately. You will need to respond quickly to this - which is unacceptable. Even if he delays his minute the timetable is a major problem. DHSS are convinced that they must consult local authorities on the new rates of housing benefit (from which the rates for income support can be derived) in the week commencing 12 October at the latest. Since the Prime Minister is away that week there will be no Cabinet on 15 October and the last Cabinet that could be consulted or informed of the announcement would be 1 October.

Below

If you can reach agreement on the social security programme with Mr Moore next week, then it should be possible to report to Cabinet on 1 October the intention to consult local authorities on the housing benefit rates. If, however, no agreement is possible the further handling will require very careful consideration. One of our objectives has been to avoid any substantive discussion of public expenditure at the 1 October meeting, any discussion being contained to the formalities of setting up the Star Chamber. To bring social security on to the agenda at that meeting could open the door to a substantive discussion.

5. You may wish to discuss the position following your meeting with Mr Moore on Wednesday evening.

J.G. Gieve

JOHN GIEVE

POSITION OF SURVEY DIVISIONS

Defence: Mr Younger has undertaken to review again next week the scope for savings and to respond to your offer. You may speak to him generally early next week on pay. A further meeting in the week starting 28 September seems likely.

FCO: Following your first bilateral, you plan to sound out Mr Patten on a settlement of the ODA programme. If he does not accept it, or the Foreign Secretary holds out, the next step would be Star Chamber. Officials are exploring the possibility of a deal on the diplomatic wing and ODA administration and will report next week. A second bilateral should not be needed.

EC Contributions: EC Division will prepare a revised projection of our net contribution in early October.

MAFF: IAE are submitting a draft letter for you to send Mr MacGregor recording the outcome of your meeting on Thursday. Mr MacGregor should reply within a week/10 days making a revised offer on both IBAP and on domestic programmes; a second bilateral may well be needed.

DTI: Officials are reporting tonight on Lord Young's proposal for his departmental programme and it is well above our forecast outcome. The next step is probably for you to meet Lord Young next week to discuss the scope for reducing his figures and to concert a line for the regional policy quadrilateral - now planned for Wednesday 30 September. On nationalised industries, Mr Clarke is due to respond to your offer, probably next week.

Energy: Mr Parkinson is to come back probably at the end of next week with revised bids on both electricity and coal following his meetings with the industries' Chairmen. The next step will probably be for you to meet Mr Parkinson without officials to see whether a deal can be done. The prospects seem quite good. Officials are clarifying the figures on the departmental programme and will report early next week.

Employment: Officials have gone over the details since your meeting with Mr Fowler and are reporting to you today. The next step is probably for you to write to Mr Fowler setting out your general arguments as a prelude to a second full-scale bilateral or a private meeting.

Transport: First bilateral now planned for Tuesday. It may be possible to reach a settlement after that in correspondence.

Housing)
Other Environment)
PSA)
Water)

You have received revised advice from LG following their official discussions after the first bilateral. You are to meet Mr Ridley on Tuesday morning and should be able to settle all four programmes either then or soon thereafter.

Home Office: Mr Hurd has now written revising his bids other than prison capital. He seems keen to settle. HE will be putting up advice and a draft letter for you to send back responding to his offer and putting forward a proposal on prison building. That would provide the basis for a final discussion, a time for which has been 'pencilled in' on Thursday.

Lord Chancellor's Department: You have agreed figures for this programme. However, you need to discuss the implications of this for tape recording with the Home Secretary.

Education: Mr Baker has written reducing his bids slightly. HE will submit advice. Mr Baker is away next week. A second bilateral in the week after that seems likely.

Arts: Mr Luce is to write following your bilateral, maing revised bids. A second bilateral may well be needed.

Health Officials are preparing papers with DHSS as the basis for your second bilateral on Thursday.

Social Security: Second bilateral on Wednesday (see covering minute).

Scotland: Bilateral on Monday. Next steps will probably be correspondence on running costs and on electricity following meeting with Mr Parkinson, the quadrilateral on regional policy, and (possibly) Star Chamber on the block.

Wales: Bilateral on 2 October following regional quadrilateral.

Northern Ireland: No need for Ministerial discussion.

Inland Revenue: Mr Battishill have written following your bilateral.

Customs and Excise: First bilateral on Friday. A second will probably be needed.

Other departments: We will be putting a submission to you on these next week.

Local Authority Relevant: E(LA) on Thursday will discuss service distribution in 1988-89. Officials are trying to persuade Mr Ridley to write proposing revised totals for the later years - probably simply uprating the 1988-89 total by the GDP deflator.

2328/28

4/22

CONFIDENTIAL

Alex Robin Young says no need to write. I've told Fellgett

FROM: R FELLGETT

DATE: 22 September 1987

1. MR POTTER BHP 22/9

2. CHANCELLOR

cc Chief Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Mr F E R Butler
Mr Anson
Mr Hawtin
Mr Scholar
Miss Sinclair
Mr Tyrie
PS/Inland Revenue
Mr Houghton (IR)
Mr Heard (IR)
Mr Jaundoo (IR)

Ch
No need to write, but helpful result achieved by David
AA

Good.

EFFECTS OF DOMESTIC REVALUATION

Mr Ridley's letter of 15 September asks you to reconsider your view that the Revenue should not carry out a further survey to estimate the effects of a revaluation of domestic property.

2. I have discussed this with the Revenue. They could carry out a survey, provided DOE lent them a Statistician to analyse the results, but would prefer not to add to their tasks for this reason. In central Treasury we have never favoured spending public money investigating the consequences of policies that the Government has already decided against for wider reasons. There is nothing in Mr Ridley's latest letter to alter my earlier advice that you should oppose such a survey.

3. Mr Ridley copied his letter to the Prime Minister. I understand that she supports your views. No.10 will be writing accordingly, probably today.

4. Given the Prime Minister's comments, Mr Ridley is unlikely to press his case again if you reply saying that you have not changed your mind. A draft letter is attached.

Robin Fellgett

R FELLGETT

2328/29

CONFIDENTIAL

DRAFT LETTER FOR THE CHANCELLOR'S SIGNATURE TO THE SECRETARY OF STATE FOR THE ENVIRONMENT

EFFECTS OF A DOMESTIC REVALUATION

Thank you for your letter of 15 September. I have also seen the Prime Minister's comments recorded in the letter of [22] September from No.10.

2. In view of the Prime Minister's comments, I hope you will agree that a further survey by my officials would not be the most cost-effective way of supporting our policy towards the reform of local government finance. I also remain unconvinced that we should depart from normal practice, which is not to spend public money investigating policies we have already ruled out for wider reasons.

3. I am copying this letter to the Prime Minister.

[N.L.]

SECRET .

PMO

FROM: **P N SEDGWICK**
DATE: 22 SEPTEMBER 1987

CHANCELLOR

cc Chief Secretary
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Anson
Mr Cassell
Mr Lavelle
Mr Kemp
Mr Monck
Mr Evans
Mr Odling-Smee
Mr Peretz
Mr Scholar
Mr Turnbull
Mr Bottrill
Mr S Davies
Mr Matthews
Mr Mowl
Mr Allum

Mr Lankester - Washington

Ch
Pretty predictable.
Some of the charts at the back are quite interesting
AA

SHORT TERM ECONOMIC PROSPECTS

As on previous occasions we have prepared, in time for your departure for the international meetings, a note that summarises our interim views on economic prospects for the world and UK economies. The note takes account of the work completed so far in the current forecasting round and in particular of our recent discussions with Sir T Burns.

P.N.S

P N SEDGWICK

A. THE WORLD ECONOMY

(i) Recent Developments

The attached note on **World Economic Developments** contains the latest available data. The main features are:

(a) Activity: Real GNP growth in the major industrialised countries slowed around the turn of the year, particularly in Japan, Germany and France. Indicators for 1987Q2 are slightly more promising, but G7 GNP is only about $2\frac{1}{4}$ per cent up on a year earlier. Stockbuilding was particularly strong in the first half of the year. The reasons for this are as yet unclear, but it was probably partly involuntary, and subsequent destocking could depress growth in the remainder of the year. Export growth has picked up, having been virtually zero in 1986. In part reflecting this improvement in exports, industrial production has picked up in most of the G7 - the main exception is Germany - and is now $3\frac{1}{2}$ per cent up on a year earlier.

(b) Unemployment: Latest figures show that unemployment rates are falling in the UK and the US, but are rising in Germany.

(c) Prices: Consumer price inflation in the G7 fell to around 1 per cent at the turn of the year. It has now picked up to 3 per cent as the effect of the oil price fall in 1986 has dropped out and as oil and other commodity prices have recovered. Oil prices rose to over \$20 per barrel in the summer before falling back more recently to around \$18. Non-food commodity prices as measured by the various Economist indices have been increasing quite rapidly for almost a year now, but there are some signs that their recovery may have lost momentum in recent weeks.

(d) Current accounts: The surpluses of Japan and Germany are now falling gradually. The optimism of early 1987 on the US current account has been dented by record trade deficits in June and July.

(e) Exchange rates and interest rates: The dollar strengthened in July and the early part of August, but has since depreciated against most major currencies. Its latest values (21 September) are \$1 = Yen 143, \$1 = DM1.81 compared with \$1 Yen 154 and \$1 DM1.83 at the time of the Louvre Agreement. US short-term interest rates are now $1\frac{1}{2}$ percentage points higher than at the beginning of 1987.

ii) Prospects

2. No major changes in fiscal policy are expected in the major countries.

- In the United States the Federal deficit is likely to be around $160 billion in FY1987, reflecting some one-off gains from the tax reform package. The CBO expect the deficit to rise to $180 billion in FY1988 and $190 billion in FY1989 on the basis of current policies. The Administration and Congress are still deadlocked on how to reduce the deficit, and major reductions are unlikely in the foreseeable future. Some limited measures could be implemented, but at best these may be sufficient only to prevent the deficit rising.

- In Japan and Germany the authorities are reluctant to let their budget deficits increase, but have bowed to US pressure to some degree. The Japanese Government's package of increased expenditure and tax cuts in 1987 and 1988, and the tax cuts planned for January 1988 in Germany will represent some easing of policy.

3. It is difficult to assess how the Fed will operate monetary policy given the conflicting pressures on it. If, despite relatively sluggish output growth, they decide to give priority to avoiding falls in the dollar, interest rates could well have to rise further. The monetary authorities in Japan and Germany are concerned about the rapid growth of their monetary aggregates, and have only accepted this as a necessary price to prevent their currencies appreciating further. They will be reluctant to let their interest rates fall, but exchange rate pressures may nevertheless oblige them to accept some modest reductions.

??

4. Prospects for the oil market are clouded by doubts about OPEC's ability to restrict production and developments in the Iran-Iraq conflict. Our current view is that the oil price (the North Sea average) will average around $18 per barrel in the period to end-1988.

5. Table 1 summarises our preliminary view on prospects for the world economy.

Table 1: Activity and inflation in the major economies

Percentage change on a year earlier	Latest WEP 1987	Latest WEP 1988	June WEP 1987	June WEP 1988	IMF WEO 1987	IMF WEO 1988
G7 real GNP	2½	2-3	2.4	2.8	2.5	2.7
G7 industrial production	3	2½-3½	1.8	3.5		
G7 consumer prices	3	2½-3½	2.6	3.2	3.0	3.4
Total world trade	3½	3½-4½	2.8	4.2	3.6	4.5
Developed countries' exports of manufactures (weighted by UK market shares)	2½	2½-3½	2.6	3.2		

6. Our current view is that G7 GNP growth will be around 2½ per cent throughout 1987 and 1988.

- Prospects for the United States look particularly uncertain. If interest rates have to rise significantly to defend the dollar, domestic demand growth will start to weaken in 1988 and there could be a marked slowdown in 1989.

- Activity appears to be picking up in Japan, but domestic demand needs to grow by 4-5 per cent a year to produce any significant reductions in the current account surplus, and may well fail to achieve these rates on present policies.

- Growth in France and Germany seems certain to fall substantially below potential in 1987. The comparative weakness of domestic demand and output in these countries has been attributed to the problems of adjusting to the depreciation of the dollar, but there may also be more deep seated structural reasons for their poor performance.

What?

- With activity likely to be relatively subdued real commodity prices, which have recovered sharply from their low point of August 1986, but remain well below their trend values, are likely to increase by modest amounts.

- The rate of consumer price inflation in the major economies is expected to level off at about 3 per cent. Inflation rates in the US, Canada and Italy are likely to remain higher than in Japan, Germany and France. The main inflation risk is in the United States if the dollar falls sharply. The risk of a rise in US inflation is now greater because unemployment has fallen to 6 per cent, around most people's estimates of the NAIRU. There are thus domestic as well as exchange rate grounds for some tightening of the US policy stance.

B THE UK

7. The June forecast was for GDP growth of just under 4 per cent in 1987, rather than the 3 per cent expected at Budget time. It looked then as though the outturn for RPI inflation in the fourth quarter of this year might be a little below the Budget forecast of 4 per cent. Although imports were expected to recover from their surprisingly low level of early 1987, the Budget forecast for the current account deficit for 1987 was revised down. However, the June forecast suggested that inflation would pick up, and the current account deficit widen in 1988; while an expected recovery in industrial investment seemed likely to keep the onshore UK economy growing at a relatively fast rate even though growth in total GDP (including the NS) was expected to slow to 2¼ per cent.

(i) Recent developments

8. Most indicators that have become available over the summer have been consistent with the June forecast for 1987, with both output and labour market indicators very strong. The main developments are summarised below.

(a) Growth and activity have now turned out to be higher in 1986 than previously expected by the CSO. Average GDP growth was 3.1 per cent, and in particular consumers' expenditure growth (at just under 6 per cent) was much higher than anyone realised when monitoring the economy last year.

In 1987 manufacturing output is currently estimated to have risen by 2 per cent between the first and second quarters, and the first half of 1987 as a whole to have been 5 per cent higher than a year earlier. With construction output 7½ per cent higher than a year earlier, total non-North sea output shows a 4½ per cent rise over this period.

