PO/CH/NL/0019

PART A

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PART A

1987 BUDGET SCORECARDS

DD'S 25 years NAZ'S 23-3-95.

PO -CH /NL/0019 PART A

STARTS:- 15-01-87

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FROM: M C SCHOLAR
DATE: 15 JANUARY 1987

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Financial Secretary (2)
Economic Secretary (2)
Minister of State (2)
Sir Peter Middleton
Sir Terence Burns
Sir Geoffrey Littler
Mr F E R Butler
Mr Cassell
Mr Monck
Mr Sedgwick
Mr Odling-Smee
Miss Evans
Mr Cropper
Mr Tyrie
Mr Ross Goobey

Mr Battishill - IR
Mr Isaac - IR
Sir Angus Fraser - C&E
Mr Knox - C&E

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BUDGET SCORECARD

... I attach a first Budget Scorecard, prepared with the help of the Revenue Departments and MP. This follows the same format as the final Scorecard last year. It scores the provisional conclusions reached at Chevening. Inevitably the costings shown are subject to considerable uncertainty at this stage.

2. The figuring in Table 1, which sets out the revenue effects of the tax measures currently in view, assumes a figure for revalorisation of 3.7% - in line with the December RPI figure to be announced tomorrow.

3. The estimated PSBR effects, set out in Table 2, are highly provisional at this stage. The calculations will need to be refined to take account of work on the economic effects of the measures - in particular on consumer credit tax.

4. The Tables include a yield figure for the VAT avoidance package, although this measure has already been taken account of by the forecasters in their estimate of the fiscal

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adjustment. We must clearly continue to show this measure in subsequent versions of the Scorecard, so that the forecasters will need to adjust their figuring accordingly.

MLS

M C SCHOLAR

Additional copies for Scorecard work to:

Miss Sinclair - FP
Mr Haigh - FP
Mr Romanski - FP
Mr Walters - FP
Mr Sedgwick - FP
Mr Riley - MP
Mr Bredenkamp - MP

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Mr Calder - IR
Mr Johns - IR
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SCORECARD OF 15 JANUARY 1987

TABLE 1

DIRECT EFFECTS OF BUDGET MEASURES

(All figures are net of the cost or yield of indexation or revalorisation included in the base forecast)

£m
(rounded to £5m)

Note	Proposal	1987-88 cost (-)/yield (+)		1988-89 cost (-)/yield (+)	
		-	+	-	+
1	Excise duties		nil		nil
2	VAT - partial exemption		300		400
	- small business	15		105	
3.	Consumer credit tax		30		350
4	Income tax (including higher rates)	2170		2800	
5	Car and car fuel benefits		nil		30
6	Profit related pay	nil		35	
7	Pensions - personal pensions	nil		25	
	- freestanding AVCs	nil		50	
	- anti-abuse measures		nil		10
8	Capital gains		neg		130
9	Inheritance tax	65		150	
10	Corporation tax - small companies	nil		40	
	- payment dates		nil		80
	- dual residents		neg		125
	- banks		neg		20
11	Lloyds RIC		nil		50
12	Oil - PRT valuation		20		20
	- PRT pricing		80		50
	- PRT crossfield allowance	5		20	
	Oil companies ACT	20		20	
13	Minor starters		10		40
	TOTAL TAX MEASURES	2275	440	3245	1305
		-1835		-1940	

Should take up? Misleading & wrong (figs jog)

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SCORECARD OF 15 JANUARY 1987

TABLE 2

PSBR EFFECTS[(a)]

(All figures are net of the cost or yield of indexation or revalorisation included in the base forecast)

£m
(rounded to £5m)
reduction(-)/increase(+)

Proposal	1987-88 +	1987-88 -	1988-89 +	1988-89 -
Excise duties		nil		nil
VAT - partial exemption		300		400
- small business	15		105	
Consumer credit tax		30		350
Income tax (including higher rates)	2225		2755	
Car and car fuel benefits		nil		30
Profit related pay	nil		35	
Pensions - personal pensions	nil		25	
- freestanding AVCs	nil		50	
- anti-abuse measures		nil		10
Capital gains		neg		130
Inheritance tax	65		150	
Corporation tax - small companies	nil		40	
- payment dates		nil		80
- dual residents		neg		125
- banks		neg		20
Lloyds RIC		nil		50
Oil - PRT valuation		20		20
- PRT pricing		80		50
- PRT crossfield allowance	5		20	
Oil companies ACT	20		20	
Minor starters		10		40
TOTAL	2330	440	3200	1305
	+1890		+1895	

(a) The figures for PSBR cost given in this table are calculated in terms of the change in the fiscal adjustment implied by each measure listed. Adding the figures together shows how much of any fiscal adjustment indicated by the forecasts, assuming a given PSBR, would be used up.

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Notes to Table 1

1. Excise duties: Assumes revenue effects (already included in the forecast) equivalent to across the board revalorisation (3.7%). For background Customs (Mr Knox) submissions of 18 December and 8 January are relevant (though figures are based on Autumn Statement revalorisation factor of 3.25%). Customs updating submission of 15 January takes account of the new revalorisation figure and suggests the following package in accordance with Ministers' preference for under-indexation of beer duty and other drinks, cigars and pipe tobacco offset by over-indexation of duty on cigarettes.

Product	Unit	Price increase (pence)
Beer	Pint	0.6
Cider	Pint	0.3
Spirits	75cl	-
Table wine	70cl	2.4
Sherry	70cl	4.1
Port	70cl	4.7
Cigarettes	20KS	5.2
Cigars and Pipe tobacco		-

Treasury (Mr Romanski) submission of 15 January considers the balance of vehicle taxation between VED and petrol/derv.

2. VAT: Assumes no change in standard rate.

Assumes revalorisation by 3.7% of the VAT registration threshold (the level of turnover at which businesses must register for VAT) raising it to £21,250 (from £20,500). The revenue effects (which are negligible) are included in the forecast.

Partial exemption: Assumes implementation from 1 April 1987 of revised rules for deduction of input tax (anti-tax avoidance measure).

Small business package: Assumes a cash and annual accounting package (to allow accounting for tax on the basis of cash paid and received and an annual returns system with advance payments on account) with a turnover ceiling of £250,000 per annum, 50% take-up and 1 April 1988 start date: cost in first year of £80 million and continuing annual cost thereafter of £5 million. Also assumes relaxation of period in which to notify and be registered for VAT (from ten days to one month) plus minor amendments to VAT Act 1983, Schedule 1. Cost shown is middle of ranges of £5-25 million (1987-88) and £10-40 million (1988-89).

3. Consumer Credit Tax: Assumes 5% tax on interest on all credit, except MIR-qualifying mortgages, to take effect from 1 April 1988. (Full-year revenue estimated at £500 million in 1989-90.) Possibility under examination of taxing interest on credit card transactions earlier: the revenue figure assumes introduction on 1 May 1987. (Introduction from mid-August 1987 would reduce the yield to £20 million.) Mr Jefferson Smith's annotated agenda (14 January) discusses main issues for the Minister of State's meeting on 15 January.

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4. Income tax: (Option 2). Figures assume statutory indexation of 3.7% (cost included in the forecast) and the following scale for basic and higher rates:

Rate %	Taxable income £
27	0-17,900
45	17,901-35,800
60	over 35,800

Figures assume no increase in mortgage interest relief ceiling, statutory indexation of age allowance and no change to composite rate.

The RPI impact effect of the 2p reduction in basic rate is an increase of 0.16%. Inland Revenue (Mr Mace) note of 15 January considers three alternative higher rate variants:

		Additional cost compared to Option 2 £m	
		1987-88	1988-89
(i)	Option 3: Straightforward indexation of higher rate thresholds and bands (rather than simplified scale in Option 2)	+30	+50
(ii)	Option 4: Indexation of first higher rate threshold but no changes to the 1986-87 higher rate bands	+15	+20
(iii)	Option 5: Indexation of first higher rate threshold and compression of first two higher rate bands leaving 50, 55 and 60% thresholds at 1986-87 levels	-10	-25

Option 5 is included because it is more effective than Option 4 in clawing back the benefit which the 2p basic rate cut gives to the higher paid.

An increase in basic allowances of 5% (and an equivalent cash increase in the age allowance) would produce an additional cost over and above Option 2 of £200 million in 1987-88 and £260 million in 1988-89.

5. Car and car fuel benefit scales: Assumes 10% on car scales but no change to car fuel scales.

6. Profit Related Pay: Assumes income tax exemption of half of profit related pay (up to a maximum of 10% or £1,500 whichever is smaller) of employees of companies and unincorporated businesses paid under a scheme registered by Inland Revenue.

7. Pensions: Assumes tax relief on personal pensions analogous to retirement annuity provisions as announced in Revenue's consultative document "Improving the Pensions Choice".

Assumes tax deduction for freestanding AVCs (voluntary pension contributions) by employees within current limits on occupational pensions. Costs depend critically on take up. Table 2 assumes 250,000 take up in 1988-89; if instead one assumes take-up of 500,000, the 1988-89 cost becomes £100 million.

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Assumes introduction of anti-abuse measures to counter pension scheme abuse in particular by high earners. Details still to be worked up. Yield highly speculative.

8. Capital gains: Figures are on post-Chevening basis and do not take account of discussion at Chancellor's meeting on 15 January. They assume removal of indexation of company capital gains and gains charged at full rate of corporation tax (with ACT set-off). Estimated yield takes no account of the possibility of mitigating the impact on life assurance companies. Figures ignore possibility of reform - still under active consideration - extending to individuals and trusts (so they assume statutory indexation of thresholds - costs included in the forecast). Revenue (Messrs Houghton/Cayley) paper of 14 January discusses the options for top slicing relief and once-for-all election if reform did extend to individuals. Further Revenue paper to be prepared for Chancellor's meeting on 22 January.

9. Inheritance tax: Assumes the following scale ("arithmetic '82") with a full year cost of £200 million

£000s	Tax Rate %
0-82	nil
82-164	30
164-246	40
246-328	50
Above 328	60

Inland Revenue paper to be prepared on possible alternative scales which would concentrate more of the benefit at the bottom end of the scale but without breaching the full year cost ceiling of £200 million.

10. Corporation tax: Assumes 2% drop in small companies' corporation tax rate in line with assumed income tax rate.

Assumes a measure on CT Payment Dates with a three year transition, to make all companies pay corporation tax nine months after the end of their accounting period.

Assumes measures to deny double deduction for interest payments by dual resident companies.

Tax Credit Relief for Banks: Assumes measure to limit credit for foreign withholding tax actually paid, or spared, on interest received by banks from overseas lending to the amount of corporation tax on the turn on the relevant loan. Estimated yield assumes 6% $ LIBOR.

11. Lloyds RIC: Legislation on Lloyds reinsurance to close will bring in a once-for-all yield of £150 million (assuming no opening adjustment) and a continuing yield of £30 million. Of £150 million, £100 million plus should be received in the two years 1988-89 and 1989-90 with most of the rest in 1990-91. Receipts will be delayed if Lloyds administrative arrangements are not reformed.

12. Oil: Assumes action to amend PRT valuation rules for establishing "market value" of oil transferred otherwise than in sales at arm's length.

PRT Pricing Rules: Assumes action to stop loss of PRT arising on arm's length sales as a result of companies' ability, in certain circumstances, to pick and choose from a range of prices.

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PRT Crossfield Allowance: Measure will allow an oil company to set PRT relief against other fields for up to 10% of expenditure in developing a new field, until that new field reaches payback. The justification for this proposal to relax the offshore oil tax regime is to be reviewed in the light of the recovery in the oil price.

Oil companies ACT: Assumes more scope for setting off ACT against North Sea ring fence profits. Provisional decision to be reviewed nearer Budget.

NOTE: The Scorecard does not at this stage include the Keith measures for charging interest on PAYE tax and tax paid by subcontractors and bringing certain payments to directors more clearly within PAYE. If they are legislated for and depending on the timing of any of the necessary regulations, there would be a small yield in 1987-88 and a yield of around £45 million in 1988-89. (No staffing effects.)

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SCORECARD OF 15 JANUARY 1987

TABLE 3

STAFFING EFFECTS

Proposal	Effect on manpower numbers at April 88		April 1989	
	–	+	–	+
Customs and Excise				
Excise duties		nil		nil
VAT - partial exemption		5		5
Consumer credit tax		N/K[a]		N/K[a]
Minor starters	14[b]		14[b]	
Total Customs	-9		-9	
Inland Revenue[c]				
Income tax (including higher rates)[d]		80		170
Car and car fuel benefits		nil		nil
Profit related pay		see note (e)		
Pensions		15		50
Capital gains		see note (f)		
Inheritance tax[g]		nil		nil
Stamp duty threshold (no change)[h]		18		20
Corporation Tax - payment dates		nil		35
- dual resident companies	neg		neg	
- tax credit relief for banks		nil		nil
Lloyds RIC[i]		nil		nil
Oil		neg		neg
Total Inland Revenue	+113		+275	
Transport				
Measures to deal with dishonoured cheques (negligible revenue implications)	5		5	
Total Transport	-5		-5	
Total (provisional only)	+99		+261	

(a) Likely to be substantial.
(b) Excludes marine diesel oil.
(c) Figures show the effects compared to current PES provision. Except as noted below, this assumes unchanged workloads.
(d) Staff effects same for options 2 to 5. A 5% increase in personal allowances would reduce the cost to 55 and 105 units at 1 April 1988 and 1989 respectively.
(e) Survey provision covers requirement of 50 (1 April 1988) and 100 (1 April 1989). Net cost/saving compared to Survey will depend on option chosen and on take-up.
(f) Staff savings (if any) will be small unless reform extends to individuals. Net cost/saving will depend on threshold for individuals.
(g) Scale assumed would prevent extra staff requirement of 20 (1 April 1988) and 45 (1 April 1989) if IHT threshold only indexed.
(h) Part of staff cost is transitional: long-run cost 15-20.
(i) Reform of Lloyds administrative arrangements would remove requirement for increase of 50 units at 1 April 1989 to cover increase in Lloyds' 'names'.

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SCORECARD OF 15 JANUARY 1987 **TABLE 4**

MINOR STARTERS

(Items in Starters list which Ministers have agreed are now serious contenders, with revenue effect of £3m or more)

FB Starter Number	FB Category	Proposal	1987-88 -	1987-88 +	1988-89 -	1988-89 +
4	B1	VAT: tour operators' margins	nil			25
11	B2	Abolition of on-course betting duty (a)	20		20	
	A	Increase in duty on gaming machine licences (a)		20		20
14	C	VAT: blocking of loophole on imported services		neg		5
16	C	VAT: tax on supply to be liability of person completing tax invoice		5		5
404-6	C	VED: increasing back duty payable on conviction for offence (b)		5		5
		Total		+10		+40

Notes to Table 5

(a) These two measures are linked and designed to be revenue neutral.

(b) Starter 404 double back duty, 405 minimum back duty and 406 all back duty deemed to be due are alternatives. Revenue yield in both years is £5 million for all but Starter 404 which would produce £10 million in 1988-89.

NB Starter 24 (Increase in duty for marine diesel oil) is still under consideration but future remains uncertain.

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DATE: 22 JANUARY 1987

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Mr Battishill - IR
Mr Isaac - IR
Mr Painter - IR
Sir Angus Fraser - C&E
Mr Knox - C&E

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BUDGET SCORECARD

... I attach the second Budget Scorecard, prepared with the help of the Revenue Departments and MP. It updates the first scorecard to take account of the discussions at the Overview meeting on 19 January and subsequent developments.

2. The main changes from last week's scorecard are:

(a) Excise duties: inclusion of package agreed at 19 January Overview.

(b) VAT small business package: revision to revenue and PSBR effects to take account of 1 October 1987 start date for cash accounting.

(c) Inheritance tax: revised cost figures in both years and changes in the scorecard notes to reflect the alternative options discussed in Inland Revenue's (Mr Battersby) paper of 20 January.

(d) Lloyds: deletion of Starter on reform of Lloyds administrative arrangements in 1987.

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(e) Inclusion of Keith measures on PAYE and sub-contractors.

(f) PSBR effects: figures for income tax and consumer credit tax amended to reflect further work on the economic effects.

3. The RPI impact effect of the scorecard package as a whole is 0.46 per cent, made up as follows: excise duty package 0.30 per cent, income tax changes 0.16 per cent. The economic forecast will assume that the impact of the Budget on the RPI is 0.31 per cent - so the scorecard package's addition to the forecast RPI is 0.15 per cent

MCS

M C SCHOLAR

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SCORECARD OF 22 JANUARY 1987 TABLE 1

DIRECT EFFECTS OF BUDGET MEASURES

(All figures are net of the cost or yield of indexation or revalorisation included in the base forecast)

£m
(rounded to £5m)
cost (-)/yield (+)

Note	Proposal	1987-88 -	1987-88 +	1988-89 -	1988-89 +
1	Excise duties	25		20	
2	VAT - partial exemption		300		400
	- small business	95		30	
3.	Consumer credit tax		20		350
4	Income tax (including higher rates)	2160		2775	
5	Profit related pay	nil		35	
6	Pensions - personal pensions	nil		25	
	- freestanding AVCs	nil		50	
	- anti-abuse measures		nil		10
7	Car and car fuel benefits		nil		30
8	Capital gains		nil		40
9	Inheritance tax	60		130	
10	Corporation tax - small companies	nil		40	
	- payment dates		nil		80
	- dual residents		neg		125
	- banks		neg		20
	- capital gains		nil		40
11	Lloyds RIC		nil		35
12	Oil - PRT valuation		20		20
	- PRT pricing		80		50
	- PRT crossfield allowance	5		20	
	- Oil companies ACT	20		20	
13	Keith: PAYE and sub-contractors		5		45
14	Minor starters		5		35
	TOTAL TAX MEASURES	2365	430	3145	1240
		-1935		-1905	

Ch
Following your meeting, I think line 8 cd be subsumed under item 10
AJK ✓

? Methuen Packing (RPI - City's way)

? Fall £1.99m t/o — £½m

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SCORECARD OF 22 JANUARY 1987

TABLE 2

PSBR EFFECTS[(a)]

(All figures are net of the cost or yield of indexation or revalorisation included in the base forecast)

£m
(rounded to £5m)
reduction(-)/increase(+)

Proposal	1987-88 +	1987-88 −	1988-89 +	1988-89 −
Excise duties	30		20	
VAT - partial exemption		300		400
- small business	95		30	
Consumer credit tax		20		295
Income tax (including higher rates)	2135		2795	
Profit related pay	nil		35	
Pensions - personal pensions	nil		25	
- freestanding AVCs	nil		50	
- anti-abuse measures		nil		10
Car and car fuel benefits		nil		30
Capital gains		nil		40
Inheritance tax	60		130	
Corporation tax - small companies	nil		40	
- payment dates		nil		80
- dual residents		neg		125
- banks		neg		20
Lloyds RIC		nil		35
Oil - PRT valuation		20		20
- PRT pricing		80		50
- PRT crossfield allowance	5		20	
Oil companies ACT	20		20	
Keith: PAYE and sub-contractors		5		45
Minor starters		5		35
TOTAL	2345	430	3165	1185
	+1915		+1980	

(a) The figures for PSBR cost given in this table are calculated in terms of the change in the fiscal adjustment implied by each measure listed. Adding the figures together shows how much of any fiscal adjustment indicated by the forecasts, assuming a given PSBR, would be used up.

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Notes to Table 1

1. Excise duties: Assumes the following package:

Product	Unit	% change in duty	Price change (p)	Revenue effect cost(-)/yield(+) 1987-88 £m
Beer	Pint	+3.0%	0.6	-15
Cider	Pint	-	0.0	-neg
Wine : Table	70cl	+3.0%	2.4	)
Cyprus sherry) between 13 &	70cl	+8.1%	6.4	)
Vermouth) 15% alcohol	75cl	+8.1%	6.9	)
Sherry	70cl	-4.1%	-5.6	) -5
Port	70cl	-3.6%	-5.6	)
Sparkling	70cl	+3.0%	3.9	)
Spirits	75cl	+3.0%	16.3	-5
Cigarettes (including hand-rolling tobacco)	20KS	+3.7%	3.4	nil
Cigars	5 whiffs	+3.7%	1.9	nil
Pipe tobacco	25 grams	-	0.0	-neg
Petrol	gallon	+5.2% (a)	5.3	+75
Derv	gallon	+6.2% (b)	5.3	+35
VED: cars	-	- (a)	0.0 (b)	-75
VED: other	-	-3.0% (b)		-35
Minor duties (principally minor oils, eg heavy fuel oil, gas oil)	-	+3.7% (c)	-	nil

(a) Petrol duty increase equals revalorisation plus recoupment of standstill on car VED.

(b) Same money increase for derv as petrol to be offset by reduction in certain lorry VED rates, the cost of which is £15 million. Option of standstill on lorry VED recouped by derv duty would mean an increase of 4.5p per gallon. Chancellor to discuss package with Secretary of State for Transport on 27 January.

(c) Scorecard assumes revalorisation. Customs (Mr Knox) paper of 18 December recommended no change on minor duties. If this option is pursued it is for consideration whether revenue cost of £5 million should be recouped from elsewhere, eg petrol.

Total RPI impact effect of the package is 0.30%, compared to 0.31% for revalorisation.

To recoup the revenue loss (£25 million) on alcoholic drinks, cigarette duty would have to rise by an additional 0.9%, to increase the cost of 20KS by a further 0.9p. The RPI impact effect would be increased by 0.02%.

2. VAT: Assumes no change in standard rate.

Assumes revalorisation by 3.7% of the VAT registration threshold (the level of turnover at which businesses must register for VAT) raising it to £21,250 (from £20,500). The revenue effects (which are negligible) are included in the forecast.

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Partial exemption: Assumes implementation from 1 April 1987 of revised rules for deduction of input tax (anti-tax avoidance measure).

Small business package: Assumes annual accounting (to allow an annual returns system with advance payments on account) with nil revenue effect and start date 1 July 1988 and a cash accounting system (to allow accounting for tax on the basis of cash paid and received) with a turnover ceiling of £250,000 per annum, 50% take-up and 1 October 1987 start date: cost in first year of £80 million and continuing annual cost thereafter of £5 million. On cash accounting, Customs will be producing an interim report on consultation exercise to be submitted on 23 January and will be hoping for firm advice on EC legal aspects in time for final report first week in February. Also assumes relaxation of period in which to notify and be registered for VAT (from ten days to one month) plus minor amendments to VAT Act 1983, Schedule 1. Cost included is middle of ranges of £5-25 million (1987-88) and £10-40 million (1988-89).

3. Consumer Credit Tax: Assumes 5% tax on interest on all credit, except MIR-qualifying mortgages, to take effect from 1 April 1988; interest on credit card transactions to be taxed from 15 August 1987. Full-year revenue in 1989-90 to be £500 million. If all mortgages excluded, revenue decreased by £25 million in 1988-89 and by £40 million in 1989-90. Cost of total exemption for lending to and by charities unlikely to be significant but confirmation not possible under Budget secrecy. Customs doing further papers on charities and onward lending (Mr Jefferson Smith of 22 January) and mortgages and instructions to counsel (both in week beginning 26 January). Minister of State holding meeting on 23 January.

4. Income tax: (Option 5). Figures assume statutory indexation of 3.7% of basic allowances (cost included in the forecast) and indexation of the first higher rate threshold, compression of the first two higher rate bands and leaving 50, 55 and 60% thresholds at 1986-87 levels, to produce the following scale:

Rate %	Taxable income £
27	0-17,900
40	17,901-20,400
45	20,401-25,400
50	25,401-33,300
55	33,301-41,200
60	over 41,200

Figures assume no increase in mortgage interest relief ceiling, statutory indexation of age allowance and no change to composite rate.

The RPI impact effect of the 2p reduction in basic rate is an increase of 0.16%. (via MIRAS)

An increase in basic allowances of 5% (and an equivalent cash increase in the age allowance) would produce an additional cost over and above Option 5 of £200 million in 1987-88 and £260 million in 1988-89.

5. Profit Related Pay: Assumes income tax exemption of half of profit related pay (up to a maximum of 10% of pay, including profit related pay, or £1,500 whichever is smaller) of employees of companies and unincorporated businesses paid under a scheme registered by Inland Revenue. Treasury paper (Mr Monck) of 22 January discusses the costings and other issues.

6. Pensions: Assumes tax relief on personal pensions analogous to retirement annuity provisions as announced in Revenue's consultative document "Improving the Pensions Choice".