The CSO's figures for the average estimate of GDP, showing a rise of over 3½ per cent between the first half of 1986 and 1987, are probably once again understating the true rise in output, the main fault lying with the expenditure measure of GDP.

The available evidence suggests that the economy has continued growing strongly in the third quarter, with manufacturing output showing a further sharp rise in July.

If the expenditure measure of GDP is currently biased down for the first half of 1987 the likelihood is that consumers' expenditure, stockbuilding, fixed investment, or some combination of the three have been rising more rapidly during 1987 than the published expenditure figures suggest. Table 2 shows recent data for retail sales and consumers' expenditure. In contrast to the position with consumers' expenditure, the retail sales data do not suggest any significant deceleration since 1986.*

		Retail Sales (vols, 1980=100)	Percentage change on previous period	Percentage change on year earlier	Consumers' expenditure (£ billion, 1980)	Consumers' expenditure (percentage change on year earlier)
1986	Q1	119.3	1.7	4.3	39.5	5.1
	Q2	121.3	1.7	4.7	40.1	6.6
	Q3	123.7	2.0	5.5	40.7	5.8
	Q4	126.5	2.3	7.3	40.9	5.6
1987	Q1	125.4	-0.9	5.1	41.1	4.1
	Q2	128.2	2.3	5.8	41.8	4.2
	Q3†	131.5	3.0	6.7		
	Jan	123.6	-2.4			
	Feb	127.0	2.8			
	Mar	125.5	-1.2			
	Apr	130.0	3.6			
	May	125.4	-3.5			
	June	129.4	3.2			
	July	131.2	1.4			
	Aug	131.8	0.5			

† average for July and August; percentage changes calculated from average of April and May for 3 month comparison and July and August 1986 for year on year comparison.

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* This is a reversal of our view (set out in Mr Allum's minute to you of July 21, copy attached for you) that retail sales in 1987 had been growing at a "more modest pace than during the second half of 1986". The data for the second and third quarters of 1987 are not consistent with this earlier view.

(b) RPI inflation has been broadly as forecast in recent months, with petrol and food prices lower than expected and prices of other goods and services somewhat higher. The rate of increase in producer output prices has edged up a little, and input prices have shown sharp increases reflecting the recovery in oil and other industrial commodity prices.

(c) The current account moved into deficit from the middle of the year, following the unexpectedly good out-turn earlier. Recent figures suggest that the volume of exports of goods is at best rising slowly. Imports, however, are higher than expected in June and growing briskly. The invisibles surplus for 1986 has been revised downwards, but the out-turn so far this year has been encouraging, with a recovery in the services surplus offsetting relatively sluggish earnings from interest, profits, and dividends.

(d) The exchange rate, which weakened in late July after poor trade figures and some easing in UK interest rates, has been firmer since the rise in base rates in early August despite a small fall in oil prices. With the sterling index at its present level UK manufacturing industry's relative unit labour costs remain about 10 per cent better than the average of 1984 and 1985.

(e) The PSBR in the first five months of 1987-88, at £1.4 billion, is about £3 billion lower than expected at the time of the Budget. The undershoot of the Budget profile so far owes something to higher economic activity than expected at Budget time, although it is not easy to establish the extent of the activity effects by reference to individual items of public sector revenue and expenditure. VAT and PAYE receipts are running above profile, while there have probably been some effects from activity on public corporations' borrowing and on unemployment benefit. The higher than expected corporation tax receipts for the most part tell us about the past, rather than current, buoyancy of the economy, although higher ACT receipts are an indicator of buoyant dividend payments in 1987.

(ii) Prospects

9. Preliminary views on prospects in the second half of 1987 and in 1988 are as follows.

(a) <u>Activity</u>: Domestic demand is still growing strongly. Retail sales rose further and car sales have been at record levels in the third quarter, and there are clear signs of the pick up in manufacturing investment that the DTI intentions survey had pointed to earlier in the year. Recent CBI surveys have suggested also that the immediate future may see rather higher stockbuilding figures in manufacturing than have been seen for some years. Thus unless a rise in the personal saving ratio is taking place, total domestic demand could well accelerate, and the financial balance of the private sector contract quite significantly over the next year.

GDP still seems likely to rise by 4 per cent in 1987. Even if net trade in the second half of the year deteriorates sharply this would probably reflect growth of domestic demand at a higher rate than recent CSO expenditure data suggests, and not necessarily involve a slowdown in GDP growth. Growth in 1988 could be above the $2\frac{1}{4}$ per cent predicted in June unless there is a marked deterioration in trade performance.

(b) <u>Inflation</u>: It now looks unlikely that inflation in the fourth quarter as a whole will be much, if at all, below the Budget forecast of 4 per cent (though the recorded rates in November and December could well be below). The effect on the harvest of bad weather at the end of August and early September will put up some food prices by more than previously expected.

Pay settlements have risen a little since the start of the year. It will not be clear for at least a month or two whether the rate of settlements will rise further in response to the rise in RPI inflation recorded in the summer months. With output growing rapidly and therefore with overtime high, the growth of average earnings in the private sector could well go above the $7\frac{3}{4}$ per cent level.

Even with no major change in earnings growth, inflation is likely to rise next year as (i) the benefit of the last Budget's non indexation of specific duties drops out, (ii) there are large rises in the prices of certain nationalised industries, (iii) and as the somewhat firmer trend in commodity prices that has been seen in recent months feeds through to the price level.

(c) Exchange rate and interest rates: Over the next year or so, there may be renewed downward pressure on sterling and/or upward pressure on interest rates.

- While weakness of the US dollar may tend to benefit sterling along with other currencies, faster than average UK inflation and worries about the current account suggest that on balance there could be downward pressures on sterling. Some unwinding of the earlier intervention and a modest rise in interest rates may perhaps be necessary to offset this pressure.

- Domestic considerations also point to upward pressure on interest rates. Faster real growth than previously predicted for 1988-89 together with a larger rise in the GDP deflator than expected in the 1987 FSBR could imply a second year in which money GDP noticeably overshoots the MTFS figures. In spite of the relatively low growth the CSO have so far recorded for the first half of 1987 domestic demand is probably still growing at a rapid rate. Buoyant consumer spending seems likely to keep M0 growth in the upper part of its target range.

(d) Current account: The current account in 1987 now seems likely to show a larger deficit than the £½ billion forecast in June. If sterling remains broadly at its present level, UK industry's competitiveness could worsen gradually over the period ahead. Any such worsening, combined with rapid expansion in domestic demand and relatively modest world trade growth, could produce a continuation of the recent deterioration in the non-oil trade balance. Falling North Sea oil output will also contribute to a widening in the total trade deficit. Invisibles seem likely to remain in substantial surplus, but a reduction in the value of dollar earnings will tend to check net income from interest, profits, and dividends.

(e) <u>Industrial Capacity</u>: So far supply has responded well to the current buoyant demand conditions and there is no sign that profit margins are rising faster than in the last few years. Capacity does not currently seem to be a serious constraint on output, but the uncertainty that exists over the precise margin of spare capacity is clearly a significant risk to both the inflation prospect and to the out-turn for the current account.

WORLD ECONOMIC DEVELOPMENTS

1. Real GNP grew more slowly in the US and the UK in the second quarter than in the first (on a quarter earlier). In Japan output was no higher than in the first quarter. It picked up in Germany and France after a bad first quarter.

	Percentage change, at annual rate, over:	
	Quarter before	Year before
US	2½	2½
Japan	0	2¾
Germany	4	¾
France	3	1¾
UK	2½	3¾
G5	2¼	2½

2. Industrial production, weak in Europe early in the year, has picked up in France and Italy. The German figures remain weak.

	Percentage change, at annual rate:	
	Latest 3 months over preceding 3 months	Latest month on 12 months earlier
France (June)	8.1	2.8
Germany (July)	1.0	-3.6
UK (July)	2.6	3.7

3. Consumer price inflation averaged 2½ per cent in G5 countries in July, up from less than 1 per cent in December.

4. While the current account imbalances of the US, Japan and Germany seem to have stopped growing, only in the case of Japan has there been a reduction. The US trade deficit widened to $16½ billion in July.

5. Short-term interest rates in the US have risen recently, with renewed downward pressure on the dollar. The discount rate was raised ½ per cent on 4 September. Rates in Japan and Germany have been fairly stable over the past few weeks.

6. Second quarter GNP figures for Japan (released on 18 September) show that total output did not grow in the second quarter (although 2¾ per cent up on a year earlier). A 1¼ per cent rise in domestic demand was offset by an equal fall in external demand (exports fell 2 per cent and imports rose 6 per cent).

JOHN COLENUTT **DAVID SAVAGE**
24 September 1987

SECTION A: NOMINAL AND REAL GNP

1. The growth rate of nominal GNP in the G5 countries slowed slightly, to $4\frac{3}{4}$ per cent over the year to the second quarter of 1987 after accelerating in the first quarter.

Table 1: GNP growth in the G5 countries*

	Nominal GNP	Real GNP	GNP Deflator
Annual percentage change			
1980	9.6	0.9	8.6
1981	9.8	1.6	8.1
1982	5.6	-0.4	6.0
1983	7.1	2.9	4.1
1984	8.6	4.9	3.5
1985	6.6	3.2	3.3
1986	5.6	2.7	2.8
Change from four quarters earlier (per cent)			
1986 Q1	6.3	3.0	3.2
Q2	6.1	3.0	3.1
Q3	5.4	2.4	3.0
Q4	4.8	2.4	2.3
1987 Q1	5.0	2.5	2.4
Q2	4.7	2.2	2.5
Indices (1980=100)			
1986 Q1	149.1	114.7	130.0
Q2	151.2	115.6	130.8
Q3	153.1	116.1	131.9
Q4	154.3	116.7	132.2
1987 Q1	156.5	117.6	133.2
Q2	158.4	118.1	134.1

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

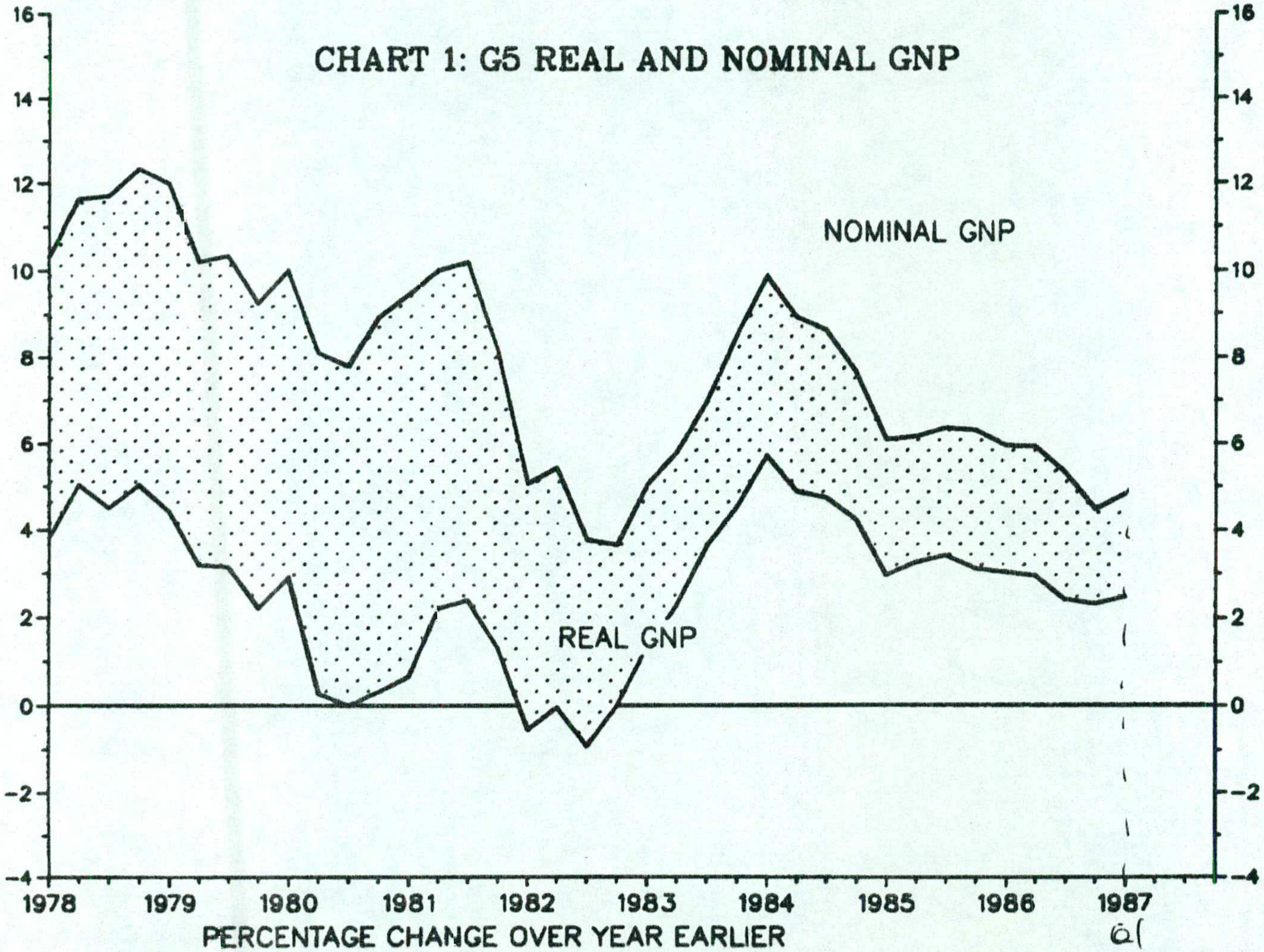


CHART 1: G5 REAL AND NOMINAL GNP
NOMINAL GNP
REAL GNP
16
14
12
10
8
6
4
2
0
−2
−4
1978
1979
1980
1981
1982
1983
1984
1985
1986
1987
Q1
PERCENTAGE CHANGE OVER YEAR EARLIER

2. Overall in G5, real GNP increased at a moderate rate in the first quarter. There were quite strong increases in the US, Japan and the UK, but little change in France and a fall in Germany (probably caused by bad weather). Growth in real domestic demand in G5, which had been slight in the fourth quarter, strengthened a little. Consumers' expenditure, public consumption and fixed investment were all weak.