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Assumes tax deduction for freestanding AVCs (voluntary pension contributions) by employees within current limits on occupational pensions. Costs depend critically on take up. Table 2 assumes 250,000 take up in 1988-89; if instead one assumes take-up of 500,000, the 1988-89 cost becomes £100 million.

Assumes introduction of anti-abuse measures to counter pension scheme abuse in particular by high earners. Details still to be worked up. Yield highly speculative.

7. Car and car fuel benefit scales: Assumes 10% on car scales but no change to car fuel scales.

8. Capital gains: Figures assume earlier proposals for personal sector will not be proceeded with; for companies that indexed gains will be charged in full at normal Corporation Tax rates, with ACT set-off (paragraph 47 of Mr Cayley's minute of 20 January). Treasury (FP) to co-ordinate a paper on the impact of scorecard package as a whole, including the corporate CGT proposal on individual parts of the corporate sector. Financial Secretary to consider separately possible CGT sweeteners listed in Mr Cayley's paper.

Subsume under item 10

9. Inheritance tax: Assumes the following scale ("arithmetic '82") with a revised full year cost of £180 million

£000s	Tax Rate %
0-82	nil
82-164	30
164-246	40
246-328	50
Above 328	60

Inland Revenue paper (Mr Battersby) of 20 January examines two possible alternative scales which would concentrate more of the benefit at the bottom end of the scale but without breaching the full year cost ceiling of £200 million, vis:

	Cost £m		
	1987-88	1988-89	full year
Four point 90	70	150	200
Four point 85	70	150	200

10. Corporation tax: Assumes 2% drop in small companies' corporation tax rate in line with assumed income tax rate.

Assumes a measure on CT Payment Dates with a three year transition, to make all companies pay corporation tax nine months after the end of their accounting period.

Assumes measures to deny double deduction for interest payments by dual resident companies.

Tax Credit Relief for Banks: Assumes measure to limit credit for foreign withholding tax actually paid, or spared, on interest received by banks from overseas lending to the amount of corporation tax on the turn on the relevant loan. Estimated yield assumes 6% $ LIBOR.

11. Lloyds RIC: Legislation on Lloyds reinsurance to close will bring in a once-for-all yield of £150 million (assuming no opening adjustment) and a continuing yield of £30 million. Revised estimated yield in 1988-89 reflects the fact that Lloyds administrative arrangements are not to be reformed in 1987 and receipt of the £150 million is likely to be spread over a longer period.

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12. Oil: Assumes action to amend PRT valuation rules for establishing "market value" of oil transferred otherwise than in sales at arm's length.

PRT Pricing Rules: Assumes action to stop loss of PRT arising on arm's length sales as a result of companies' ability, in certain circumstances, to pick and choose from a range of prices. Estimated yield is based on the original Government proposals; yield is likely to be somewhat less if industry counter proposals adopted.

PRT Crossfield Allowance: Measure will allow an oil company to set PRT relief against other fields for up to 10% of expenditure in developing a new field, until that new field reaches payback. The justification for this proposal to relax the offshore oil tax regime is to be reviewed in the light of the recovery in the oil price.

Oil companies ACT: Assumes more scope for setting off ACT against North Sea ring fence profits. Provisional decision to be reviewed nearer Budget.

13. Keith: Assumes legislation in 1987 to charge interest on PAYE tax and tax paid by subcontractors and to bring certain payments to directors more clearly within PAYE.

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SCORECARD OF 22 JANUARY 1987 **TABLE 3**

STAFFING EFFECTS

Proposal	Effect on manpower numbers at April 88		April 1989	
	-	+	-	+
Customs and Excise				
Excise duties		nil		nil
VAT - partial exemption		5		5
Consumer credit tax		N/K[a]		N/K[a]
Minor starters	14		14	
Total Customs	-9		-9	
Inland Revenue[b]				
Income tax (including higher rates)[c]		80		170
Profit related pay		see note (d)		
Pensions		15		50
Car and car fuel benefits		nil		nil
Capital gains[e]		nil		nil
Inheritance tax[f]		nil		nil
Stamp duty threshold (no change)		18		20
Corporation Tax - payment dates[g]		nil		35
- dual resident companies	neg		neg	
- tax credit relief for banks		nil		nil
Lloyds RIC		nil		nil
Oil		neg		neg
Keith: PAYE and sub-contractors		nil		nil
Total Inland Revenue	+113		+275	
Transport				
Measures to deal with dishonoured cheques (negligible revenue implications)	5		5	
Total Transport	-5		-5	
Total (provisional only)	+99		+261	

(a) Likely to be substantial.

(b) Figures show the effects compared to current PES provision. Except as noted below, this assumes unchanged workloads.

(c) Staff effects relate to Option 5. A 5% increase in personal allowances would reduce the cost to 55 and 105 units at 1 April 1988 and 1989 respectively.

(d) Survey provision covers requirement of 50 (1 April 1988) and 100 (1 April 1989). Possibly some additional cost compared to Survey depending on take-up.

(e) On basis that CGT threshold is indexed.

(f) Figures assume "Arithmetic 82". "Four point 90" would save 20 and 35 staff at 1 April 1988 and 1 April 1989 respectively. "Four point 85" would save 10 and 20 staff at 1 April 1988 and 1 April 1989 respectively. All Options would prevent extra staff requirement of 20 (1 April 1988) and 35 (1 April 1989) if Inheritance Tax threshold only indexed.

(g) Part of staff cost is transitional: long-run cost 15-20.

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SCORECARD OF 22 JANUARY 1987

TABLE 4

MINOR STARTERS

(Items in Starters list which Ministers have agreed are now serious contenders, with revenue effect of £3m or more)

FB Starter Number	FB Category	Proposal	1987-88 –	1987-88 +	1988-89 –	1988-89 +
4	B1	VAT: tour operators' margins	nil			25
11	B2	Abolition of on-course betting duty (a)	20		20	
	A	Increase in duty on gaming machine licences (a)		20		20
14	C	VAT: blocking of loophole on imported services		neg		5
404-6	C	VED: increasing back duty payable on conviction for offence (b)		5		5
		Total		+5		+35

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Notes to Table 5

(a) These two measures are linked and designed to be revenue neutral taken together.

(b) Starter 404 double back duty, 405 minimum back duty and 406 all back duty deemed to be due are alternatives. Revenue yield in both years is £5 million for all but Starter 404 which would produce £10 million in 1988-89.

NB Starter 124 (Pre-trading R&D) is still under consideration but future highly uncertain. Starter 170 (Tax relief for employee buy outs) is still under consideration. Cost figures as yet unavailable.

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FROM: M C SCHOLAR
DATE: 29 JANUARY 1987

CHANCELLOR OF THE EXCHEQUER

cc Principal Private Secretary
Chief Secretary (2)
Financial Secretary (2)
Economic Secretary (2)
Minister of State (2)
Sir Peter Middleton
Sir Terence Burns
Sir Geoffrey Littler
Mr F E R Butler
Mr Wilson
Mr Cassell
Mr Monck
Mr Sedgwick
Mr Odling-Smee
Miss Evans
Mr Cropper
Mr Tyrie
Mr Ross Goobey

Mr Battishill - IR
Mr Isaac - IR
Mr Painter - IR
Sir Angus Fraser - C&E
Mr Knox - C&E

BUDGET SCORECARD

... I attach the third Budget Scorecard.

2. The main changes from last week's scorecard are:

(a) Derv duty and lorry VED: changes to reflect your meeting with the Transport Secretary.

(b) VAT-small businesses: increase in the estimated cost in 1987-88 (taking account of changed assumptions on take-up of cash accounting following consultation).

(c) Customs' Project Five: substantial upward revision to the yield for 1988-89.

(d) Inheritance tax: inclusion of "Four point 90" as the main option.

(e) Corporation Tax/Capital Gains Tax: category change.

MCS

M C SCHOLAR

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Additional copies for Scorecard work to:

Miss Sinclair - FP
Mr Haigh - FP
Mr Romanski - FP
Mr Walters - FP
Mr Sedgwick - FP
Mr Riley - MP
Mr Bredenkamp - MP

Mr Beighton - IR
Mr Calder - IR
Mr Johns - IR
Mr Ko - IR
Mr McManus - IR
Mr Boyce - IR

Mr Wilmott - C&E
Mr Bone - C&E

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SCORECARD OF 29 JANUARY 1987

TABLE 1

DIRECT EFFECTS OF BUDGET MEASURES

(All figures are net of the cost or yield of indexation or revalorisation included in the base forecast)

£m
(rounded to £5m)

Note	Proposal	1987-88 cost (-)/yield (+)		1988-89 cost (-)/yield (+)	
		-	+	-	+
1	Excise duties	25		25	
2	VAT - partial exemption		300		400
	- small business	115		30	
3.	Customs Project Five		20		450
4	Income tax (including higher rates)	2160		2775	
5	Profit related pay	nil		35	
6	Pensions - personal pensions	nil		25	
	- freestanding AVCs	nil		50	
	- anti-abuse measures		nil		10
7	Car and car fuel benefits		nil		30
8	Inheritance tax	70		150	
9	Corporation tax - small companies	nil		40	
	- capital gains		nil		40
	- payment dates		nil		80
	- dual residents		neg		125
	- banks		neg		20
10	Lloyds RIC		nil		35
11	Oil - PRT valuation		20		20
	- PRT pricing		80		50
	- PRT crossfield allowance	5		10	
	Oil companies ACT	20		20	
12	Keith: PAYE and sub-contractors		5		45
13	Minor starters		5		35
	TOTAL TAX MEASURES	2395	430	3160	1340
		-1965		-1820	

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SCORECARD OF 29 JANUARY 1987

TABLE 2

PSBR EFFECTS[(a)]

(All figures are net of the cost or yield of indexation or revalorisation included in the base forecast)

£m
(rounded to £5m)
reduction(-)/increase(+)

Proposal	1987-88 +	1987-88 -	1988-89 +	1988-89 -
Excise duties	30		25	
VAT - partial exemption		300		400
- small business	115		30	
Customs Project Five		20		400
Income tax (including higher rates)	2150		2760	
Profit related pay	nil		35	
Pensions - personal pensions	nil		25	
- freestanding AVCs	nil		50	
- anti-abuse measures		nil		10
Car and car fuel benefits		nil		30
Inheritance tax	70		150	
Corporation tax - small companies	nil		40	
- capital gains		nil		40
- payment dates		nil		80
- dual residents		neg		125
- banks		neg		20
Lloyds RIC		nil		35
Oil - PRT valuation		20		20
- PRT pricing		80		50
- PRT crossfield allowance	5		10	
Oil companies ACT	20		20	
Keith: PAYE and sub-contractors		5		45
Minor starters		5		35
TOTAL	2390	430	3145	1290
	+1960		+1855	

(a) The figures for PSBR cost given in this table are calculated in terms of the change in the fiscal adjustment implied by each measure listed. Adding the figures together shows how much of any fiscal adjustment indicated by the forecasts, assuming a given PSBR, would be used up.

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Notes to Table 1

1. Excise duties: Assumes the following package:

Product	Unit	less 3%	% change in duty	Price change (p)	Revenue effect cost(-)/yield(+) 1987-88 £m
Beer	Pint	–	+3.0%	0.6	-10
Cider	Pint	[–]	–	0.0	-neg
Wine : Table	70cl	–	+3.0%	2.4	)
Cyprus sherry) between 13 &	70cl	+5.1	+8.1%	6.4	)
Vermouth) 15% alcohol	75cl	+5.1	+8.1%	6.9	)
Sherry	70cl	-7.1	-4.1%	-5.6	) -5
Port	70cl	-6.6	-3.6%	-5.6	)
Sparkling	70cl	–	+3.0%	3.9	)
Spirits	75cl	–	+3.0%	16.3	-5
Cigarettes (including hand-rolling tobacco)	20KS		+3.7%	3.4	nil
Cigars	5 whiffs		+3.7%	1.9	nil
Pipe tobacco	25 grams		–	0.0	-neg
Petrol	gallon		+5.2% (a)	5.3	+75
Derv	gallon		+5.2% (b)	4.5	+20
VED: cars	–		– (a) (b)	0.0 (b)	-75
VED: other	–				-20
Minor duties (principally minor oils, eg heavy fuel oil, gas oil)	–		–	–	-5

(a) Petrol increase equals revalorisation plus recoupment of standstill on car VED.

(b) Derv increase equals revalorisation plus recoupment of standstill in lorry and other non-car VED. Alternative options are derv increase equal to petrol increase with either lorry VED standstill, which would give an overall £15 million revenue gain compared to revalorisation, or reduction in certain VED lorry rates (although Secretary of State for Transport does not favour this).

To recoup the revenue loss (£20 million) on alcoholic drinks, cigarette duty would have to rise by an additional 0.7% to increase the cost of 20KS by a further 0.7p. The RPI impact effect would be increased by 0.02%.

The RPI impact effect of the package is 0.30%, compared to 0.31% for revalorisation. If the total impact effect of the Budget as a whole were to be contained at 0.25%, and given that 2p off the basic rate of income tax is now estimated to add 0.15% to the RPI, the room for manoeuvre on excise duties would be limited to an RPI impact effect of 0.1%. This could be effected by revalorisation of duty on cigarettes (and hand-rolling tobacco), with no increase in any other duty. Total revenue cost would be £440 million in 1987-88.

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2. VAT: Assumes no change in standard rate.

Assumes revalorisation by 3.7% of the VAT registration threshold (the level of turnover at which businesses must register for VAT) raising it to £21,300 (from £20,500). The maximum revenue effect would not exceed £10 million and, depending on the numbers of deregistrations, could be negligible. It is allowed for in the forecast.

Partial exemption: Assumes implementation from 1 April 1987 of revised rules for deduction of input tax (anti-tax avoidance measure).

Small business package: Assumes annual accounting (to allow an annual returns system with advance payments on account) with nil revenue effect and start date 1 July 1988. Also assumes a cash accounting system (to allow accounting for tax on the basis of cash paid and received) with a turnover ceiling of £250,000 per annum, two-thirds take-up and 1 October 1987 start date: cost in first year of £100 million and continuing annual cost thereafter of £5 million (comparable costs for a £500,000 ceiling would be £150 million and £10 million). Mr Howard's note of 23 January gave an interim report. Customs are hoping for firm advice on EC legal aspects in time for final report first week in February. Also assumes relaxation of period in which to notify and be registered for VAT (from ten days to one month) plus minor amendments to VAT Act 1983, Schedule 1. Cost included is middle of ranges of £5-25 million (1987-88) and £10-40 million (1988-89).

3. Customs Project Five: Assumes 5% tax on interest on all credit, except MIR-qualifying mortgages, to take effect from 1 April 1988; interest on credit card transactions to be taxed from 15 August 1987. Full-year revenue in 1989-90 to be £680 million. If all mortgages excluded, revenue decreased by £140 million in 1988-89 and by £240 million in 1989-90. Cost of total exemption for lending to and by charities unlikely to be significant but confirmation not possible under Budget secrecy. Customs papers on instructions to Counsel and on mortgages to go forward by 30 January. Other papers on personal/business credit and de minimis limits to follow.

4. Income tax: (Option 5). Figures assume statutory indexation of 3.7% of basic allowances (cost included in the forecast) and indexation of the first higher rate threshold, compression of the first two higher rate bands and leaving 50, 55 and 60% thresholds at 1986-87 levels, to produce the following scale:

Rate %	Taxable income £
27	0-17,900
40	17,901-20,400
45	20,401-25,400
50	25,401-33,300
55	33,301-41,200
60	over 41,200

Figures assume no increase in mortgage interest relief ceiling, statutory indexation of age allowance and no change to composite rate.

The RPI impact effect of the 2p reduction in basic rate is an increase of 0.15% and this would appear in the April 1987 RPI figure.

An increase in basic allowances of 5% (and an equivalent cash increase in the age allowance) would produce an additional cost over and above Option 5 of £200 million in 1987-88 and £260 million in 1988-89.

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5. Profit Related Pay: Assumes income tax exemption of half of profit related pay (up to a maximum of 10% of pay, including profit related pay, or £1,500 whichever is smaller) of employees of companies and unincorporated businesses paid under a scheme registered by Inland Revenue. The presentation in the Budget should make the point that the full year cost could exceed £100 million.

6. Pensions: Assumes tax relief on personal pensions analogous to retirement annuity provisions as announced in Revenue's consultative document "Improving the Pensions Choice".

Assumes tax deduction for freestanding AVCs (additional voluntary pension contributions) by employees within current limits on occupational pensions. Costs depend critically on take up. Table 2 assumes 250,000 take up in 1988-89; if instead one assumes take-up of 500,000, the 1988-89 cost becomes £100 million.

Assumes introduction of anti-abuse measures to counter pension scheme abuse in particular by high earners. Details still to be worked up. Yield highly speculative.

7. Car and car fuel benefit scales: Assumes 10% on car scales but no change to car fuel scales.

8. Inheritance tax: Assumes the following scale ("Four point 90") with a full year cost of £200 million:

£000s	Tax Rate %
0-90	nil
90-134	30
134-214	40
214-329	50
Above 329	60

Inland Revenue paper to be prepared on refinements to this scale to produce a smoother band structure between £90,000 and £330,000, at a first year cost of less than £100 million and a full year cost of up to £220 million.

On business relief, an Inland Revenue note to be prepared further examining the proposal that 50% relief should be given to controlling holdings in any company and to holdings of more than 25% in companies without a full or USM listing, with 30% relief restricted to holdings of 25% or less in companies without a full or USM listing.

9. Corporation tax: Assumes 2% drop in small companies' corporation tax rate in line with assumed income tax rate.

Assumes companies capital gains will be charged in full at normal Corporation Tax rates, with ACT set-off.

Assumes a measure on CT Payment dates, with a three year transition, to oblige all companies to pay corporation tax nine months after the end of their accounting period.

Assumes measures to deny double deduction for interest payments by dual resident companies.

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Tax Credit Relief for Banks: Assumes measure to limit credit for foreign withholding tax actually paid, or spared, on interest received by banks from overseas lending to the amount of corporation tax on the turn on the relevant loan. Estimated yield assumes 6% $ LIBOR.

Treasury (FP) to co-ordinate a paper on the impact of scorecard package as a whole, including the proposal on corporate capital gains, on individual parts of the corporate sector.

10. Lloyds RIC: Legislation on Lloyds reinsurance to close will bring in a once-for-all yield of £150 million (assuming no opening adjustment) and a continuing yield of £30 million. Revised estimated yield in 1988-89 reflects the fact that Lloyds administrative arrangements are not to be reformed in 1987 and receipt of the £150 million is likely to be spread over a longer period.

11. Oil: Assumes action to amend PRT valuation rules for establishing "market value" of oil transferred otherwise than in sales at arm's length.

PRT Pricing Rules: Assumes action to stop loss of PRT arising on arm's length sales as a result of companies' ability, in certain circumstances, to pick and choose from a range of prices. Estimated yield is based on the original Government proposals; yield is likely to be somewhat less if industry counter proposals adopted.

PRT Crossfield Allowance: Measure will allow an oil company to set PRT relief against other fields for up to 10% of expenditure in developing a new field, until that new field reaches payback. The justification for this proposal to relax the offshore oil tax regime is to be reviewed in the light of the recovery in the oil price.

Oil companies ACT: Assumes more scope for setting off ACT against North Sea ring fence profits. Provisional decision to be reviewed nearer Budget.

NB. PRT Research allowance: measure will provide cross-field relief for research expenditure not specific to a particular field. Nil revenue effect in 1987-88 and 1988-89 but first year cost (1990-91) of £30 million and £25 million thereafter.

12. Keith: Assumes legislation in 1987 to charge interest on PAYE tax and tax paid by subcontractors and to bring certain payments to directors more clearly within PAYE.

NB: Enterprise Measures: Following discussion at Overview (26 January) on the CBI and Lord Young proposals, Inland Revenue will be preparing a note on the case for putting the Revenue's training extra statutory concession on a statutory footing, and the Treasury (Mr Monck) will be establishing whether or not there is a shortage of small workshops.

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SCORECARD OF 29 JANUARY 1987 **TABLE 3**

STAFFING EFFECTS

Proposal	Effect on manpower numbers at April 88		April 1989	
	–	+	–	+
Customs and Excise				
Excise duties		nil		nil
VAT - partial exemption		5		5
Customs Project Five		N/K[a]		N/K[a]
Minor starters	14		14	
Total Customs		-9		-9
Inland Revenue[b]				
Income tax (including higher rates)[c]		80		170
Profit related pay		see note (d)		
Pensions		15		50
Car and car fuel benefits		nil		nil
Inheritance tax[e]	20		35	
Stamp duty threshold (no change)		18		20
Corporation Tax - payment dates[f]		nil		35
- capital gains	neg		neg	
- dual resident companies	neg		neg	
- tax credit relief for banks		nil		nil
Lloyds RIC		nil		nil
Oil		neg		neg
Keith: PAYE and sub-contractors		nil		nil
Total Inland Revenue		+93		+240
Transport				
Measures to deal with dishonoured cheques (negligible revenue implications)	5		5	
Total Transport		-5		-5
Total (provisional only)		+79		+226

(a) Likely to be substantial.
(b) Figures show the effects compared to current PES provision. Except as noted below, this assumes unchanged workloads.
(c) Staff effects relate to Option 5. A 5% increase in personal allowances would reduce the cost to 55 and 105 units at 1 April 1988 and 1989 respectively.
(d) Survey provision covers requirement of 50 (1 April 1988) and 100 (1 April 1989). Possibly some additional cost compared to Survey depending on take-up.
(e) Figures assume "Four point 90".
(f) Part of staff cost is transitional: long-run cost 15-20.

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SCORECARD OF 29 JANUARY 1987 **TABLE 4**

MINOR STARTERS

(Items in Starters list which Ministers have agreed are now serious contenders, with revenue effect of £3m or more)

FB Starter Number	FB Category	Proposal	1987-88 -	1987-88 +	1988-89 -	1988-89 +
4	B1	VAT: tour operators' margins	nil			25
11	B2	Abolition of on-course betting duty[(a)]	20		20	
	A	Increase in duty on gaming machine licences (a)		20		20
14	C	VAT: blocking of loophole on imported services		neg		5
404-6	C	VED: increasing back duty payable on conviction for offence (b)		5		5
		Total		+5		+35

Notes to Table 5

(a) These two measures are linked and designed to be revenue neutral taken together.

(b) Starter 404 double back duty, 405 minimum back duty and 406 all back duty deemed to be due are alternatives. Revenue yield in both years is £5 million for all but Starter 404 which would produce £10 million in 1988-89.

NB1 Starter 170 (Tax relief for employee buy outs) is still under consideration. Cost figures as yet unavailable.

NB2 Financial Secretary to consider possible Capital Gains Tax sweetners. FP to co-ordinate an across-the-board survey of possible lollipops.

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FROM: M C SCHOLAR
DATE: 5 FEBRUARY 1987

CHANCELLOR OF THE EXCHEQUER

cc Principal Private Secretary
Chief Secretary (2)
Financial Secretary (2)
Economic Secretary (2)
Minister of State (?)
Sir Peter Middleton
Sir Terence Burns
Sir Geoffrey Littler
Mr F E R Butler
Mr Wilson
Mr Cassell
Mr Monck
Mr Sedgwick
Mr Odling-Smee
Miss Evans
Mr Cropper
Mr Tyrie
Mr Ross Goobey

Mr Battishill - IR
Mr Isaac - IR
Mr Painter - IR
Sir Angus Fraser - C&E
Mr Knox - C&E

Ch
Possible points to raise under this item are
(1) Excise duties
(2) Income tax thresholds (Mace's note below).
(3) Income tax bands and rates (and separate notes on IHT, PRP, PRT)

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BUDGET SCORECARD

... I attach the fourth Budget Scorecard.

2. The main changes from last week's scorecard - which, as you will see, bring the total cost of the package above £2 billion in 1987-88 and about £2¼ billion in 1988-89 - are:

(a) Excise duties: decrease in the estimated cost to reflect your decision on VED for farmers' lorries, trade licences and recovery vehicles.

(b) Customs Project Five: dropped.

(c) Income tax: decrease in second year cost to reflect changed forecast.

(d) Inheritance tax: inclusion of "smooth four point 90" as main option.

(e) Oil - PRT pricing: decrease in yield in 1987-88 to reflect the decision to go for a version of the industry's counter proposals.

(f) Minor Starters: decrease in yield in both years to reflect inclusion of package of VAT lollipops for charities.

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3. Following a discussion with Sir Peter Middleton this morning I now propose to defer until 13 February submission of a revised version of the Budget Statement outline which I circulated on 30 January. This will bring us into line with, and no longer ahead of, last year's timetable (Miss Evans will be circulating tomorrow a detailed timetable for the remaining weeks up to the Budget.)