3. GNP in the US rose more slowly in the second quarter than in the first. Stockbuilding fell as expected, but consumers' expenditure and investment increased from their low first-quarter levels.

4. German GNP recovered in the second quarter, but to a level little higher than that for the third quarter of last year.

5. French GNP grew at an annual rate of only 1½ per cent during the first half of the year. Stockbuilding was exceptionally high.

td6(b)

Table 2: GNP and Domestic Demand Growth in individual countries

	GNP*: US	Japan	Germany	France	UK	G5	Domestic demand growth**: US+	Japan	Germany	France	UK	G5
Annual percentage changes												
1983	3.6	3.2	1.8	0.7	3.4	2.9	5.2	1.8	2.3	-0.7	4.5	3.4
1984	6.8	5.0	3.0	1.4	2.6	4.9	8.9	3.8	1.9	0.4	2.8	5.5
1985	3.0	4.7	2.5	1.7	3.7	3.2	3.7	3.8	1.5	2.2	3.0	3.2
1986	2.9	2.5	2.4	2.1	3.3	2.7	4.0	4.1	3.7	3.9	3.7	3.9
Change from four quarters earlier (per cent)												
1986 Q1	3.6	3.0	1.7	2.2	2.9	3.0	4.8	3.3	1.8	3.0	2.9	3.8
Q2	3.3	2.5	3.3	2.4	2.4	3.0	4.3	4.6	5.2	5.3	3.2	4.5
Q3	2.6	2.4	2.1	1.8	3.2	2.4	3.9	4.5	3.5	3.8	3.7	4.0
Q4	2.2	2.0	2.4	2.1	4.5	2.4	2.8	3.8	4.1	3.3	5.2	3.4
1987 Q1	2.0	3.7	2.4	2.1	3.8	2.5	2.3	4.4	4.1	4.2	2.1	3.1
Q2	2.4	2.7	0.8	1.7	3.8	2.2	1.8	4.0	1.8	2.4	3.6	2.4
Indices (1980=100)												
1986 Q1	116.0	122.8	106.5	108.7	112.5	114.7	122.6	117.2	101.4	107.0	114.0	116.0
Q2	116.2	124.0	109.3	110.0	113.2	115.6	123.6	119.6	105.1	110.0	114.1	117.8
Q3	116.6	124.9	110.1	110.4	114.2	116.1	124.6	120.8	105.4	110.8	115.7	118.8
Q4	117.1	125.8	109.9	110.8	115.6	116.7	124.7	121.6	106.6	110.4	117.2	119.2
1987 Q1	118.4	127.3	109.1	111.0	116.8	117.6	125.4	122.4	105.6	111.5	116.4	119.6
Q2	119.0	127.3	110.2	111.8	117.5	118.1	125.9	124.4	106.9	112.7	118.2	120.7

* Expenditure measure of GNP/GDP at market prices except for UK (GDP (A) at market prices)

** Includes stockbuilding

CHART 2: GNP IN THE G5 COUNTRIES

(1980 =100)

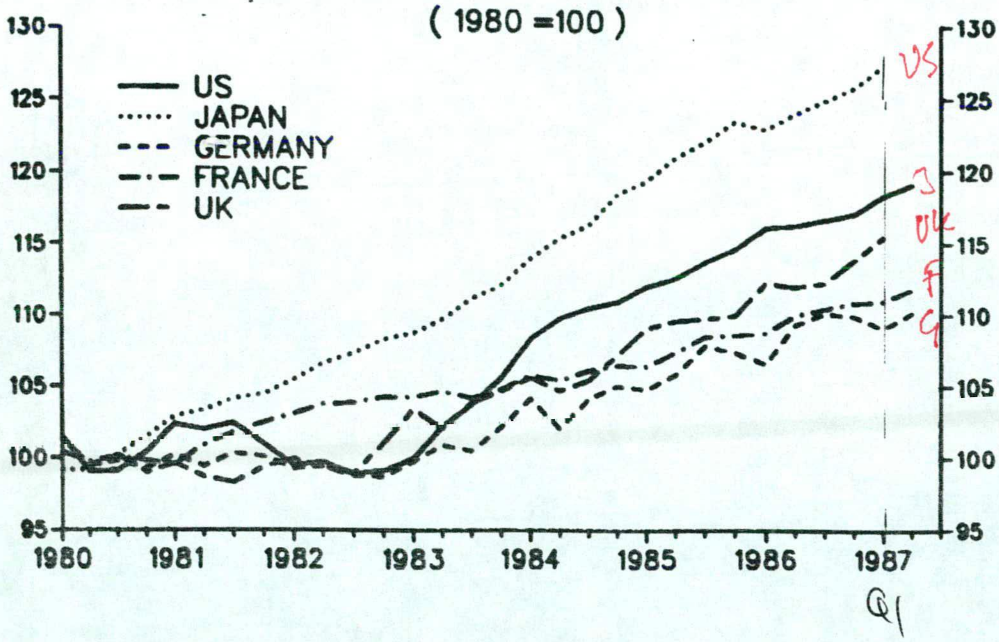


CHART 3 DOMESTIC DEMAND IN THE G5 COUNTRIES

(1980 =100)

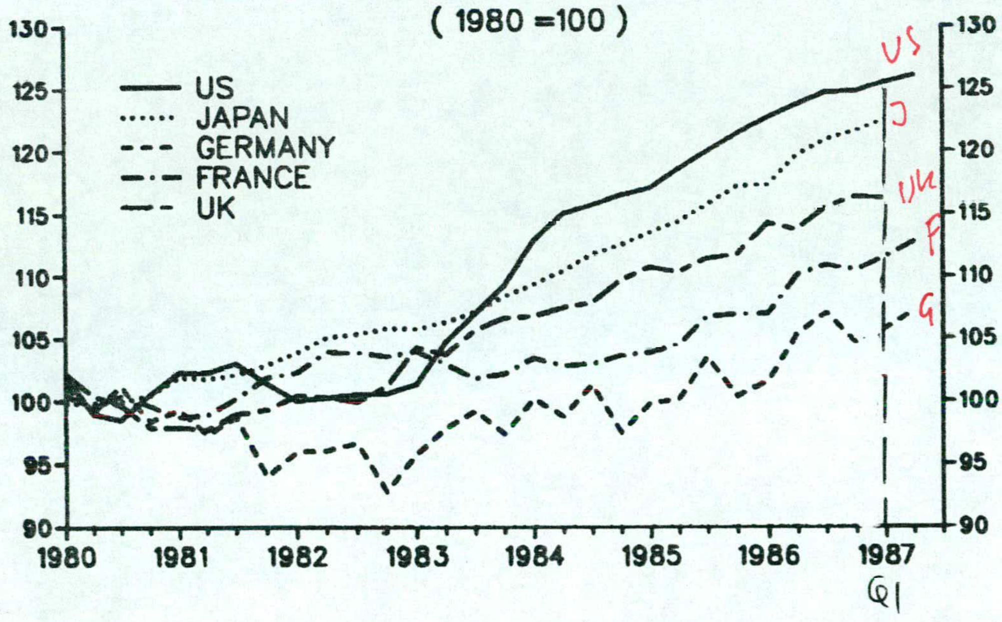


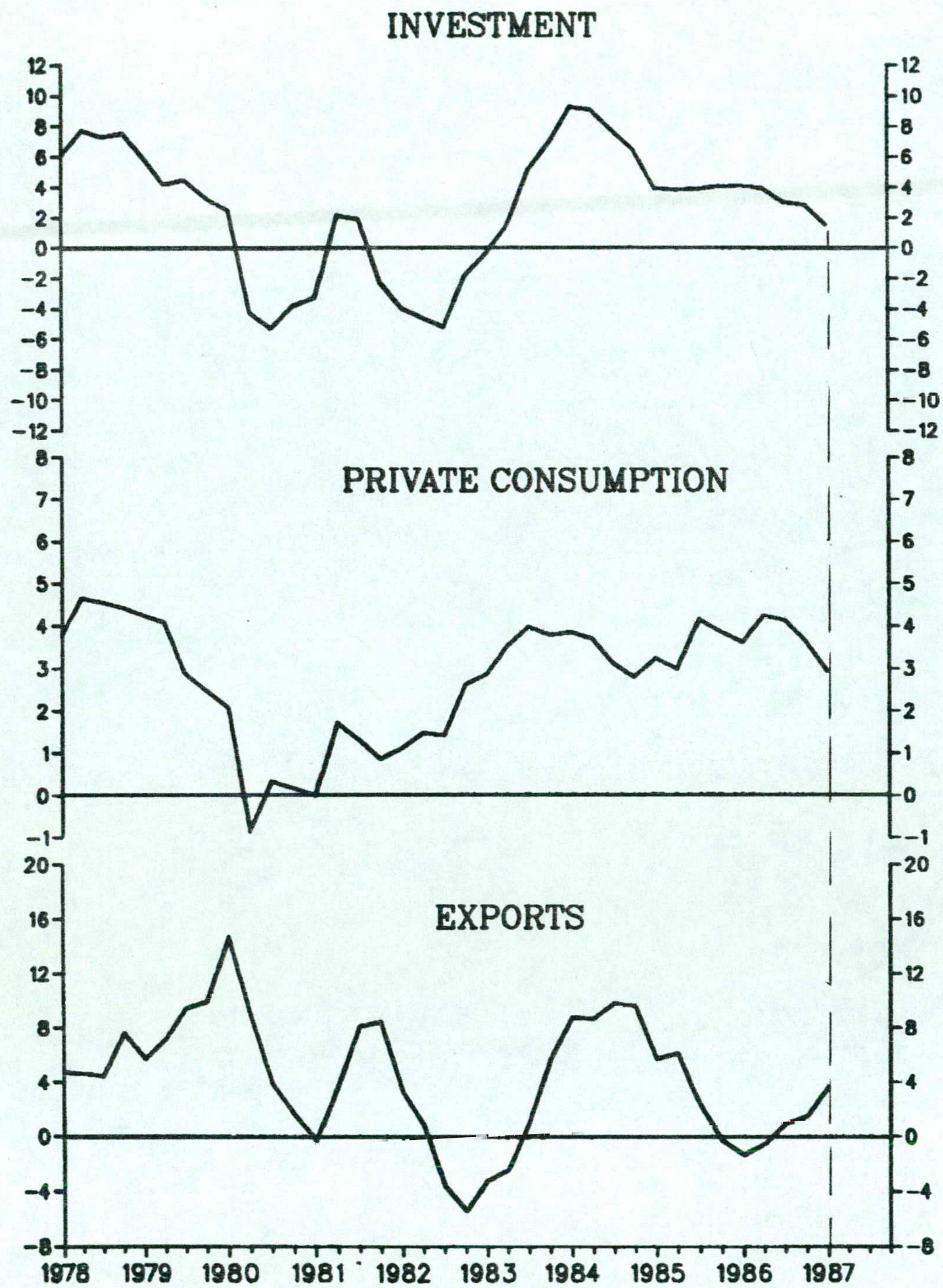
Table 3: Growth of real expenditure in the G5 countries

	Private Consumption	Investment	Government Expenditure	Domestic* Demand	Exports	Imports	Real GNP
				Annual percentage change			
1983	3.5	3.2	2.1	3.4	0.2	2.7	2.9
1984	3.4	8.1	3.0	5.5	9.2	12.8	4.9
1985	3.6	4.0	3.3	3.2	3.4	3.4	3.2
1986	4.0	3.4	5.0	3.9	0.2	6.8	2.7
				Change from four quarters earlier (per cent)			
1986 Q1	3.7	3.8	3.0	3.8	-1.3	2.9	3.0
Q2	4.3	3.8	3.6	4.5	-0.5	7.8	3.0
Q3	4.2	3.0	3.1	4.0	0.9	9.4	2.4
Q4	3.7	3.0	10.1+	3.4	1.6	7.2	2.4
1987 Q1	3.0	1.9	3.0	3.1	3.7	7.1	2.5
Q2	2.1	0.9	1.2	2.4	2.4	3.8	2.2
				Indices (1980=100)			
1986 Q1	116.3	112.9	116.1	116.0	115.3	122.6	114.7
Q2	117.9	114.3	117.1	117.8	117.7	130.5	115.6
Q3	119.5	115.2	118.4	118.8	117.9	133.3	116.1
Q4	119.5	117.0	128.0+	119.2	118.6	133.3	116.7
1987 Q1	119.8	115.0	119.6	119.6	119.5	131.4	117.6
Q2	120.3	115.3	118.6	120.7	120.5	135.4	118.1

* Including stockbuilding

\+ Inflated by Japanese Government's issue of commemorative medals.

CHART 4 G5 EXPENDITURE GROWTH



PERCENTAGE CHANGE OVER YEAR EARLIER

6. <u>Industrial production</u> in the G5 countries grew only slightly during 1986. There has been a pick up this year, however, from the low level in January (when the weather was unusually bad in Europe).

CHART 5: G5 INDUSTRIAL PRODUCTION A

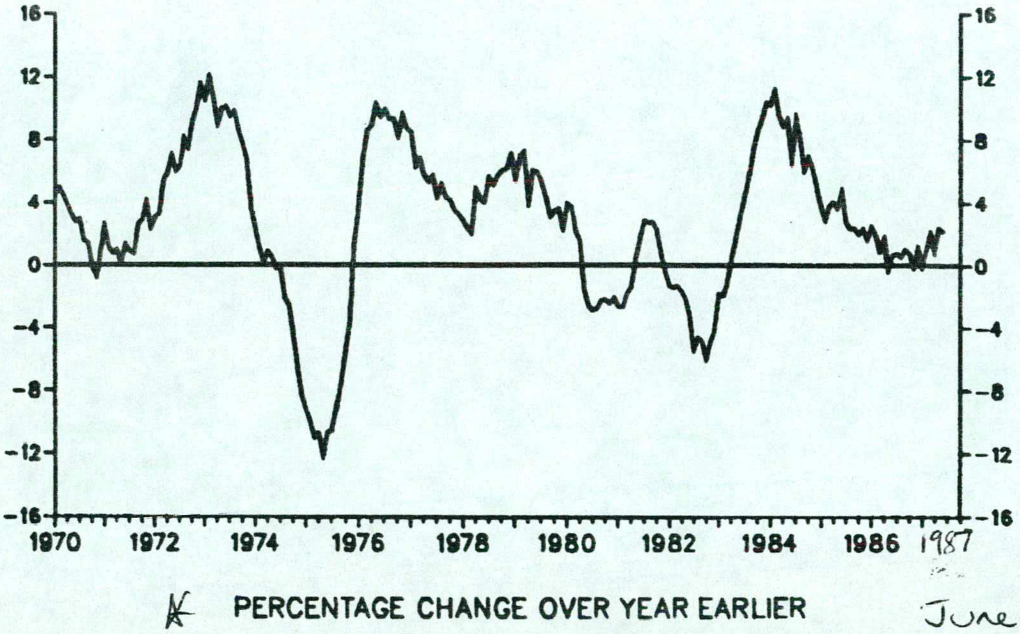


Table 4: Industrial production in the G5 countries (change on year earlier)

	United States	Japan	Germany	France	United Kingdom	G5*
1983	5.9	3.5	0.8	0.4	3.6	3.7
1984	11.5	10.9	3.4	1.7	1.3	8.0
1985	1.7	4.5	5.4	0.7	4.7	3.0
1986	1.0	-0.3	2.1	0.7	2.0	1.0
1986 Q1	1.6	1.5	2.9	0.7	2.5	1.8
Q2	0.7	-1.0	3.2	0.7	0.4	0.7
Q3	0.8	-1.2	2.2	1.3	2.6	0.8
Q4	1.1	-0.5	0.0	0.0	2.6	0.6
1987 Q1	1.6	0.6	-0.9	1.0	2.8	1.0
Q2	2.8	1.0	0.2	1.9	2.8	1.9
1987 Jan	0.2	0.5	-1.9	-2.0	2.2	-0.1
Feb	1.5	-0.2	0.0	2.0	2.9	1.0
Mar	3.0	1.6	-0.9	3.0	3.4	2.0
Apr	2.1	0.5	-0.9	-1.0	1.6	0.8
May	3.0	-0.6	2.8	4.0	4.1	2.4
Jun	3.1	3.1	-1.2	2.8	2.7	2.2
Jul	3.9	3.9	-3.6	-	3.7	-
Indices (1980=100)						
1986 Q1	115.1	121.8	106.0	100.3	109.1	112.7
Q2	114.5	121.4	107.3	101.3	109.9	112.8
Q3	115.1	121.1	108.0	103.0	111.0	113.4
Q4	116.0	121.0	106.7	101.7	111.1	113.4
1987 Q1	116.9	122.6	105.0	101.3	112.2	113.9
Q2	117.7	122.6	107.6	103.3	113.0	114.8
1987 Jan	116.5	122.4	104.0	99.0	110.8	113.1
Feb	117.1	121.6	106.0	102.0	112.7	114.0
Mar	117.2	123.7	105.0	103.0	113.1	114.5
Apr	117.2	122.0	108.0	102.0	112.9	114.5
May	117.9	120.6	108.0	103.0	113.8	114.7
Jun	118.0	125.3	106.7	104.8	112.3	115.6
Jul	119.5	126.0	105.1	-	114.8	-

* Weighted by 1980 industrial output at 1980 exchange rates.

7. The OECD's <u>leading indicators</u> (chart 6) suggest that industrial production will continue to increase.

8. Unemployment rates may have stopped rising in Japan and France and have fallen in the US and UK (Tables 5 and 6). For the G5 as a whole unemployment rates are almost ½ per cent lower than at the start of the year.

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

	US	Japan	Germany	France	UK	G5*
1984	7.4	2.7	7.1	9.7	11.7	7.0
1985	7.1	2.6	7.2	10.2	11.2	6.8
1986	6.9	2.8	6.9	10.4	11.1	6.7
1986 Q1	6.9	2.6	7.1	10.2	11.1	6.7
Q2	7.0	2.7	7.0	10.5	11.2	6.8
Q3	6.8	2.9	6.9	10.6	11.2	6.8
Q4	6.7	2.8	6.8	10.6	11.0	6.6
1987 Q1	6.6	2.9	6.8	10.9	10.7	6.6
Q2	6.1	3.0	6.9	11.0	10.3	6.4
1987 Jan	6.6	3.0	6.8	10.8	10.8	6.6
Feb	6.6	2.9	6.8	10.9	10.7	6.6
Mar	6.5	2.9	6.9	11.1	10.6	6.6
Apr	6.2	2.9	6.9	11.0	10.5	6.4
May	6.2	3.2	6.9	11.0	10.2	6.5
Jun	6.0	3.0	7.0	10.9	10.1	6.3
Jul	5.9	2.7	7.0	10.9	9.9	6.2
Aug	5.9	-	-	-	-	-

* Using 1980 labour force weights.

Table 6: Unemployment rates, national definitions*

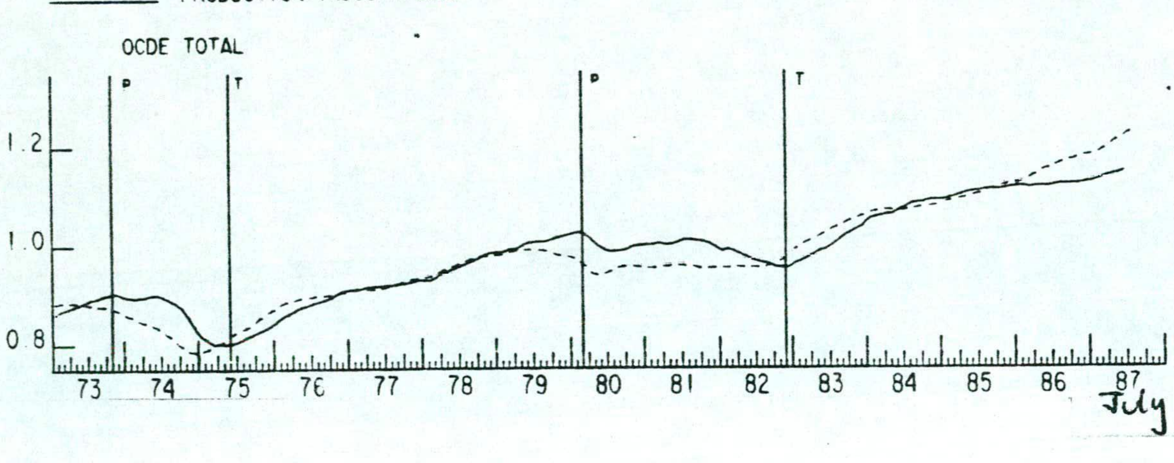
(per cent of labour force, seasonally adjusted)

	US	JAPAN	GERMANY	FRANCE	UK
1984	7.5	2.7	9.1	9.9	11.1
1985	7.2	2.6	9.3	10.2	11.3
1986	7.0	2.8	9.0	10.5	11.4
1986 Q1	7.1	2.7	9.2	10.3	11.4
Q2	7.1	2.8	9.0	10.5	11.5
Q3	6.9	2.9	8.8	10.6	11.6
Q4	6.8	2.8	8.7	10.7	11.3
1987 Q1	6.7	2.9	8.8	11.1	11.0
Q2	6.2	3.1	8.9	11.1	10.7
1987 Apr	6.3	3.0	8.9	11.1	10.9
May	6.3	3.2	8.8	11.1	10.6
Jun	6.1	3.0	8.9	11.0	10.5
Jul	6.0	2.7	9.0	11.0	10.4
Aug	6.0	–	8.9	–	10.2

* Not comparable between countries

Source: OECD, DE.

CHART 6: OECD LEADING INDICATORS



●CTION B: PRICES AND LABOUR COSTS

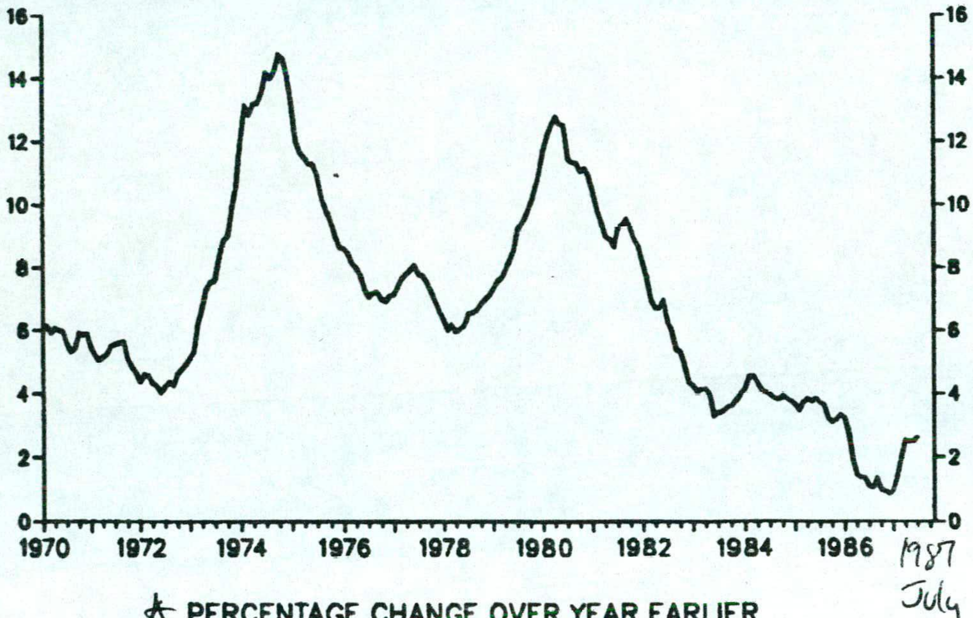
9. At the end of 1986, G5 consumer price inflation was at its lowest for over 20 years. It picked up quite sharply during the first four months of this year (especially in the US) but has since leveled off .

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

	US	Japan	Germany	France	UK	G5
1983	3.2	1.8	3.3	9.4	4.6	3.8
1984	4.2	2.3	2.4	7.7	5.0	4.1
1985	3.6	2.0	2.2	5.8	6.1	3.5
1986	1.9	0.4	-0.2	2.5	3.4	1.5
1987 Jan	1.4	-1.5	-0.8	3.0	4.0	1.0
Feb	2.1	-1.4	-0.5	3.4	3.9	1.4
Mar	3.0	-0.8	-0.2	3.3	4.0	2.0
Apr	3.8	-0.2	0.1	3.5	4.2	2.5
May	3.8	-0.3	0.2	3.4	4.1	2.5
Jun	3.7	0.0	0.2	3.3	4.2	2.5
Jul	3.9	-0.4	0.7	3.4	4.4	2.6
Aug	-	-	0.8	3.4	4.4	-

Source: OECD

CHART 7. G5 CONSUMER PRICE INFLATION ☆



☆ PERCENTAGE CHANGE OVER YEAR EARLIER

The acceleration in unit labour costs since 1985 in Germany reflects weaker productivity growth.

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

	US	Japan	Germany	France	UK	G5
1983	-2.4	-2.2	-0.5	7.6	0.0	-0.7
1984	-0.6	-3.9	1.0	4.8	2.5	-0.1
1985	0.6	-2.4	0.3	2.9	3.9	0.6
1986	-0.5	2.6	3.5	1.7	4.6	1.4
1985 Q1	1.5	-3.3	-0.2	6.6	3.2	1.1
Q2	0.2	-3.6	-0.4	2.0	3.5	-0.1
Q3	0.6	-2.4	0.9	0.8	4.4	0.5
Q4	0.1	0.4	0.5	2.1	4.2	0.8
1986 Q1	-0.7	1.4	1.6	2.4	6.8	1.1
Q2	0.2	2.8	2.7	1.0	6.4	1.6
Q3	-0.8	3.4	4.4	2.7	3.4	1.5
Q4	-0.8	2.8	5.4	0.7	2.1	1.2
1987 Q1	-1.1	-0.2	5.4	0.2	2.1	0.4

Source: IMF

11. Commodity prices (UN series in SDR terms) are estimated to have risen a little in the second quarter. Agricultural non-food and non-ferrous metals have shown the largest gains (table 9).

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

	Food	Agricultural Non-Food	Non-Ferrous Metals	Metal** Ores	Oil
1983	94.1	104.5	95.3	103.3	116.2
1984	93.2	115.5	96.7	109.7	117.5
1985	85.2	99.8	91.1	105.4	113.5
1986	82.5	83.2	77.4	88.5	52.5
1986 Q1	89.1	87.9	82.1	93.6	80.4
Q2	86.3	84.1	78.5	89.4	46.0
Q3	77.9	79.0	74.6	85.5	38.5
Q4	76.6	82.0	74.5	85.6	45.2
1987 Q1	74.3	82.6	75.3	82.4	55.5
Q2*	75.4	85.0	80.5	79.0	57.7

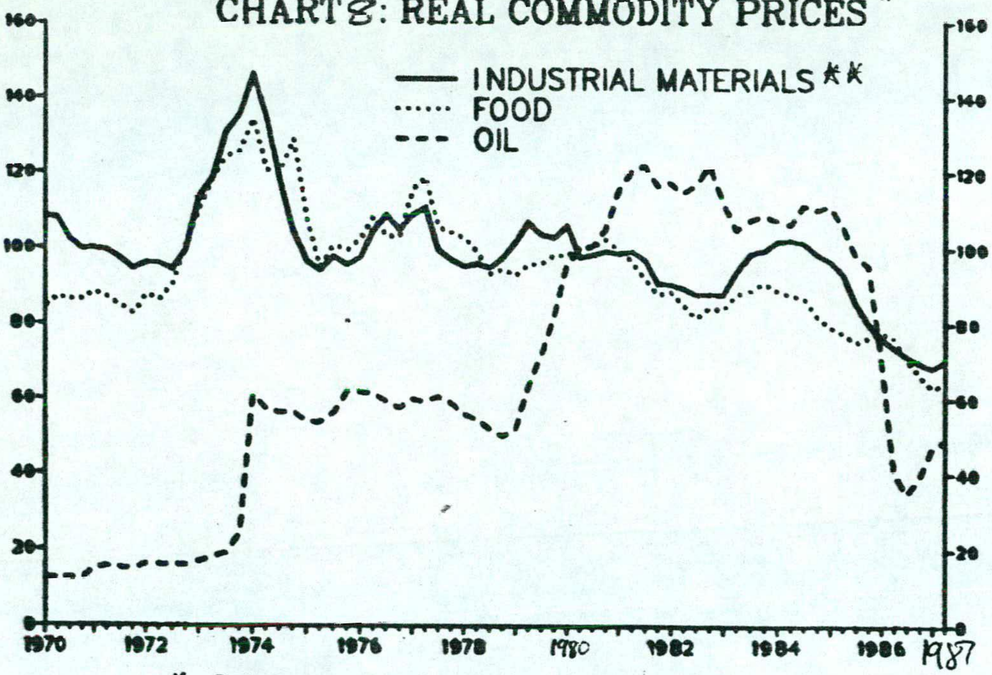
Source: United Nations

* Estimated by Bank of England

** Revised.

1980=100

CHART 8: REAL COMMODITY PRICES*



* Deflated by manufacturers unit value index.