Ch
I agreed to this
– not much point in
revising till you've had
a chance to look @
original AA

MCS

M C SCHOLAR

Additional copies for Scorecard work to:

Miss Sinclair - FP
Mr Haigh - FP
Mr Romanski - FP
Mr Walters - FP
Mr Sedgwick - FP
Mr Riley - MP
Mr Bredenkamp - MP

Mr Beighton - IR
Mr Calder - IR
Mr Johns - IR
Mr Ko - IR
Mr McManus - IR
Mr Boyce - IR

Mr Wilmott - C&E
Mr Bone - C&E

BL enc: 8 pages

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SCORECARD OF 5 FEBRUARY 1987

TABLE 1

DIRECT EFFECTS OF BUDGET MEASURES

(All figures are net of the cost or yield of indexation or revalorisation included in the base forecast)

£m
(rounded to £5m)

Note	Proposal	cost (-)/yield (+) 1987-88 -	1987-88 +	1988-89 -	1988-89 +
1	Excise duties	20		20	
2	VAT - partial exemption		300		400
	- small business	115		35	
3	Income tax (including higher rates)	2160		2720	
4	Profit related pay	nil		35	
5	Pensions - personal pensions	nil		25	
	- freestanding AVCs	nil		50	
	- anti-abuse measures		nil		10
6	Car and car fuel benefits		nil		30
7	Inheritance tax	75		160	
8	Corporation tax - small companies	nil		40	
	- capital gains		nil		50
	- payment dates		nil		80
	- dual residents		neg		125
	- banks		neg		20
9	Lloyds RIC		nil		35
10	Oil - PRT valuation		20		20
	- PRT pricing		50		50
	- PRT crossfield allowance	5		10	
	Oil companies ACT	20		20	
11	Keith: PAYE and sub-contractors		5		45
12	Minor starters		nil		30
	TOTAL TAX MEASURES	2395	375	3115	895
		-2020		-2220	

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SCORECARD OF 5 FEBRUARY 1987

TABLE 2

PSBR EFFECTS[(a)]

(All figures are net of the cost or yield of indexation or revalorisation included in the base forecast)

£m
(rounded to £5m)
reduction(-)/increase(+)

Proposal	1987-88 +	1987-88 −	1988-89 +	1988-89 −
Excise duties	25		20	
VAT - partial exemption		300		400
- small business	115		35	
Income tax (including higher rates)	2150		2705	
Profit related pay	nil		35	
Pensions - personal pensions	nil		25	
- freestanding AVCs	nil		50	
- anti-abuse measures		nil		10
Car and car fuel benefits		nil		30
Inheritance tax	75		160	
Corporation tax - small companies	nil		40	
- capital gains		nil		50
- payment dates		nil		80
- dual residents		neg		125
- banks		neg		20
Lloyds RIC		nil		35
Oil - PRT valuation		20		20
- PRT pricing		50		50
- PRT crossfield allowance	5		10	
Oil companies ACT	20		20	
Keith: PAYE and sub-contractors		5		45
Minor starters		nil		30
TOTAL	2390	375	3100	895
	+2015		+2205	

(a) The figures for PSBR cost given in this table are calculated in terms of the change in the fiscal adjustment implied by each measure listed. Adding the figures together shows how much of any fiscal adjustment indicated by the forecasts, assuming a given PSBR, would be used up.

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Notes to Table 1

1. Excise duties: Assumes the following package:

Product	Unit	% change in duty	Price change (p)	Revenue effect cost(-)/yield(+) 1987-88 £m
Beer	Pint	+3.0%	0.6	-10
Cider	Pint	-	0.0	-neg
Wine : Table	70cl	+3.0%	2.4	)
Cyprus sherry) between 13 &	70cl	+8.1%	6.4	)
Vermouth) 15% alcohol	75cl	+8.1%	6.9	)
Sherry	70cl	-4.1%	-5.6	) -5
Port	70cl	-3.6%	-5.6	)
Sparkling	70cl	+3.0%	3.9	)
Spirits	75cl	+3.0%	16.3	-5
Cigarettes (including hand-rolling tobacco)	20KS	+3.7%	3.4	nil
Cigars	5 whiffs	+3.7%	1.9	nil
Pipe tobacco	25 grams	-	0.0	-neg
Petrol	gallon	+5.2% (a)	5.3	+75
Derv	gallon	+5.2% (b)	4.5	+20
VED: cars	-	- (a)	0.0 (b)	-75
VED: other	-	(b)		-15
Minor duties (principally minor oils, eg heavy fuel oil, gas oil)	-	-	-	-5

(a) Petrol increase equals revalorisation plus recoupment of standstill on car VED.

(b) Derv increase equals revalorisation plus recoupment of standstill in lorry and other non-car VED. Alternative option is derv increase equal to petrol price increase with lorry VED standstill, which would give an overall £15 million revenue gain compared to revalorisation.

To recoup the revenue loss (£20 million) on alcoholic drinks, cigarette duty would have to rise by an additional 0.7% to increase the cost of 20KS by a further 0.7p. The RPI impact effect would be increased by 0.02%.

The RPI impact effect of the package is 0.30%, compared to 0.31% for revalorisation. If the total impact effect of the Budget as a whole were to be contained at 0.25%, and given that 2p off the basic rate of income tax is now estimated to add 0.15% to the RPI, the room for manoeuvre on excise duties would be limited to an RPI impact effect of 0.1%. This could be effected by revalorisation of duty on cigarettes (and hand-rolling tobacco), with no increase in any other duty. Total revenue effect compared to scorecard package would be additional cost of £415 million in 1987-88.

If there were no change to any current duties (excluding gaming machine licences) the revenue effect compared to the scorecard package would be additional costs of:

	£ million 1987-88	1988-89
cigarettes (inc hand-rolling tobacco)	-90	-100
all other excise duties including VED	-415	-455
Total	-505	-555

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2. VAT: Assumes no change in standard rate.

Assumes revalorisation by 3.7% of the VAT registration threshold (the level of turnover at which businesses must register for VAT) raising it to £21,300 (from £20,500). The maximum revenue effect would not exceed £10 million and, depending on the numbers of deregistrations, could be negligible. It is allowed for in the forecast.

Partial exemption: Assumes implementation from 1 April 1987 of revised rules for deduction of input tax (anti-tax avoidance measure).

Small business package: Assumes annual accounting (to allow an annual returns system with advance payments on account) with nil revenue effect and start date 1 July 1988. Also assumes a cash accounting system (to allow accounting for tax on the basis of cash paid and received) with a turnover ceiling of £250,000 per annum, two-thirds take-up and 1 October 1987 start date: cost in first year of £100 million and continuing annual cost thereafter of £10 million (comparable costs for a £500,000 ceiling would be £150 million and £15 million). Mr Howard's note of 23 January gave an interim report. Further Customs and Excise submission (Mr Howard) next week. Also assumes relaxation of period in which to notify and be registered for VAT (from ten days to one month) plus minor amendments to VAT Act 1983, Schedule 1. Cost included is middle of ranges of £5-25 million (1987-88) and £10-40 million (1988-89).

3. Income tax: (Option 5). Figures assume statutory indexation of 3.7% of basic allowances (cost included in the forecast) and indexation of the first higher rate threshold, compression of the first two higher rate bands and leaving 50, 55 and 60% thresholds at 1986-87 levels, to produce the following scale:

Rate %	Taxable income £
27	0-17,900
40	17,901-20,400
45	20,401-25,400
50	25,401-33,300
55	33,301-41,200
60	over 41,200

Figures include consequential effect on rate of ACT. Also assume no increase in mortgage interest relief ceiling, no reduction in rate of Life Assurance Premium Relief (LAPR), statutory indexation of age allowance and no change to composite rate. Inland Revenue (Mr Mace) note of 2 February discusses further implications of basic rate cut.

The RPI impact effect of the 2p reduction in basic rate is an increase of 0.15% and this would appear in the April 1987 RPI figure (published 15 May).

An increase in basic allowances of 5% (and an equivalent cash increase in the age allowance) would produce an additional cost over and above Option 5 of £200 million in 1987-88 and £260 million in 1988-89.

4. Profit Related Pay: Assumes income tax exemption of half of profit related pay (up to a maximum of 10% of pay, including profit related pay, or £1,500 whichever is smaller) of employees of companies and unincorporated businesses paid under a scheme registered by Inland Revenue. The presentation in the Budget will note that the full year cost could exceed £100 million.

Ch/Ex have asked Brian Mace for a note on 5% on allowances and 5% (not same cash increase) for age allowance, and this is below. That wd cost £220m in 87/8 and £280m in 88/9 over Option 5 AWK 6/2

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5. Pensions: Assumes tax relief on personal pensions analogous to retirement annuity provisions as announced in Revenue's consultative document "Improving the Pensions Choice".

Assumes tax deduction for freestanding AVCs (additional voluntary pension contributions) by employees within current limits on occupational pensions. Costs depend critically on take up. Table 2 assumes 250,000 take up in 1988-89; if instead one assumes take-up of 500,000, the 1988-89 cost becomes £100 million.

Assumes introduction of anti-abuse measures to counter pension scheme abuse in particular by high earners. Submission by Inland Revenue within days. Yield highly speculative.

6. Car and car fuel benefit scales: Assumes 10% on car scales but no change to car fuel scales.

7. Inheritance tax: Assumes the following scale ("smooth four point 90") with a full year cost of £215 million:

£000s	Tax Rate %
0-90	nil
90-140	30
140-220	40
220-330	50
Above 330	60

elsewhere in your box

Inland Revenue papers (Mr Battersby) of 30 January and 2 February consider this scale which has a smoother band structure than the original "four point 90" at an additional full year cost of £15 million (£5 million in 1987-88 and £10 million in 1988-89).

On business relief, an Inland Revenue note to be prepared by the end of this week further examining the proposal that 50% relief should be given to controlling holdings in any company and to holdings of more than 25% in companies without a full or USM listing, with 30% relief restricted to holdings of 25% or less in companies without a full or USM listing.

8. Corporation tax: Assumes 2% drop in small companies' corporation tax rate in line with assumed income tax rate.

Assumes companies capital gains will be charged in full at normal Corporation Tax rates, with ACT set-off. (Estimated full year yield £90 million.)

Assumes a measure on CT Payment dates, with a three year transition, to oblige all companies to pay corporation tax nine months after the end of their accounting period.

Assumes measures to deny double deduction for interest payments by dual resident companies.

Tax Credit Relief for Banks: Assumes measure to limit credit for foreign withholding tax actually paid, or spared, on interest received by banks from overseas lending to the amount of corporation tax on the turn on the relevant loan. Estimated yield assumes 6% $ LIBOR.

Treasury (FP) paper of 5 February discusses the impact of Budget Starters on the corporate sector. (below)

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9. Lloyds RIC: Legislation on Lloyds reinsurance to close will bring in a once-for-all yield of £150 million (assuming no opening adjustment) and a continuing yield of £30 million. Revised estimated yield in 1988-89 reflects the fact that Lloyds administrative arrangements are not to be reformed in 1987 and receipt of the £150 million is likely to be spread over a longer period.

10. Oil: Assumes action to amend PRT valuation rules for establishing "market value" of oil transferred otherwise than in sales at arm's length.

PRT Pricing Rules: Assumes action to stop loss of PRT arising on arm's length sales as a result of companies' ability, in certain circumstances, to pick and choose from a range of prices. Revised yield reflects the Financial Secretary's decision to go for a version of the industry's counter proposals. Yield estimate is very uncertain and will depend on the volatility of oil prices and company behaviour.

PRT Crossfield Allowance: Measure will allow an oil company to set PRT relief against other fields for up to 10% of expenditure in developing a new field, until that new field reaches payback. The justification for this proposal to relax the offshore oil tax regime is to be reviewed in the light of the recovery in the oil price.

Oil companies ACT: Assumes more scope for setting off ACT against North Sea ring fence profits. Provisional decision to be reviewed nearer Budget.

NB. PRT Research allowance: measure will provide cross-field relief for research expenditure not specific to a particular field. Nil revenue effect in 1987-88 and 1988-89 but first year cost (1990-91) of £30 million and £25 million thereafter.

11. Keith: Assumes legislation in 1987 to charge interest on PAYE tax and tax paid by subcontractors and to bring certain payments to directors more clearly within PAYE.