** Comprises agricultural non-food, non-ferrous metal and metal ores

Table 10: Real Commodity Prices (1980 = 100)*

	Food	Agricultural Non-Food	Non-Ferrous Metals	Metal Ores	Oil
1983	87.6	97.3	88.7	96.2	108.2
1984	86.2	106.7	89.4	101.4	108.6
1985	76.9	90.2	82.3	95.3	102.6
1986	72.7	73.4	68.3	78.1	46.2
1986 Q1	77.8	76.8	71.7	81.7	70.2
Q2	76.2	74.2	69.3	79.0	40.6
Q3	70.6	71.6	67.6	77.4	34.9
Q4	66.4	71.0	64.5	74.1	39.1
1987 Q1	63.0	70.0	63.9	69.8	47.0
Q2**	64.0	72.1	68.2	67.0	49.0

* Deflated by trade-weighted unit value indices for manufactured exports.

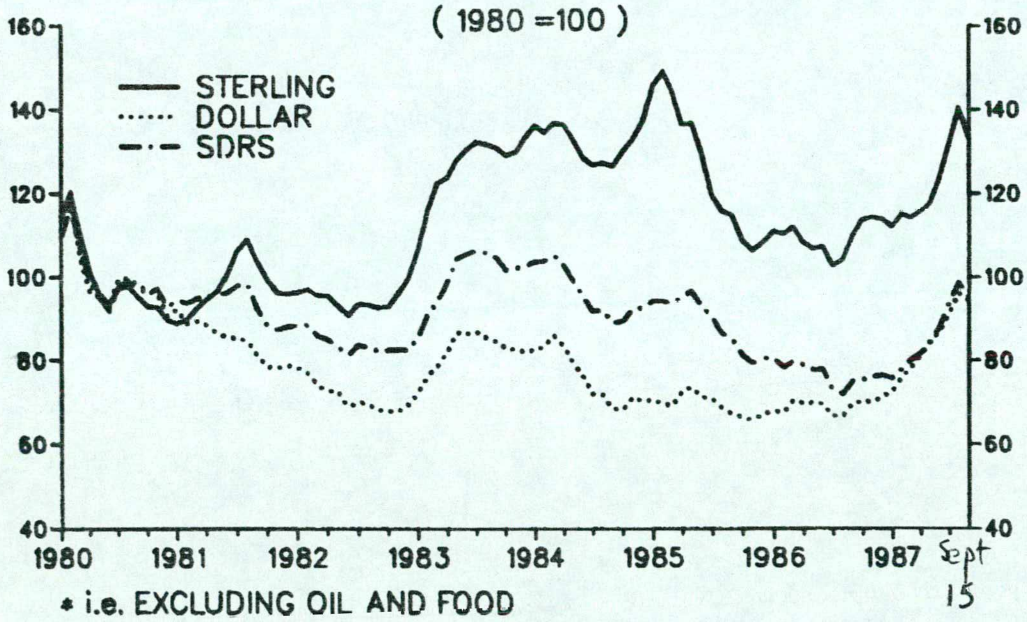
** Estimated by Bank of England.

Source: United Nations

12. The Economist all industrials commodity price index (based on spot prices) has weakened over the last few weeks (Chart 9). On the 15 September prices of non-food agricultural products and metals are, however, still considerably higher than a year ago (25 and 17 per cent respectively). Food prices (excluded from the industrials index) have held steady over the last four weeks but are still 6 per cent lower than a year ago.

CHART 9 : ECONOMIST COMMODITY PRICE INDICES – INDUSTRIAL RAW MATERIALS *

(1980 = 100)



* i.e. EXCLUDING OIL AND FOOD

SECTION C: TRADE AND CURRENT BALANCES

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

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

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

	Total	to OECD	to non-OECD	of which: OPEC	non-OPEC
1981	102	100	106	121	102
1982	99	98	100	124	92
1983	98	101	93	102	90
1984	107	114	95	88	97
1985	110	120	93	76	98
1986	111	124	86	61	94
1985 Q1	110	119	94	80	98
Q2	111	121	94	76	100
Q3	106	115	89	73	94
Q4	114	125	94	76	100
1986 Q1	108	121	84	65	90
Q2	113	127	86	65	93
Q3	107	120	84	56	93
Q4	116	130	89	58	99
1987 Q1	108	124	79	50	88

15. The German trade surplus seems to have levelled out and the Japanese surplus seems to be declining. The US deficit continues to fluctuate about what appears to be a roughly constant trend.

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

($ billion, monthly averages, not seasonally adjusted for the US).

	US	Japan	Germany
1984	10.3	3.7	1.7
1985	12.4	4.7	2.2
1986	13.9	7.7	4.5
1987 Jan	-12.3 (-13.7)	9.6 (8.0)	4.8 (4.5)
Feb	-15.1 (-14.0)	9.2 (8.3)	6.1 (4.7)
Mar	-13.6 (-14.1)	8.4 (8.5)	4.8 (4.9)
Apr	-13.3 (-14.0)	8.2 (8.3)	5.3 (5.0)
May	-14.4 (-14.1)	8.1 (8.5)	6.0 (5.2)
Jun	-15.7 (-14.1)	6.9 (8.5)	4.6 (5.1)
Jul	-16.5 (-13.3)	7.7 (8.5)	5.6 (5.1)
Aug	-	5.2 (8.2)	-

* Averages of past 12 months in brackets.

Table 13: Current Accounts of G5*

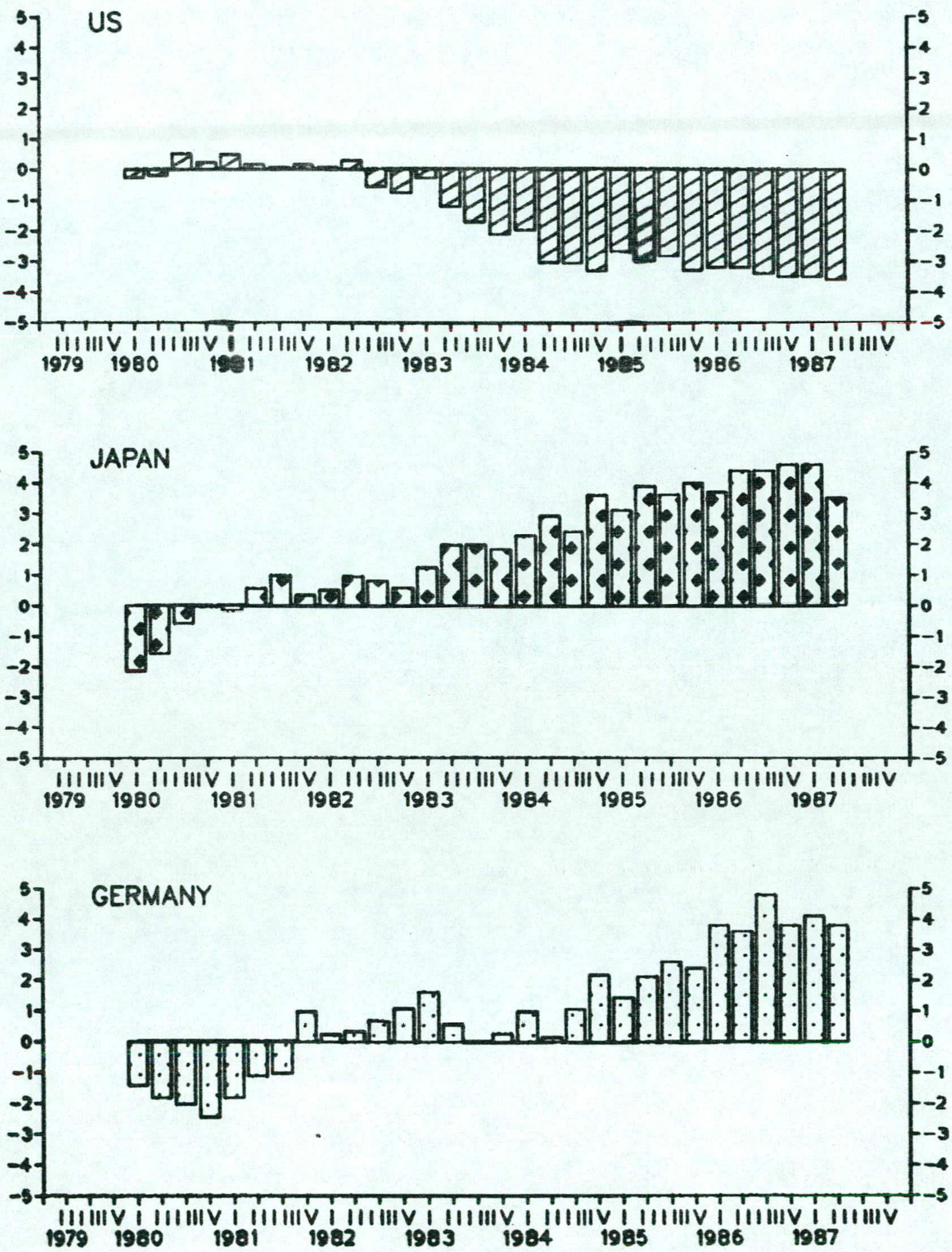
($ billion)

	US	Japan	Germany	France	UK
1983	-46.0	20.8	4.1	-4.2	5.0
1984	-107.4	35.2	6.6	0.0	2.1
1985	-117.7	49.4	13.8	0.9	4.6
1986	-141.4	85.6	36.7	3.8	-0.2
1986 1	-33.0	15.9	7.9	1.0	1.5
2	-33.8	21.6	8.1	1.0	0.2
3	-36.6	23.8	11.3	0.8	-1.1
4	-38.0	24.3	9.3	1.0	-0.8
1987 1	-36.8	24.9	11.0	-0.2	0.9
2	-41.1	20.9	10.7	-1.1	-0.9

* Seasonally adjusted.

CHART 10

CURRENT BALANCES (AS % OF NOMINAL GNP)



SECTION D: INTEREST RATES, MONEY SUPPLY AND EXCHANGE RATES

16. Short rates in the United States have risen quite sharply in recent weeks. The discount rate was raised ½ per cent on 4 September. Rates in Japan and Germany have been fairly stable over the past few weeks.

17. Long rates have risen in all the G5 countries since the start of the year.

Table 14: Interest rates in the G5 countries

	United States	Japan	Germany	France	UK	G5 weighted average
Three-month interest rates						
1983	9.1	6.4	5.8	12.5	10.1	8.6
1984	10.4	6.2	5.9	11.5	9.7	9.0
1985	8.1	6.5	5.5	10.0	12.3	8.0
1986	6.5	5.0	4.6	7.8	11.0	6.5
1986 Q1	7.6	6.0	4.6	8.8	12.4	7.5
Q2	6.7	4.7	4.6	7.4	10.2	6.4
Q3	6.0	4.7	4.6	7.2	10.0	6.1
Q4	5.8	4.5	4.7	7.7	11.2	6.1
1987 Q1	6.0	4.1	4.2	8.3	10.6	6.1
Q2	6.8	3.8	3.8	8.1	9.2	6.2
14 Sept	7.5	3.8	4.0	7.9	10.1	6.6
Long-term government bond yields*						
1983	11.1	7.7	8.1	13.6	11.2	10.3
1984	12.4	7.1	8.0	12.3	12.3	10.8
1985	10.6	6.4	7.0	10.8	11.1	9.4
1986	7.6	5.1	6.3	8.4	10.1	7.3
1986 Q1	8.6	5.5	6.5	9.6	10.7	8.0
Q2	7.6	4.8	6.1	7.9	8.9	7.0
Q3	7.3	4.8	6.1	7.7	9.7	6.9
Q4	7.2	5.1	6.4	8.4	11.1	7.2
1987 Q1	7.2	4.8	6.3	8.7	9.8	7.0
Q2	8.3	3.3	6.6	8.9	9.0	7.2
14 Sept	9.3	5.3	6.6	10.1	10.3	8.4

* Averages of end-month data.

18. Real interest rates although historically high, are lower than at the start of the year.

Table 15: Real Short-Term Interest Rates*

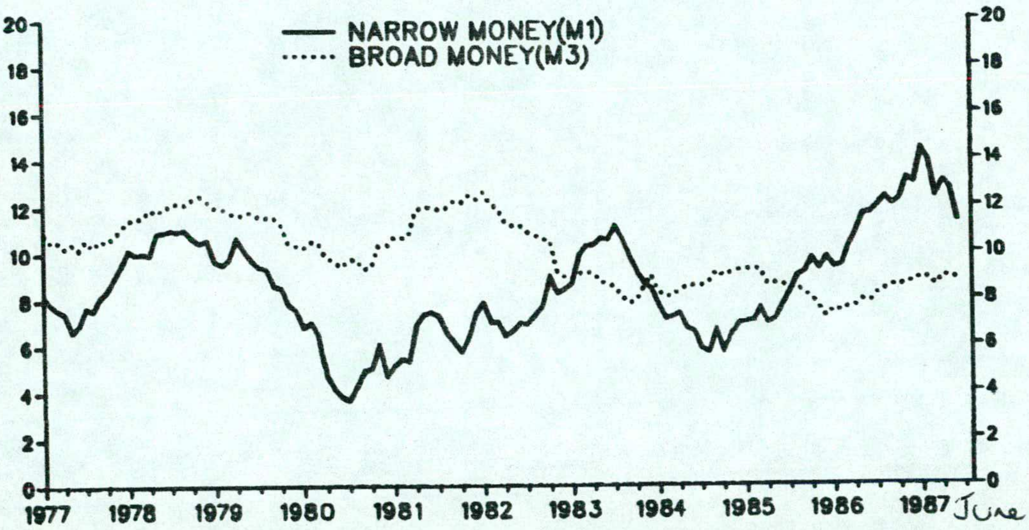
(in per cent)

	United States	Japan	Germany	France	UK	G5
1983	5.6	4.5	2.4	2.8	5.3	4.6
1984	5.9	3.8	3.4	3.5	4.5	4.8
1985	4.4	4.4	3.2	3.9	5.8	4.3
1986	4.5	4.5	4.9	5.1	7.2	4.9
1986 Q1	4.4	4.5	3.9	5.0	7.1	4.7
Q2	5.0	3.9	4.8	4.9	7.2	4.9
Q3	4.3	4.7	5.0	5.0	7.2	4.8
Q4	4.5	4.9	5.8	5.4	7.5	5.1
1987 Q1	3.8	5.4	4.7	4.9	6.4	4.6
Q2	3.0	4.0	3.7	4.6	4.8	3.6
14 Sept	3.5	4.2	3.2	4.4	5.4	3.9

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

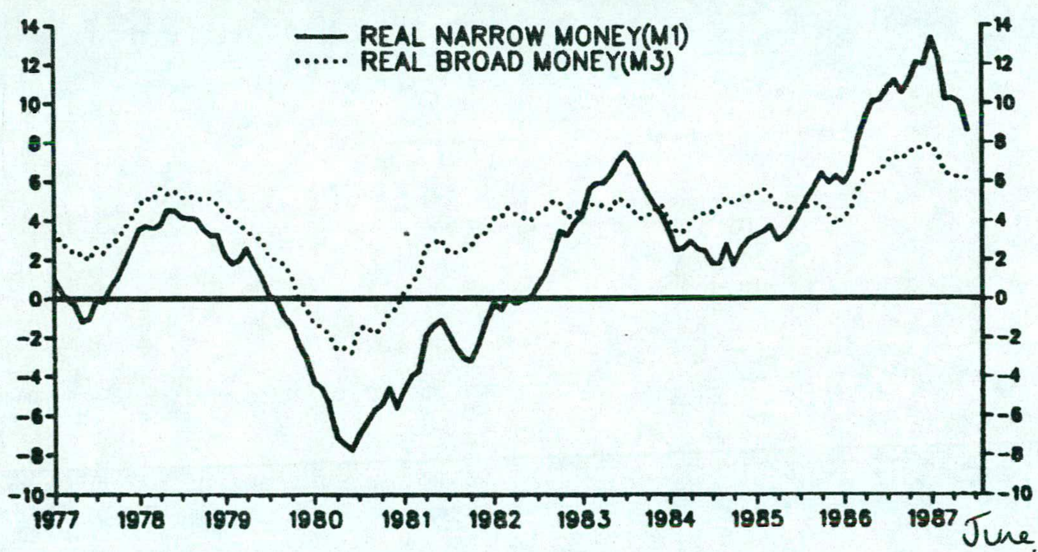
19. Growth in M1 accelerated sharply last year in the G5 countries but has slowed, particularly in the US, since the start of the year. This indicator is probably unreliable given the effects, especially in the US and UK, of innovations (such as the paying of market-related interest on sight deposits) on the demand for this aggregate. The nominal growth of broad aggregates (M2 or M3) has been slower than M1 (except in the UK), but faster than nominal GNP.

CHART 11 : G5 MONEY SUPPLY



PERCENTAGE CHANGE OVER YEAR EARLIER

CHART 12: G5 REAL MONEY SUPPLY



PERCENTAGE CHANGE OVER YEAR EARLIER

Table 16: Narrow money growth (M1, seasonally adjusted, percentage change on a year earlier)

		US	Japan	Germany	France	UK	G5	UK MO
1980		6.2	2.6	2.3	8.8	4.1	5.1	8.5
1981		7.0	3.3	1.1	11.5	11.7	6.4	4.6
1982		6.6	5.8	3.6	11.8	17.1	7.4	0.9
1983		11.1	3.6	10.0	9.8	16.0	9.8	5.7
1984		7.0	2.8	3.2	10.4	14.0	6.6	5.6
1985		9.2	5.1	4.2	9.0	15.7	8.2	4.6
1986		13.4	6.9	8.3	7.6	22.2	11.5	4.0
1987	Jan	17.3	9.4	9.1	10.4	23.4	14.4	5.1
	Feb	16.6	11.2	9.0	6.8	22.0	13.8	4.1
	Mar	15.4	10.3	7.3	1.4	23.5	12.4	4.1
	Apr	15.8	10.8	8.3	3.9	23.1	13.0	4.8
	May	14.2	12.2	9.6	3.0	24.4	12.7	4.4
	Jun	11.9	11.4	8.7	-	24.1	11.5(est)	4.1
	Jul	10.5	-	9.1	-	22.7	-	5.4

Chart 13

G5 BROAD AND NARROW MONEY-VELOCITY OF CIRCULATION

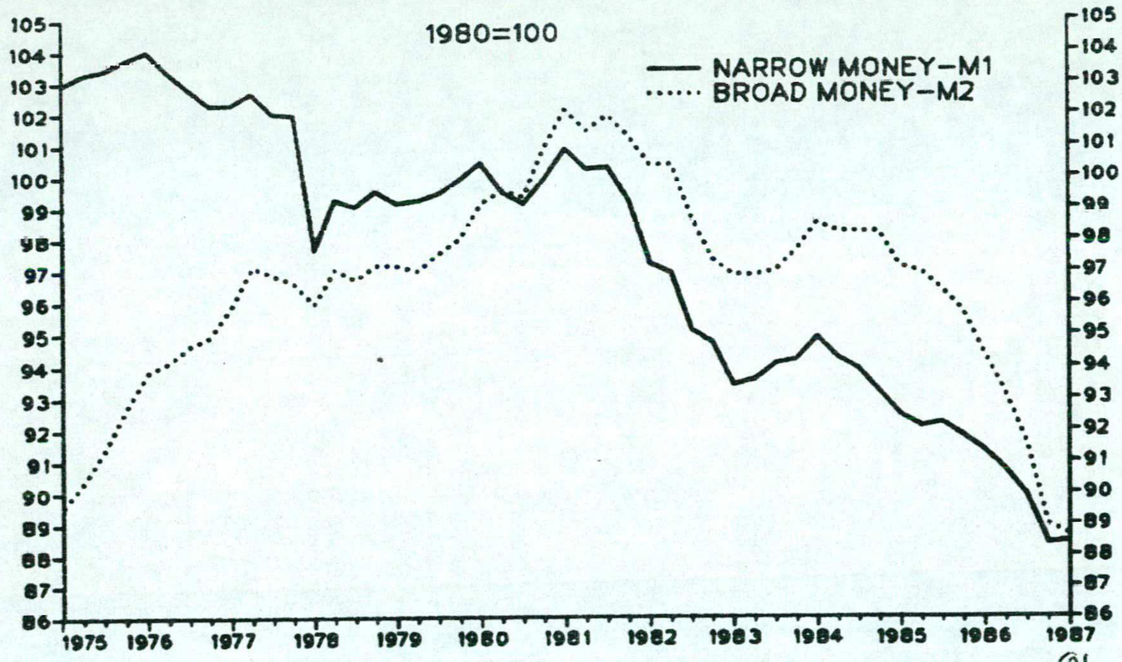


Table 17: Broad money growth (percentage change in seasonally adjusted measure on a year earlier)

	US M3	Japan M2+CDs	Germany M2	France M3	UK M3	G5	Germany CBM*
1980	9.2	9.2	8.9	11.2	15.0	9.9	4.8
1981	11.9	8.9	9.9	12.0	19.7	11.7	4.4
1982	10.9	9.2	6.5	11.5	21.2	10.8	4.9
1983	9.8	7.4	2.7	10.2	12.2	8.6	7.3
1984	10.1	7.8	3.3	9.8	9.3	8.6	4.8
1985	9.0	8.4	4.1	8.6	12.2	8.4	4.6
1986	8.1	8.6	4.0	5.1	18.1	8.1	6.4
1987 Jan	8.9	8.6	6.8	5.2	18.4	8.9	7.5
Feb	8.5	8.8	6.8	4.8	19.8	8.8	7.7
Mar	7.9	9.0	6.7	4.8	19.3	8.5	7.9
Apr	7.5	9.8	7.7	6.9	20.3	8.9	7.7
May	7.2	10.2	8.5	6.6	19.1	8.8	8.4
Jun	7.0	10.8	7.4	7.7	19.2	9.0	8.8
Jul	6.1	10.3	7.1	-	20.8	8.6(est)	8.4
Target	5.5-8.5	10		3-5			3-6

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

20. The dollar has depreciated further over recent weeks (particularly against the yen) after a period of stability (table 18). In effective terms the dollar is now 3 per cent below and the yen 6 per cent above their levels at the time of the Louvre Agreement in late February (table 19). Chart 16 shows the changes in th dollar since then, against the deutschemark and yen and in effective terms.

Table 18: Bilateral exchange rates since Louvre

	Yen/$	DM/$	FFr/$	$/£	$ Effective
Louvre - 20 Feb 1987	153.5	1.826	6.08	1.53	104.0
Averages of daily rates:					
March	157.5	1.835	6.11	1.59	103.3
April	142.9	1.811	6.03	1.63	101.0
May	140.6	1.789	5.98	1.67	100.4
Jun	144.4	1.818	6.07	1.63	101.7
Jul	150.2	1.847	6.15	1.61	103.3
Aug	147.6	1.857	6.20	1.60	103.3
Latest:					
17 Sept 1987	143.4	1.816	6.05	1.65	100.9