NB: Enterprise Measures: Following discussion at Overview (26 January) on the CBI and Lord Young proposals, Inland Revenue will be preparing a note on the case for putting the Revenue's training extra statutory concession on a statutory footing. The Treasury (Mr Burgner) paper of 5 February discusses whether or not there is a shortage of small workshops.

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SCORECARD OF 5 FEBRUARY 1987 **TABLE 3**

STAFFING EFFECTS

Proposal	Effect on manpower numbers at April 88		April 1989	
	-	+	-	+
Customs and Excise				
Excise duties		nil		nil
VAT - partial exemption		5		5
Minor starters	14		14	
Total Customs		-9		-9
Inland Revenue[a]				
Income tax (including higher rates)[b]		80		185
Profit related pay[c]		15		5
Pensions[d]		35		30
Car and car fuel benefits		nil		nil
Inheritance tax[e]	20		35	
Capital gains tax threshold[f]		nil		60
Stamp duty threshold (no change)		18		20
Corporation Tax - payment dates[g]		nil		35
- capital gains	neg		neg	
- dual resident companies	neg		neg	
- tax credit relief for banks		nil		nil
Lloyds RIC		nil		nil
Oil		neg		neg
Keith: PAYE and sub-contractors		nil		nil
Total Inland Revenue		+128		+300
Transport				
Measures to deal with dishonoured cheques (negligible revenue implications)	5		5	
Total Transport		-5		-5
Total (provisional only)		+114		+286

(a) Figures show the effects compared to current PES provision.
(b) Staff effects relate to Option 5. A 5% increase in personal allowances would reduce the cost to 55 and 105 units at 1 April 1988 and 1989 respectively.
(c) In addition to survey provision of 50 (1 April 1988) and 100 (1 April 1989).
(d) The indications are that additional staff will be required earlier than previously expected. The April 1989 figure in the table is in addition to Survey provision of 20 staff at that date.
(e) Figures assume "smooth four point 90".
(f) Assumes statutory indexation. The April 1989 increase arises because Inland Revenue now estimate an additional 40,000 taxpayers compared to the number underlying current Survey provision.
(g) Part of staff cost is transitional: long-run cost 15-20.

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SCORECARD OF 5 FEBRUARY 1987 **TABLE 4**

MINOR STARTERS

(Items in Starters list which Ministers have agreed are now serious contenders, with revenue effect of £3m or more)

FB Starter Number	FB Category	Proposal	1987-88 -	1987-88 +	1988-89 -	1988-89 +
4	B1	VAT: tour operators' margins	nil			25
11	B2	Abolition of on-course betting duty[(a)]	20		20	
	A	Increase in duty on gaming machine licences (a)		20		20
14	C	VAT: blocking of loophole on imported services		neg		5
		VAT: charities mini-package (lollipops)[(b)]	5		5	
404-6	C	VED: increasing back duty payable on conviction for offence (c)		5		5
		Total		nil		+30

Notes to Table 5

(a) These two measures are linked and designed to be revenue neutral taken together.

(b) Treasury (Miss Sinclair) paper of 5 February sets out charities mini package and discusses other possible lollipops. Financial Secretary to consider possible Capital Gains Tax sweeteners.

(c) Starter 404 double back duty, 405 minimum back duty and 406 all back duty deemed to be due are alternatives. Revenue yield in both years is £5 million for all but Starter 404 which would produce £10 million in 1988-89.

NB1 Starter 170 (Tax relief for employee buy outs) is still under consideration. Cost depends on decisions.

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FROM: MISS C E C SINCLAIR
DATE: 12 FEBRUARY 1987

CHANCELLOR OF THE EXCHEQUER

cc Principal Private Secretary
Chief Secretary (2)
Financial Secretary (2)
Economic Secretary (2)
Minister of State (2)
Sir Peter Middleton
Sir Terence Burns
Sir Geoffrey Littler
Mr F E R Butler
Mr Wilson
Mr Cassell
Mr Monck
Mr Sedgwick
Mr Odling-Smee
Miss Evans
Mr Cropper
Mr Tyrie
Mr Ross Goobey

Mr Battishill - IR
Mr Isaac - IR
Mr Painter - IR
Sir Angus Fraser - C&E
Mr Knox - C&E

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BUDGET SCORECARD

... I attach the fifth Budget Scorecard.

2. There are few changes from last week's scorecard

(a) Inheritance tax - small adjustment to cost estimates.

(b) Oil - pricing and valuation changes removed.

(c) BES - new entry to reflect decision to include measures on year-end bunching and films.

(d) Lollipops - inclusion of a footnote in the notes to Table 1 to record action.

(e) PSBR effects - the figures shown in Table 2 for VAT (partial exemption) have been changed, mainly to allow for some loss of Corporation Tax revenue. This occurs because a part of the cost is likely to be absorbed, rather than passed on in higher prices, and companies' taxable profits will therefore be correspondingly lower.

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3. Also attached for information is a copy of this year's Budget timetable.

MISS C E C SINCLAIR

Additional copies for Scorecard work to:

Mr Scholar - FP
Mr Haigh - FP
Mr Romanski - FP
Mr Walters - FP
Mr Sedgwick - FP
Mr Riley - MP
Mr Bredenkamp - MP

Mr Beighton - IR
Mr Calder - IR
Mr Johns - IR
Mr Ko - IR
Mr McManus - IR
Mr Boyce - IR

Mr Wilmott - C&E
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SCORE[illegible]RD OF 12 FEBRUARY 1987

TABLE 1

DIRECT EFFECTS OF BUDGET MEASURES

(All figures are net of the cost or yield of indexation or revalorisation included in the base forecast)

£m
(rounded to £5m)

Note	Proposal	1987-88 cost (-)/yield (+)		1988-89 cost (-)/yield (+)	
		-	+	-	+
1	Excise duties	20		20	
2	VAT - partial exemption		300		400
	- small business	115		35	
3	Income tax (including higher rates)	2160		2720	
4	Profit related pay	nil		35	
5	Pensions - personal pensions	nil		25	
	- freestanding AVCs	nil		50	
	- anti-abuse measures		nil		10
6	Car and car fuel benefits		nil		30
7	Inheritance tax	70		150	
8	Corporation tax - small companies	nil		40	
	- capital gains		nil		50
	- payment dates		nil		80
	- dual residents		neg		125
	- banks		neg		20
9	Lloyds RIC		nil		35
10	Oil - PRT crossfield allowance	5		10	
	- Oil companies ACT	20		20	
11	Keith: PAYE and sub-contractors		5		45
12	Business Expansion Scheme	5		5	
13	Minor starters		nil		30
	TOTAL TAX MEASURES	2395	305	3110	825
		-2090		-2285	

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SCORECARD OF 12 FEBRUARY 1987 **TABLE 2**

PSBR EFFECTS[(a)]

(All figures are net of the cost or yield of indexation or revalorisation included in the base forecast)

£m
(rounded to £5m)
reduction(-)/increase(+)

Proposal	1987-88 +	1987-88 -	1988-89 +	1988-89 -
Excise duties	25		20	
VAT - partial exemption		295		350
- small business	115		35	
Income tax (including higher rates)	2150		2705	
Profit related pay	nil		35	
Pensions - personal pensions	nil		25	
- freestanding AVCs	nil		50	
- anti-abuse measures		nil		10
Car and car fuel benefits		nil		30
Inheritance tax	70		150	
Corporation tax - small companies	nil		40	
- capital gains		nil		50
- payment dates		nil		80
- dual residents		neg		125
- banks		neg		20
Lloyds RIC		nil		35
Oil - PRT crossfield allowance	5		10	
- Oil companies ACT	20		20	
Keith: PAYE and sub-contractors		5		45
Business Expansion Scheme	5		5	
Minor starters		nil		30
TOTAL	2390	300	3095	775
	+2090		+2320	

(a) The figures for PSBR cost given in this table are calculated in terms of the change in the fiscal adjustment implied by each measure listed. Adding the figures together shows how much of any fiscal adjustment indicated by the forecasts, assuming a given PSBR, would be used up.

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Notes to Table 1

1. Excise duties: Assumes the following package:

Product	Unit	% change in duty	Price change (p)	Revenue effect cost(-)/yield(+) 1987-88 £m
Beer	Pint	+3.0%	0.6	-10
Cider	Pint	-	0.0	-neg
Wine : Table	70cl	+3.0%	2.4	)
Cyprus sherry) between 13 &	70cl	+8.1%	6.4	)
Vermouth) 15% alcohol	75cl	+8.1%	6.9	)
Sherry	70cl	-4.1%	-5.6	) -5
Port	70cl	-3.6%	-5.6	)
Sparkling	70cl	+3.0%	3.9	)
Spirits	75cl	+3.0%	16.3	-5
Cigarettes (including hand-rolling tobacco)	20KS	+3.7%	3.4	nil
Cigars	5 whiffs	+3.7%	1.9	nil
Pipe tobacco	25 grams	-	0.0	-neg
Petrol	gallon	+5.2% (a)	5.3	+75
Derv	gallon	+5.2% (b)	4.5	+20
VED: cars	-	- (a) (b)	0.0 (b)	-75 (c)
VED: other	-			-15
Minor duties (principally minor oils, eg heavy fuel oil, gas oil)	-	-	-	-5

(a) Petrol increase equals revalorisation plus recoupment of standstill on car VED.

(b) Derv increase equals revalorisation plus recoupment of standstill in lorry and other non-car VED. Alternative option is derv increase equal to petrol price increase with lorry VED standstill, which would give an overall £15 million revenue gain compared to revalorisation.

(c) No change in main lorry and most other VED rates involves revenue loss of £20 million offset by £5 million gain from increases in rates for farmers lorries and trade licences and creation of new tax class for recovery vehicles.

To recoup the revenue loss (£20 million) on alcoholic drinks, cigarette duty would have to rise by an additional 0.7% to increase the cost of 20KS by a further 0.7p. The RPI impact effect would be increased by 0.02%.

The RPI impact effect of the package is 0.30%, compared to 0.31% for revalorisation. If the total impact effect of the Budget as a whole were to be contained at 0.25%, and given that 2p off the basic rate of income tax is now estimated to add 0.15% to the RPI, the room for manoeuvre on excise duties would be limited to an RPI impact effect of 0.1%. This

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could be effected by revalorisation of duty on cigarettes (and hand-rolling tobacco), with no increase in any other duty (excluding gaming machine licences and minor VED). Total revenue effect compared to scorecard package would be additional cost of £410 million in 1987-88.

Customs and Excise (Mr Knox) note of 12 February considers wine duty restructuring and the effects on the RPI of different excise duty options.

If there were no change to any current duties (excluding gaming machine licences and minor VED) the revenue effect compared to the scorecard package would be additional costs of:

	£ million	
	1987-88	1988-89
cigarettes (inc hand-rolling tobacco)	-90	-100
all other excise duties including VED	-410	-450
Total	-500	-550

2. VAT: Assumes no change in standard rate.

Assumes revalorisation by 3.7% of the VAT registration threshold (the level of turnover at which businesses must register for VAT) raising it to £21,300 (from £20,500). The maximum revenue effect would not exceed £10 million and, depending on the numbers of deregistrations, could be negligible. It is allowed for in the forecast.

Partial exemption: Assumes implementation from 1 April 1987 of revised rules for deduction of input tax (anti-tax avoidance measure).

Small business package: Assumes annual accounting (to allow an annual returns system with advance payments on account) with nil revenue effect and start date 1 July 1988. Also assumes a cash accounting system (to allow accounting for tax on the basis of cash paid and received) with a turnover ceiling of £250,000 per annum, two-thirds take-up and 1 October 1987 start date: cost in first year of £100 million and continuing annual cost thereafter of £10 million. Also assumes relaxation of period in which to notify and be registered for VAT (from ten days to one month) plus minor amendments to VAT Act 1983, Schedule 1. Cost included is middle of ranges of £5-25 million (1987-88) and £10-40 million (1988-89).

Customs and Excise (Mr Howard) preparing a submission reporting results of consultation exercise and seeking final decisions.