CHART 14: REAL AND NOMINAL EFFECTIVE EXCHANGE RATES

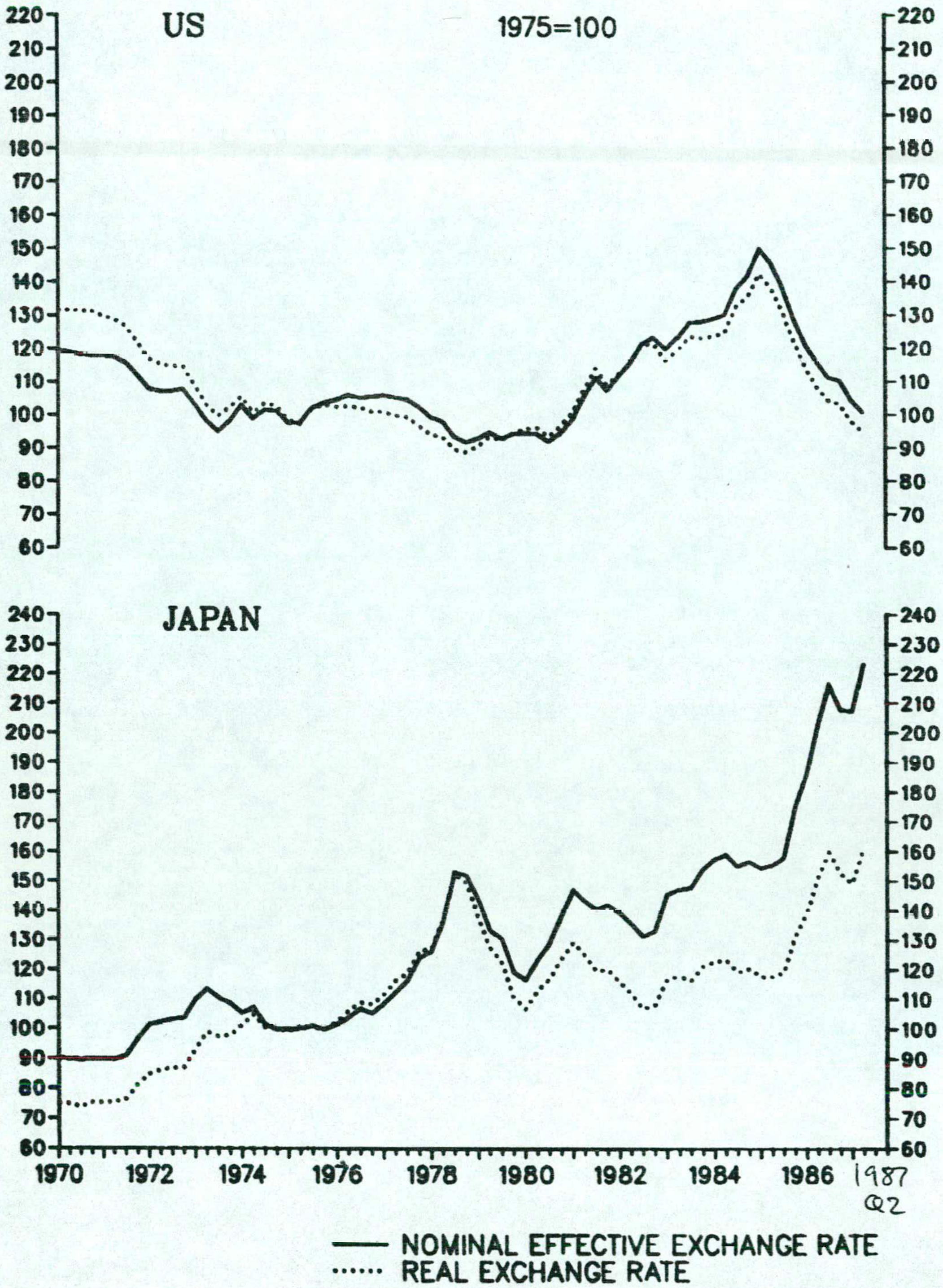


CHART 15:REAL AND NOMINAL EFFECTIVE EXCHANGE RATES

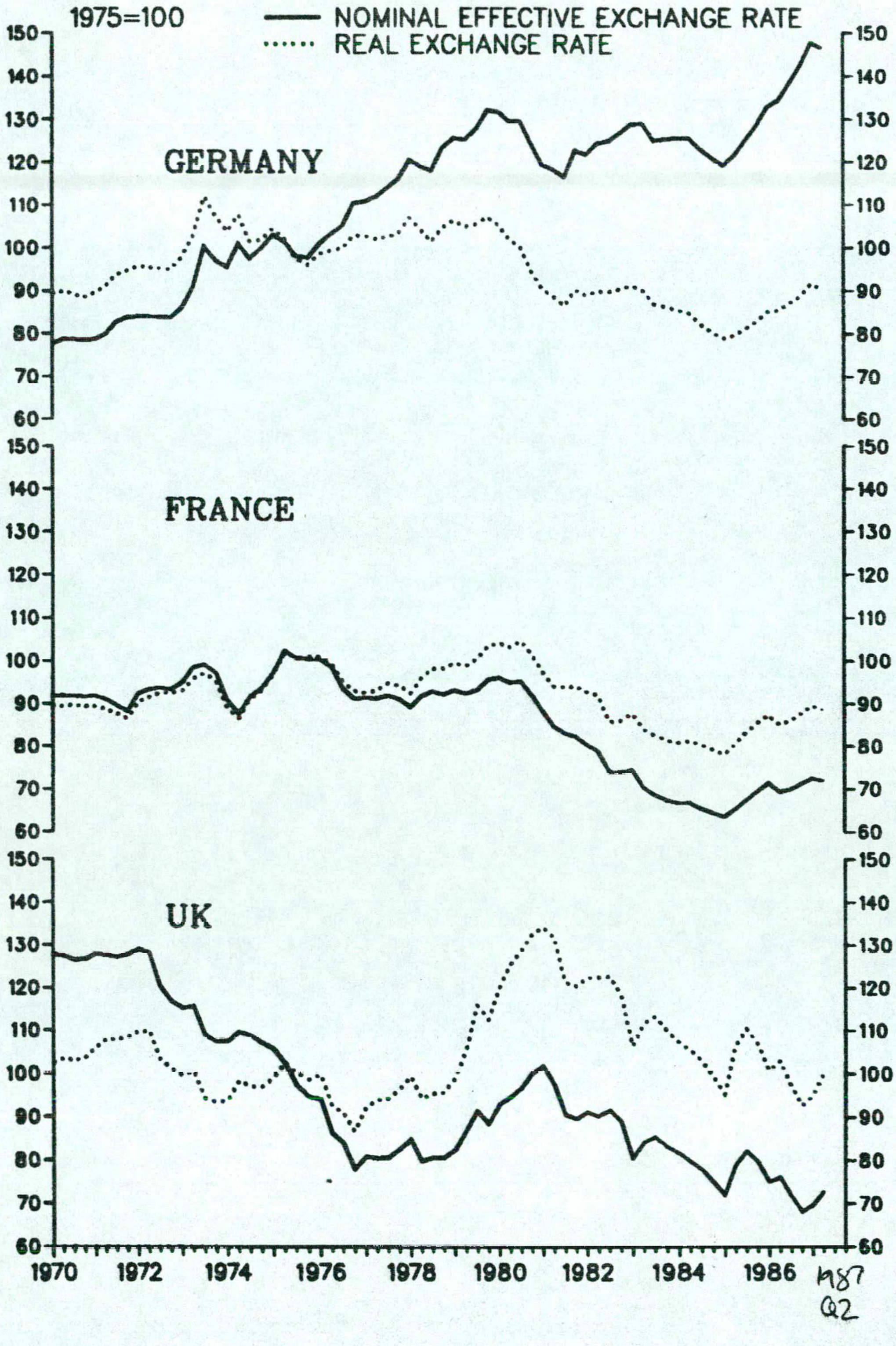
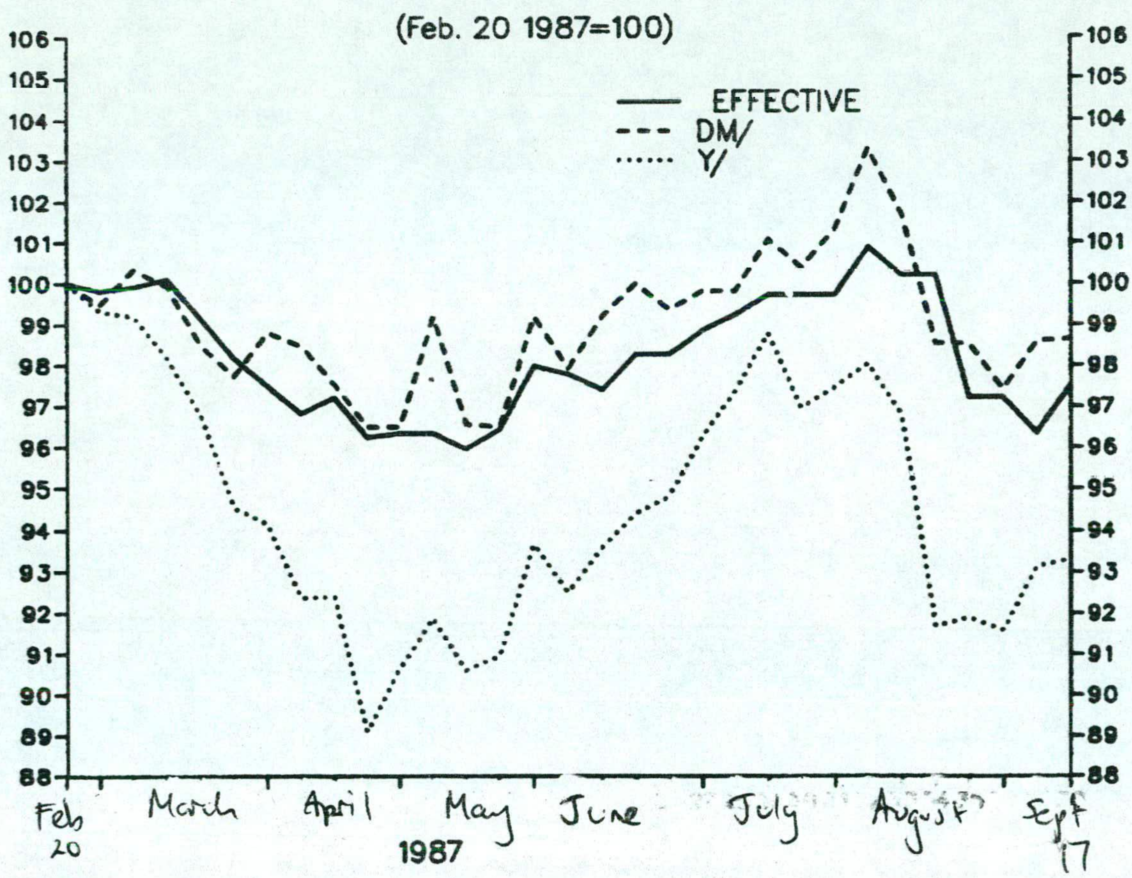


Table 19: Effective exchange rate movements (1975 = 100)

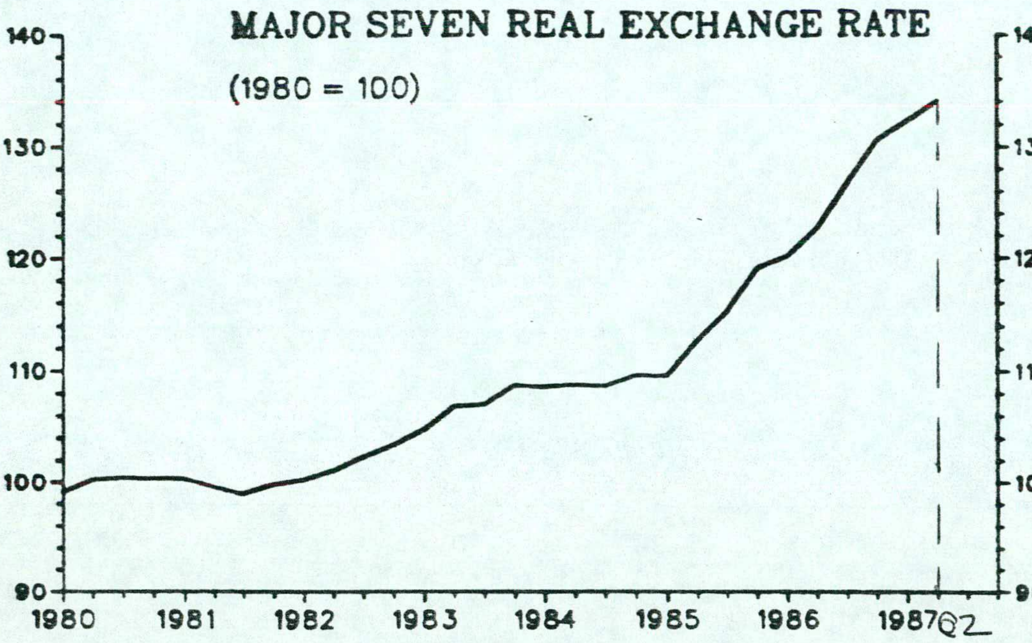
	United States	Japan	Germany	France	United Kingdom
1980	93.7	126.4	128.8	94.4	96.0
1981	105.6	142.9	119.2	84.3	94.8
1982	118.0	134.6	124.4	76.6	90.4
1983	124.8	148.4	127.1	70.0	83.2
1984	134.6	156.7	123.8	65.7	78.6
1985	140.7	160.5	123.6	66.3	78.2
1986	114.8	203.1	137.3	70.1	72.8
$ Peak - 27 February 1985	157.2	157.1	117.2	62.0	70.2
Plaza - 20 September 1985	139.6	156.6	125.5	67.2	82.0
Louvre - 20 February 1987	104.0	209.1	148.3	72.2	69.1
Latest - 17 Sept 1987	100.9	221.9	146.5	73.2	71.4

CHART 16 EXCHANGE RATES SINCE LOUVRE



21. As measured by the ratio, in common currency, of consumer prices in G7 to those in the rest of the world, the real exchange rate of G7 appears to have appreciated substantially since early 1985 (Chart 17). This reflects a tendency for developing countries in Asia and newly industrialised countries (such as Korea, Hong Kong, and Singapore) to link their currencies to the depreciating dollar.

CHART 17



SECTION E: BUDGET DEFICITS AND PUBLIC DEBT

22. Budget deficits have declined on average in the major countries since 1983. They are expected to remain about constant next year on present policies (rises in Japan and Germany offsetting falls in France and Italy.

Table 20: Central and general government financial balances(a)

	1981	1982	1983	1984	1985	1986	1987(b)	1988(b)
Central government								
Canada	-2.1	-5.5	-6.2	-6.8	-6.7	-4.9	-4.2	-3.8
United States	-2.4	-4.1	-5.6	-5.1	-5.3	-5.0	-3.7	-3.7
Japan	-5.9	-5.9	-5.6	-4.7	-4.0	-3.6	-4.1	-4.6
France	-2.6	-2.7	-3.2	-3.3	-3.3	-2.8	-2.5	-2.1
Germany	-2.5	-2.4	-1.9	-1.6	-1.3	-1.2	-1.3	-1.5
Italy	-10.6	-13.2	-14.0	-13.2	-14.0	-12.3	-11.3	-10.8
UK	-2.9	-2.7	-3.0	-3.1	-2.3	-2.3	-2.2	-2.1
Seven major countries	-3.6	-4.6	-5.3	-5.0	-4.9	-4.5	-3.9	-3.9
General government								
Canada	-1.5	-5.8	-6.9	-6.4	-7.0	-5.5	-4.6	-4.2
United States	-1.0	-3.5	-3.8	-2.8	-3.3	-3.5	-2.3	-2.4
Japan	-3.5	-3.6	-3.7	-2.1	-0.8	-0.6	-1.2	-1.6
France	-1.9	-2.8	-3.2	-2.7	-2.9	-2.9	-2.6	-2.1
Germany	-3.7	-3.3	-2.5	-1.0	-1.1	-1.2	-1.5	-2.0
Italy	-11.5	-11.3	-10.7	-11.5	-12.2	-11.2	-10.3	-9.8
UK	-2.8	-2.3	-3.6	-3.8	-2.6	-2.8	-2.6	-2.5
Seven major countries	-2.7	-3.9	-4.1	-3.4	-3.3	-3.3	-2.6	-2.7

(a) Percentages of GNP

(b) IMF provisional forecasts (Aug. 1987).

2

FROM: P F L ALLUM

DATE: 21 July 1987

CHANCELLOR OF THE EXCHEQUER

cc: Sir P Middleton
Sir T Burns
Mr Cassell
Mr Odling-Smee
Mr Sedgwick
Mr Culpin
Mr S J Davies o/r
Miss O'Mara

RETAIL SALES: PROVISIONAL ESTIMATE FOR JUNE

Ms Ryding's minute to Mr Sedgwick of 20 July noted your comment that the latest provisional figures for retail sales in June do not show any evidence of an acceleration in spending; just a steady rise in line with rising incomes.

2. There are no grounds for arguing that retail sales have accelerated, though they have not grown steadily in the recent past. The erratic profile of the index is evident in the table below.

	Retail sales index (volume, 1980=100)	(percentage change on month earlier)
1987 January	123.6	-2.4
February	127.0	2.8
March	125.5	-1.2
April	130.0	3.6
May	125.4	-3.5
June (1)	129.3	3.1

(1) Provisional estimate

3. The coverage of the retail sales index is broadly half that o total consumers' expenditure series. It excludes, for example consumer spending on rent, rates, vehicles, energy products and mos leisure services. The retail sales index also differs in compositio from the total consumers' expenditure series in including foreig tourists' expenditure in UK retail outlets, and excluding U tourists' expenditure overseas.

4. Retail sales volumes were depressed in January by the bad weather, while problems with making an appropriate allowance for the timing of Easter depressed the published March figure and increased that for April. The net effect of these special factors was to reduce growth in sales in the first quarter, while boosting growth in the second quarter. Allowing for this, the underlying trend is for positive growth in retail sales, but at a more modest pace than during the second half of 1986. The table below and the attached chart show no evidence of any recent re-acceleration in retail spending.

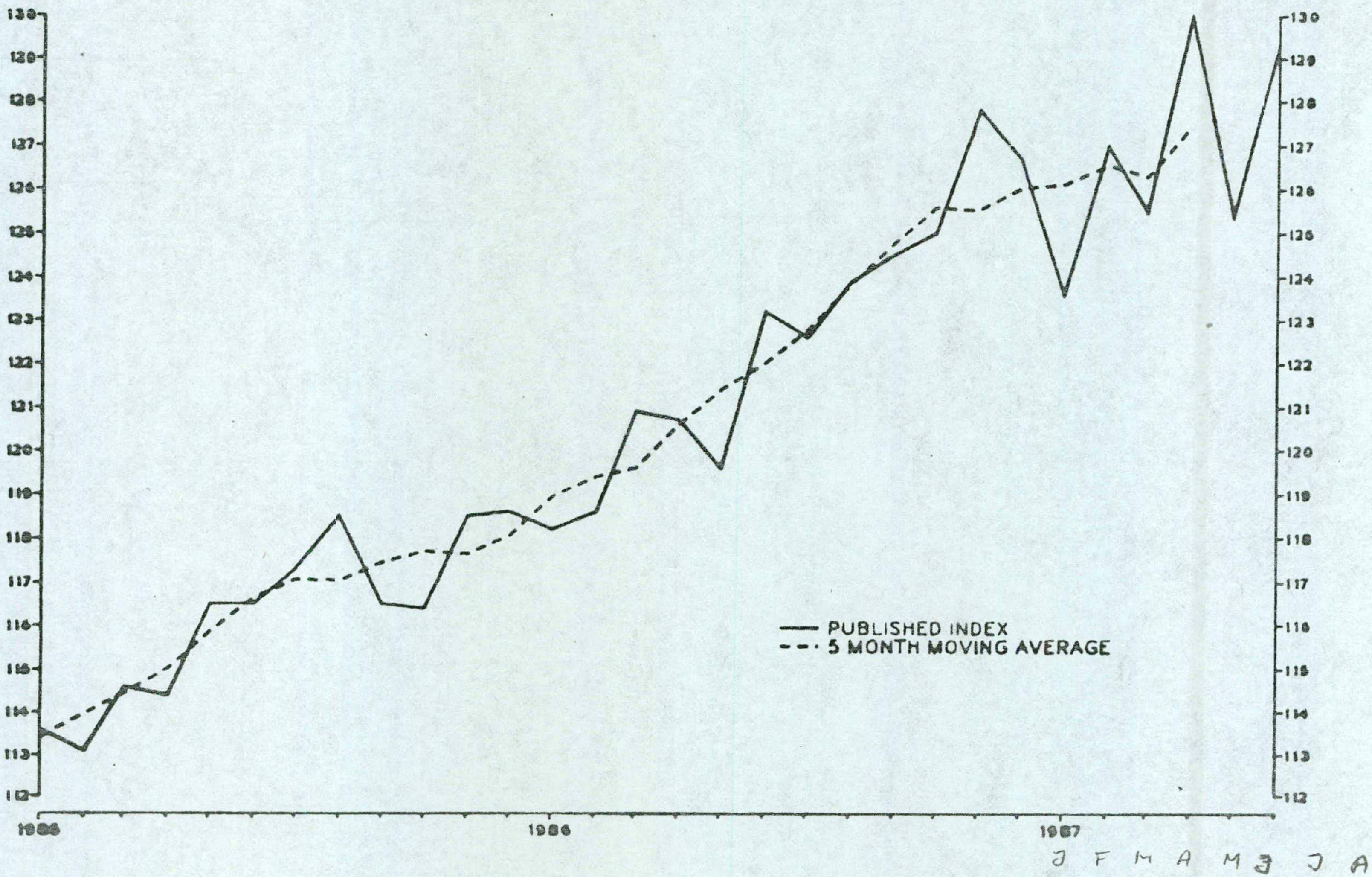
	Retail sales (quarterly average)	Percentage change on: previous quarter	year earlier	Consumers' expenditure (£bn,1980)	(percentage change on year earlier)
1986 Q1	119.3	1.7	4.3	39.1	4.5
Q2	121.3	1.7	4.7	39.8	5.9
Q3	123.7	2.0	5.5	40.4	5.5
Q4	126.5	2.3	7.3	40.4	4.5
1987 Q1	125.4	-0.9	5.1	40.5	3.5
Q2	128.2	2.2	5.7	41.0*	3.0

* CSO projection, partly based on retail sales in April and May.

5. The provisional estimate for retail sales in June is consistent with our June forecast for total consumer spending. This shows - in line with current CSO projections - a pick-up in spending in the second quarter following the weather-depressed first quarter outturn. Total expenditure is expected to show continued growth through the course of this year - reflecting rising incomes - with growth for 1987 as a whole expected to average around 3½ per cent, slightly lower than the published Budget forecast of 4 per cent.

P F L ALLUM

RETAIL SALES INDEX (VOLUMES,1980=100)



MONCK on 2ACOMB

2183/009

SECRET

Tom NM

put on bf. ~~with other pps.~~ (my ~~minute~~ of [illegible] to NM)

FROM: N MONCK

DATE: 22 September 1987

Thanks

CHANCELLOR OF THE EXCHEQUER

Here are the preliminary comments you asked for on BSC. It is interesting to see the suggestion that BSC might be floatable in 1988 and worth over twice what we have been assuming; and that these propositions are compatible with maintaining steeling making, as distinct from the hot strip mill, at Ravenscraig until 1993.

2. It would of course be good to have a major primary sale to fill in the probable long gap before Water and Electricity are privatised. It would also be convenient for the programme as a whole to have a tranche of BSC proceeds in 1988/89 if a BT sale in that year were made difficult. That might be so if, as David Moore's minute of 15 September pointed out, Carsberg moves early on the BT price formula and triggers a wide ranging MMC review during 1988. We would, however, then probably need a BT sale in 1989. We would need to fit that in before a shadow is cast over BT by a Government review of BT/Mercury duopoly; such a review cannot take effect before November 1990.

(enclosed)

MONCK TO CH/EX 22/9

3. I have some doubts about the proposed announcement on Ravenscraig and its effect on the different audiences - political, workforce and potential investors:

(a) if the announcement refers to Concast investment in South Wales, that may be seen as spelling the end of Ravenscraig steel-making in due course, whatever is said about "increasing market demand";

(b) closing the hot strip mill saves only about 700 out of the 3,100 jobs at risk at Ravenscraig. The savings, compared with the potential from total closure, may well be roughly proportionate. Even with the current buoyant performance of profits, this may not be enough to offset investors' worry about the possible effects on profits of erosion or breakdown of the Eurofer and stainless steel cartels. (Indeed to my mind there is a case on wider supply side grounds for ending these cartels before privatisation on the assumption that the EC's external protection is maintained and that BSC is sold as a unit; BSC is much larger than any other EC steel producer except the French merger of Sacilor and Usinor.) Moreover investors will have no assurance that the savings from closing Ravenscraig will become available after 1993.

4. Your idea of an Industry Bill might work. The addition of privatisation would increase Lord Young's claims for an early legislative slot, but more controversy and length could work the other way. At present Lord Young has approval for a Bill on Intellectual Property Rights but this is an unsuitable vehicle, especially as it will be introduced in the Lords. It may still be a useful bargaining counter. A better bet would be for him to high-jack legislation already in the programme for raising the borrowing limits of the Scottish and Welsh Development Agencies. If the Chief Secretary is able to negotiate suitable, ie lower public expenditure figures to go with the RDG option with Lord Young tomorrow, we will brief him to urge Lord Young to start lobbying for a legislative slot soon, though not yet on paper. They are meeting tomorrow.

5. I would sum up these preliminary comments by saying that despite some reservations, all the propositions you mention are well worth looking at more closely. That could be done when BSC's work on the strategic options is available (due at the end of this month). There are some signs that they are moving to the sort of timescale mentioned above, but it is too early to say whether that is so (or, if it is, whether it really makes sense for BSC as a business).

N MONCK

RC2.89

cc: Sir P Middleton
Mr Monck
Mr Burgner
Mr Gray
Mr Flanagan
Mr Wynn Owen

RD

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

22 September 1987

Sir Thomas Risk
Bank of Scotland
The Mound
Edinburgh
EH2

Dear Tom

NEDC MEMBERSHIP

After consultation with the CBI I am writing to invite you to serve as a member of the National Economic Development Council.

As I am sure you know, the broad purpose of the Council is to provide a forum for discussing economic and industrial matters with particular emphasis on ways of improving the performance of individual industrial sectors. I very much hope that you will agree to become a member. The appointment would be for a two year period.

The Council meets quarterly at Millbank Tower. The next meeting is on Wednesday 14 October at 2.30pm. I hope you will be able to attend.

Yours
Nigel

NIGEL LAWSON

ECONOMIC SECRETARY
REC'D 23 SEP 1987
ACTION CST
COPIES TO

23 SEP 1987

CHIEF SECRETARY
23 SEP 1987
Mr Instone ← with attachment.
CX Mr Butler Mr Anson
Mr Hawtin Mr Edwards
Mr Tyrie Mr Call

DEPARTMENT OF ENERGY
THAMES HOUSE SOUTH
MILLBANK
LONDON SW1P 4QJ

Direct Line 01-211 3290
Switchboard 01-211 3000

THE MINISTER OF STATE

The Rt Hon Lord Belstead
Minister of State for the Environment
Countryside & Water
Department of the Environment
2 Marsham Street
LONDON
SW1P 3EB

22 September 1987

Dear John.

REPORT OF THE WORLD COMMISSION ON ENVIRONMENT AND DEVELOPMENT (WCED): DEBATE IN UN GENERAL ASSEMBLY

Thank you for sending me a copy of your letter of 17 September to Simon Glenarthur seeking agreement to your suggested approach to discussion of the WCED report at the UN General Assembly next month.

I agree entirely that we should support the report's major theme - that sustainable development is the key aim - while playing down those aspects with which we disagree. However, in adopting this approach, we must protect our flanks and avoid appearing to endorse particular conclusions and proposals with which we profoundly disagree.

I have in mind the report's Energy Chapter. While I fully support its overall conclusion that expanding energy supplies are a crucial pre-requisite to achievement of sustainable development, there are a number of sub-themes which we will need to resist strongly if they are pursued, particularly in the EC Energy Council and International Energy Agency. I have in mind such aspects as the effective dismissal of fossil fuels as both limited and environmentally damaging (a common misconception); the concept of "conservation pricing" (popular with the current Danish Presidency) and proposals for an oil producer/consumer dialogue (supported more or less openly by a number of EC Member States and the Commission).

These and other energy themes will almost certainly be picked up in coming months in circumstances where it may be necessary for the UK to challenge the report's analysis and assumptions. Indeed, it has already been necessary to put up markers at this week's Informal Energy Council in Copenhagen.

I ask, therefore, that if these aspects are raised at the General Assembly, the UK delegation ensures that we are dissociated from any support for such themes.

I am copying this letter to Simon Glenarthur and to Kenneth Clarke (DTI), Peter Lilley (Treasury), Chris Patten (ODA) and Jean Trumpington (MAFF).

Ever
PM.

PETER MORRISON

Minister of State
for the Environment
Countryside and Water

Department of the Environment
2 Marsham Street
London SW1P 3EB

Telephone 01-212 3434

17 SEP 1987

17 September 1987

Dear Simon,

REPORT OF THE WORLD COMMISSION ON ENVIRONMENT AND DEVELOPMENT (WCED): DEBATE IN UN GENERAL ASSEMBLY

As you know, the report of Mrs Brundtland's World Commission is to be debated in the General Assembly, probably in October.

Although William Waldegrave spoke briefly when the report was launched in London in April, and although there was, of course, discussion at the UNEP Governing Council in June, our statement in New York will be the first detailed public expression of the UK's attitude towards the report. You may therefore wish to know the line that I propose that the UK should take.

I attach the draft brief which my Department has prepared. The basic line that we propose on the WCED report (paragraphs 3-8 of the attachment) is that we should give out a very positive welcome and seek to emphasise its major message - with which we agree - that economic growth and conservation can, and must, go hand in hand, and that the key aim of policy should be sustainable development. Within this framework, we would make it clear that there are some aspects in the report on which we have reservations; but, provided that this point is recorded, we should not harp on it. I am sure that this is an occasion on which we should do all we can to avoid the defensive posture which we seem all too often to be forced into in international discussions.

I hope you will agree that this represents a sensible and balanced approach. If I do not hear from you by Monday 21 September I shall assume that you are content with the general line that I propose.

I am copying this to Kenneth Clarke of DTI, Peter Lilley of Treasury, Peter Morrison of DEn, Chris Patten of ODA and Jean Trumpington of MAFF.

Yours sincerely

BELSTEAD

The Lord Glenarthur

4

That is helpful.

Q2.

Current balance 1987 Q2 -174

compared with previous

figure of -561

Reason for change - outturn

invisibles balance of +2187

compared to previous projection

of 1800.

Q1 current balance now +672

compared to previous figure

of +471.

Reason - increase in estimate of

invisibles balance from 1606 to 1807.

So H I now +500

versus -90.

CC 16/9.

If QIII projection for invisibles revised
up to +700 a month from +600 a month
then July will be -210, & first 7 months +290