3. Income tax: (Option 5). Figures assume statutory indexation of 3.7% of basic allowances (cost included in the forecast) and indexation of the first higher rate threshold, compression of the first two higher rate bands and leaving 50, 55 and 60% thresholds at 1986-87 levels, to produce the following scale:

Rate %	Taxable income £
27	0-17,900
40	17,901-20,400
45	20,401-25,400
50	25,401-33,300
55	33,301-41,200
60	over 41,200

Figures include consequential effect on rate of ACT. Also assume matching reduction in rate of deduction for sub-contractors (from 2 November), no increase in mortgage interest relief ceiling, no reduction in rate of Life Assurance Premium Relief (LAPR), statutory indexation of age allowance and no change to composite rate until 1988-89.

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The RPI impact effect of the 2p reduction in basic rate is an increase of 0.15% and this would appear in the April 1987 RPI figure (published 15 May).

Inland Revenue (Mr Mace) note of 5 February considered option 5A - increasing allowances (including age allowance) by 5% in combination with the other features of Option 5 - at an additional cost over and above Option 5 of £220 million in 1987-88 and £280 million in 1988-89.

4. Profit Related Pay: Assumes income tax exemption of half of profit related pay (up to a maximum of 10% of pay, including profit related pay, or £1,500 whichever is smaller) of employees of companies and unincorporated businesses paid under a scheme registered by Inland Revenue. The presentation in the Budget will note that the full year cost could exceed £100 million. Minister of State is minuting Chancellor recommending against including public sector employees.

5. Pensions: Assumes tax relief on personal pensions analogous to retirement annuity provisions as announced in Revenue's consultative document "Improving the Pensions Choice" with start-up in April 1988 (NB Mr Fowler is considering advancing this to January 1988) and initial take up of 200,000.

Assumes tax deduction for freestanding AVCs (additional voluntary pension contributions) by employees within current limits on occupational pensions. Costs depend critically on take up. Table 2 assumes 250,000 take up in 1988-89; if instead one assumes take-up of 500,000, the 1988-89 cost becomes £100 million.

Assumes introduction of anti-abuse measures to counter pension scheme abuse in particular by high earners. Submission by Inland Revenue (Mr Corlett) 6 February; Financial Secretary note to Chancellor of 12 February. Yield highly speculative.

6. Car and car fuel benefit scales: Assumes 10% on car scales but no change to car fuel scales.

7. Inheritance tax: Assumes the following scale ("smooth four point 90") with a full year cost of £210 million:

£000s	Tax Rate %
0-90	nil
90-140	30
140-220	40
220-330	50
Above 330	60

On business relief, assumes that 50% relief is given to controlling holdings in any company and to holdings of more than 25% in companies without a full or USM listing, with 30% relief restricted to holdings of 25% or less in companies without a full or USM listing. Cost is negligible in both 1987-88 and 1988-89.

8. Corporation tax: Assumes 2% drop in small companies' corporation tax rate in line with assumed income tax rate. Inland Revenue (Mr Reed) note of 12 February on profit limit and taper.

Assumes companies capital gains will be charged in full at normal Corporation Tax rates, with ACT set-off. (Estimated full year yield £90 million.)

Assumes a measure on CT Payment dates, with a three year transition, to oblige all companies to pay corporation tax nine months after the end of their accounting period.

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Assumes measures to deny double deduction for interest payments by dual resident companies.

Tax Credit Relief for Banks: Assumes measure to limit credit for foreign withholding tax actually paid, or spared, on interest received by banks from overseas lending to the amount of corporation tax on the turn on the relevant loan. Estimated yield assumes 6% $ LIBOR.

9. Lloyds RIC: Legislation on Lloyds reinsurance to close will bring in a once-for-all yield of £150 million (assuming no opening adjustment) and a continuing yield of £30 million. Estimated yield in 1988-89 reflects the fact that Lloyds administrative arrangements are not to be reformed in 1987 and receipt of the £150 million is likely to be spread over a longer period. Inland Revenue (Mr Spence) note of 12 February considers whether there should be an opening adjustment.

10. Oil: PRT Crossfield Allowance: Measure will allow an oil company to set PRT relief against other fields for up to 10% of expenditure in developing a new field, until that new field reaches payback.

Oil companies' ACT: Assumes more scope for setting off ACT against North Sea ring fence profits. Provisional decision currently being reviewed.

NB. PRT Research allowance: measure will provide cross-field relief for research expenditure not specific to a particular field. Nil revenue effect in 1987-88 and 1988-89 but first year cost (1990-91) of £30 million and £25 million thereafter.

Inland Revenue (Mr Pitts) note of 11 February disaggregates the likely impact on different types of oil company of all the various Budget measures.

11. Keith: Assumes legislation in 1987 to charge interest on PAYE tax and tax paid by subcontractors and to bring certain payments to directors more clearly within PAYE.

12. Business Expansion Scheme: Assumes changes to ease the problem of year-end bunching and to promote investment in the film industry.

NB: Lollipops: Following discussion at Overview (9 February), Inland Revenue (Mr Mace) preparing a note on options for increasing the blind allowance and measures for widows.

The limit for tax-exempt friendly society life or endowment business is to be changed in order to help "traditional" friendly societies but not the newer "commercial" societies (negligible cost).

The exemption limits for trade union provident benefits are to be increased (negligible cost).

The Financial Secretary minuted the Chancellor on 11 February on possible CGT sweeteners.

The Minister of State to consider the case for car tax relief on cars supplied to Motability for leasing.

Minor VAT charities measures included in Minor Starters (Table 4).

NB: Enterprise Measures: Following discussion at Overview (26 January) on the CBI and Lord Young proposals, Inland Revenue are preparing a note on the case for putting the Revenue's training extra statutory concession on a statutory footing.

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SCORECARD OF 12 FEBRUARY 1987 **TABLE 3**

STAFFING EFFECTS

Proposal	Effect on manpower numbers at April 88		April 1989	
	-	+	-	+
Customs and Excise				
Excise duties		nil		nil
VAT - partial exemption		5		5
Minor starters	14		14	
Total Customs		-9		-9
Inland Revenue[a]				
Income tax (including higher rates)[b]		80		185
Profit related pay[c]		15		5
Pensions[d]		35		30
Car and car fuel benefits		nil		nil
Inheritance tax[e]	20		35	
Capital gains tax threshold[f]		nil		60
Stamp duty threshold (no change)		18		20
Corporation Tax - payment dates[g]		nil		35
- capital gains	neg		neg	
- dual resident companies	neg		neg	
- tax credit relief for banks		nil		nil
Lloyds RIC		nil		nil
Oil		neg		neg
Keith: PAYE and sub-contractors		nil		nil
Business Expansion Scheme		neg		neg
Total Inland Revenue		+128		+300
Transport				
Measures to deal with dishonoured cheques (negligible revenue implications)	5		5	
Total Transport		-5		-5
Total (provisional only)		+114		+286

(a) Figures show the effects compared to current PES provision.
(b) Staff effects relate to Option 5. A 5% increase in personal allowances would reduce the cost to 60 and 140 units at 1 April 1988 and 1989 respectively.
(c) In addition to survey provision of 50 (1 April 1988) and 100 (1 April 1989).
(d) The indications are that additional staff will be required earlier than previously expected. The April 1989 figure in the table is in addition to Survey provision of 20 staff at that date.
(e) Figures assume "smooth four point 90".
(f) Assumes statutory indexation. The April 1989 increase arises because Inland Revenue now estimate an additional 40,000 taxpayers compared to the number underlying current Survey provision.
(g) Part of staff cost is transitional: long-run cost 15-20.

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SCORECARD OF 12 FEBRUARY 1987 **TABLE 4**

MINOR STARTERS

(Items in Starters list which Ministers have agreed are now serious contenders, with revenue effect of £3m or more)

FB Starter Number	FB Category	Proposal	1987-88 -	1987-88 +	1988-89 -	1988-89 +
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		VAT: charities mini-package (lollipops)	5		5	
404-6	C	VED: increasing back duty payable on conviction for offence (b)		5		5
		Total		nil		+30

Notes to Table 5

(a) These two measures are linked and designed to be revenue neutral taken together.

(b) Starter 404 double back duty, 405 minimum back duty and 406 all back duty deemed to be due are alternatives. Revenue yield in both years is £5 million for all but Starter 404 which would produce £10 million in 1988-89.

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FROM: MISS C E C SINCLAIR
DATE: 12 FEBRUARY 1987

CHANCELLOR OF THE EXCHEQUER

cc Principal Private Secretary
Chief Secretary (2)
Financial Secretary (2)
Economic Secretary (2)
Minister of State (2)
Sir Peter Middleton
Sir Terence Burns
Sir Geoffrey Littler
Mr F E R Butler
Mr Wilson
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Miss Evans
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Mr Tyrie
Mr Ross Goobey

Mr Battishill - IR
Mr Isaac - IR
Mr Painter - IR
Sir Angus Fraser - C&E
Mr Knox - C&E

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BUDGET SCORECARD

... I attach the fifth Budget Scorecard.

2. There are few changes from last week's scorecard

(a) Inheritance tax - small adjustment to cost estimates.

(b) Oil - pricing and valuation changes removed.

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3. Also attached for information is a copy of this year's Budget timetable.

MISS C E C SINCLAIR

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Additional copies for Scorecard work to:

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Mr Haigh - FP
Mr Romanski - FP
Mr Walters - FP
Mr Sedgwick - FP
Mr Riley - MP
Mr Bredenkamp - MP

Mr Beighton - IR
Mr Calder - IR
Mr Johns - IR
Mr Ko - IR
Mr McManus - IR
Mr Boyce - IR

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SCORECARD OF 12 FEBRUARY 1987

TABLE 1

DIRECT EFFECTS OF BUDGET MEASURES

(All figures are net of the cost or yield of indexation or revalorisation included in the base forecast)

£m
(rounded to £5m)

Note	Proposal	1987-88 cost (-)/yield (+)		1988-89 cost (-)/yield (+)	
		-	+	-	+
1	Excise duties	20		20	
2	VAT - partial exemption		300		400
	- small business (news?)	115		35	
3	Income tax (including higher rates)	2160		2720	
4	Profit related pay	nil		35	
5	Pensions - personal pensions	nil		25	
	- freestanding AVCs	nil		50	
	- anti-abuse measures		nil		10
6	Car and car fuel benefits		nil		30
7	Inheritance tax (5% thresholds/nil?)	70		150	
8	Corporation tax - small companies	nil		40	
	- capital gains		nil		50
	- payment dates		nil		80
	- dual residents		neg		125
	- banks		neg		20
9	Lloyds RIC		nil		35
10	Oil - PRT crossfield allowance	5		10	
	- Oil companies ACT	20		20	
11	Keith: PAYE and sub-contractors		5		45
12	Business Expansion Scheme	5		5	
13	Minor starters		nil		30
	TOTAL TAX MEASURES	2395	305	3110	825
		-2090		-2285	
	Non-reval (net)	-500 = -2590		-550 = -2835	
	(inflation	-335		-205)	

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SCORECARD OF 12 FEBRUARY 1987

TABLE 2

PSBR EFFECTS[(a)]

(All figures are net of the cost or yield of indexation or revalorisation included in the base forecast)

£m
(rounded to £5m)
reduction(-)/increase(+)

Proposal	1987-88 +	1987-88 -	1988-89 +	1988-89 -
Excise duties	25		20	
VAT - partial exemption		295		350
- small business	115		35	
Income tax (including higher rates)	2150		2705	
Profit related pay	nil		35	
Pensions - personal pensions	nil		25	
- freestanding AVCs	nil		50	
- anti-abuse measures		nil		10
Car and car fuel benefits		nil		30
Inheritance tax	70		150	
Corporation tax - small companies	nil		40	
- capital gains		nil		50
- payment dates		nil		80
- dual residents		neg		125
- banks		neg		20
Lloyds RIC		nil		35
Oil - PRT crossfield allowance	5		10	
- Oil companies ACT	20		20	
Keith: PAYE and sub-contractors		5		45
Business Expansion Scheme	5		5	
Minor starters		nil		30
TOTAL	2390	300	3095	775
	+2090		+2320	

(a) The figures for PSBR cost given in this table are calculated in terms of the change in the fiscal adjustment implied by each measure listed. Adding the figures together shows how much of any fiscal adjustment indicated by the forecasts, assuming a given PSBR, would be used up.

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Notes to Table 1

1. Excise duties: Assumes the following package:

Product	Unit	% change in duty	Price change (p)	Revenue effect cost(-)/yield(+) 1987-88 £m
Beer	Pint	+3.0%	0.6	-10
Cider	Pint	-	0.0	-neg
Wine : Table	70cl	+3.0%	2.4	)
Cyprus sherry) between 13 &	70cl	+8.1%	6.4	)
Vermouth) 15% alcohol	75cl	+8.1%	6.9	)
Sherry	70cl	-4.1%	-5.6	) -5
Port	70cl	-3.6%	-5.6	)
Sparkling	70cl	+3.0%	3.9	)
Spirits	75cl	+3.0%	16.3	-5
Cigarettes (including hand-rolling tobacco)	20KS	+3.7%	3.4	nil
Cigars	5 whiffs	+3.7%	1.9	nil
Pipe tobacco	25 grams	-	0.0	-neg
Petrol	gallon	+5.2% (a)	5.3	+75
Derv	gallon	+5.2% (b)	4.5	+20
VED: cars	-	- (a) (b)	0.0 (b)	-75
VED: other	-			-15 (c)
Minor duties (principally minor oils, eg heavy fuel oil, gas oil)	-	-	-	-5

(a) Petrol increase equals revalorisation plus recoupment of standstill on car VED.

(b) Derv increase equals revalorisation plus recoupment of standstill in lorry and other non-car VED. Alternative option is derv increase equal to petrol price increase with lorry VED standstill, which would give an overall £15 million revenue gain compared to revalorisation.

(c) No change in main lorry and most other VED rates involves revenue loss of £20 million offset by £5 million gain from increases in rates for farmers lorries and trade licences and creation of new tax class for recovery vehicles.

To recoup the revenue loss (£20 million) on alcoholic drinks, cigarette duty would have to rise by an additional 0.7% to increase the cost of 20KS by a further 0.7p. The RPI impact effect would be increased by 0.02%.

The RPI impact effect of the package is 0.30%, compared to 0.31% for revalorisation. If the total impact effect of the Budget as a whole were to be contained at 0.25%, and given that 2p off the basic rate of income tax is now estimated to add 0.15% to the RPI, the room for manoeuvre on excise duties would be limited to an RPI impact effect of 0.1%. This

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could be effected by revalorisation of duty on cigarettes (and hand-rolling tobacco), with no increase in any other duty (excluding gaming machine licences and minor VED). Total revenue effect compared to scorecard package would be additional cost of £410 million in 1987-88.

Customs and Excise (Mr Knox) note of 12 February considers wine duty restructuring and the effects on the RPI of different excise duty options.

If there were no change to any current duties (excluding gaming machine licences and minor VED) the revenue effect compared to the scorecard package would be additional costs of:

	£ million 1987-88	1988-89
cigarettes (inc hand-rolling tobacco)	-90	-100
all other excise duties including VED	-410	-450
Total	-500	-550

2. VAT: Assumes no change in standard rate.

Assumes revalorisation by 3.7% of the VAT registration threshold (the level of turnover at which businesses must register for VAT) raising it to £21,300 (from £20,500). The maximum revenue effect would not exceed £10 million and, depending on the numbers of deregistrations, could be negligible. It is allowed for in the forecast.

Partial exemption: Assumes implementation from 1 April 1987 of revised rules for deduction of input tax (anti-tax avoidance measure).

Small business package: Assumes annual accounting (to allow an annual returns system with advance payments on account) with nil revenue effect and start date 1 July 1988. Also assumes a cash accounting system (to allow accounting for tax on the basis of cash paid and received) with a turnover ceiling of £250,000 per annum, two-thirds take-up and 1 October 1987 start date: cost in first year of £100 million and continuing annual cost thereafter of £10 million. Also assumes relaxation of period in which to notify and be registered for VAT (from ten days to one month) plus minor amendments to VAT Act 1983, Schedule 1. Cost included is middle of ranges of £5-25 million (1987-88) and £10-40 million (1988-89).

Customs and Excise (Mr Howard) preparing a submission reporting results of consultation exercise and seeking final decisions.

3. Income tax: (Option 5). Figures assume statutory indexation of 3.7% of basic allowances (cost included in the forecast) and indexation of the first higher rate threshold, compression of the first two higher rate bands and leaving 50, 55 and 60% thresholds at 1986-87 levels, to produce the following scale:

Rate %	Taxable income £
27	0-17,900
40	17,901-20,400
45	20,401-25,400
50	25,401-33,300
55	33,301-41,200
60	over 41,200

Figures include consequential effect on rate of ACT. Also assume matching reduction in rate of deduction for sub-contractors (from 2 November), no increase in mortgage interest relief ceiling, no reduction in rate of Life Assurance Premium Relief (LAPR), statutory indexation of age allowance and no change to composite rate until 1988-89.

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The RPI impact effect of the 2p reduction in basic rate is an increase of 0.15% and this would appear in the April 1987 RPI figure (published 15 May).

Inland Revenue (Mr Mace) note of 5 February considered option 5A - increasing allowances (including age allowance) by 5% in combination with the other features of Option 5 - at an additional cost over and above Option 5 of £220 million in 1987-88 and £280 million in 1988-89.

4. Profit Related Pay: Assumes income tax exemption of half of profit related pay (up to a maximum of 10% of pay, including profit related pay, or £1,500 whichever is smaller) of employees of companies and unincorporated businesses paid under a scheme registered by Inland Revenue. The presentation in the Budget will note that the full year cost could exceed £100 million. Minister of State is minuting Chancellor recommending against including public sector employees.

5. Pensions: Assumes tax relief on personal pensions analogous to retirement annuity provisions as announced in Revenue's consultative document "Improving the Pensions Choice" with start-up in April 1988 (NB Mr Fowler is considering advancing this to January 1988) and initial take up of 200,000.

Assumes tax deduction for freestanding AVCs (additional voluntary pension contributions) by employees within current limits on occupational pensions. Costs depend critically on take up. Table 2 assumes 250,000 take up in 1988-89; if instead one assumes take-up of 500,000, the 1988-89 cost becomes £100 million.

Assumes introduction of anti-abuse measures to counter pension scheme abuse in particular by high earners. Submission by Inland Revenue (Mr Corlett) 6 February; Financial Secretary note to Chancellor of 12 February. Yield highly speculative.

6. Car and car fuel benefit scales: Assumes 10% on car scales but no change to car fuel scales.

7. Inheritance tax: Assumes the following scale ("smooth four point 90") with a full year cost of £210 million:

£000s	Tax Rate %
0-90	nil
90-140	30
140-220	40
220-330	50
Above 330	60

On business relief, assumes that 50% relief is given to controlling holdings in any company and to holdings of more than 25% in companies without a full or USM listing, with 30% relief restricted to holdings of 25% or less in companies without a full or USM listing. Cost is negligible in both 1987-88 and 1988-89.

8. Corporation tax: Assumes 2% drop in small companies' corporation tax rate in line with assumed income tax rate. Inland Revenue (Mr Reed) note of 12 February on profit limit and taper.

Assumes companies capital gains will be charged in full at normal Corporation Tax rates, with ACT set-off. (Estimated full year yield £90 million.)

Assumes a measure on CT Payment dates, with a three year transition, to oblige all companies to pay corporation tax nine months after the end of their accounting period.

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ssumes measures to deny double deduction for interest payments by dual resident companies.

Tax Credit Relief for Banks: Assumes measure to limit credit for foreign withholding tax actually paid, or spared, on interest received by banks from overseas lending to the amount of corporation tax on the turn on the relevant loan. Estimated yield assumes 6% $ LIBOR.

9. Lloyds RIC: Legislation on Lloyds reinsurance to close will bring in a once-for-all yield of £150 million (assuming no opening adjustment) and a continuing yield of £30 million. Estimated yield in 1988-89 reflects the fact that Lloyds administrative arrangements are not to be reformed in 1987 and receipt of the £150 million is likely to be spread over a longer period. Inland Revenue (Mr Spence) note of 12 February considers whether there should be an opening adjustment.

10. Oil: PRT Crossfield Allowance: Measure will allow an oil company to set PRT relief against other fields for up to 10% of expenditure in developing a new field, until that new field reaches payback.

Oil companies' ACT: Assumes more scope for setting off ACT against North Sea ring fence profits. Provisional decision currently being reviewed.

NB. PRT Research allowance: measure will provide cross-field relief for research expenditure not specific to a particular field. Nil revenue effect in 1987-88 and 1988-89 but first year cost (1990-91) of £30 million and £25 million thereafter.

Inland Revenue (Mr Pitts) note of 11 February disaggregates the likely impact on different types of oil company of all the various Budget measures.

11. Keith: Assumes legislation in 1987 to charge interest on PAYE tax and tax paid by subcontractors and to bring certain payments to directors more clearly within PAYE.

12. Business Expansion Scheme: Assumes changes to ease the problem of year-end bunching and to promote investment in the film industry.

NB: Lollipops: Following discussion at Overview (9 February), Inland Revenue (Mr Mace) preparing a note on options for increasing the blind allowance and measures for widows.

The limit for tax-exempt friendly society life or endowment business is to be changed in order to help "traditional" friendly societies but not the newer "commercial" societies (negligible cost).

The exemption limits for trade union provident benefits are to be increased (negligible cost).

The Financial Secretary minuted the Chancellor on 11 February on possible CGT sweeteners.

The Minister of State to consider the case for car tax relief on cars supplied to Motability for leasing.

Minor VAT charities measures included in Minor Starters (Table 4).

NB: Enterprise Measures: Following discussion at Overview (26 January) on the CBI and Lord Young proposals, Inland Revenue are preparing a note on the case for putting the Revenue's training extra statutory concession on a statutory footing.

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SCORECARD OF 12 FEBRUARY 1987 **TABLE 3**

STAFFING EFFECTS

Proposal	Effect on manpower numbers at April 88		April 1989	
	-	+	-	+
Customs and Excise				
Excise duties		nil		nil
VAT - partial exemption		5		5
Minor starters	14		14	
Total Customs		-9		-9
Inland Revenue[a]				
Income tax (including higher rates)[b]		80		185
Profit related pay[c]		15		5
Pensions[d]		35		30
Car and car fuel benefits		nil		nil
Inheritance tax[e]	20		35	
Capital gains tax threshold[f]		nil		60
Stamp duty threshold (no change)[g]		18		20
Corporation Tax - payment dates		nil		35
- capital gains	neg		neg	
- dual resident companies	neg		neg	
- tax credit relief for banks		nil		nil
Lloyds RIC		nil		nil
Oil		neg		neg
Keith: PAYE and sub-contractors		nil		nil
Business Expansion Scheme		neg		neg
Total Inland Revenue		+128		+300
Transport				
Measures to deal with dishonoured cheques (negligible revenue implications)	5		5	
Total Transport		-5		-5
Total (provisional only)		+114		+286

(a) Figures show the effects compared to current PES provision.
(b) Staff effects relate to Option 5. A 5% increase in personal allowances would reduce the cost to 60 and 140 units at 1 April 1988 and 1989 respectively.
(c) In addition to survey provision of 50 (1 April 1988) and 100 (1 April 1989).
(d) The indications are that additional staff will be required earlier than previously expected. The April 1989 figure in the table is in addition to Survey provision of 20 staff at that date.
(e) Figures assume "smooth four point 90".
(f) Assumes statutory indexation. The April 1989 increase arises because Inland Revenue now estimate an additional 40,000 taxpayers compared to the number underlying current Survey provision.
(g) Part of staff cost is transitional: long-run cost 15-20.

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SCORECARD OF 12 FEBRUARY 1987 **TABLE 4**

MINOR STARTERS

(Items in Starters list which Ministers have agreed are now serious contenders, with revenue effect of £3m or more)

FB Starter Number	FB Category	Proposal	1987-88 -	1987-88 +	1988-89 -	1988-89 +
4	B1	VAT: tour operators' margins	nil			25
11	B2	Abolition of on-course betting duty[(a)]	20		20	
	A	Increase in duty on gaming machine licences (a)		20		20
14	C	VAT: blocking of loophole on imported services		neg		5
		VAT: charities mini-package (lollipops)	5		5	
404-6	C	VED: increasing back duty payable on conviction for offence (b)		5		5
		Total		nil		+30

Notes to Table 5

(a) These two measures are linked and designed to be revenue neutral taken together.

(b) Starter 404 double back duty, 405 minimum back duty and 406 all back duty deemed to be due are alternatives. Revenue yield in both years is £5 million for all but Starter 404 which would produce £10 million in 1988-89.

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DATE: 19 FEBRUARY 1987

CHANCELLOR OF THE EXCHEQUER

cc Principal Private Secretary
Chief Secretary (2)
Financial Secretary (2)
Economic Secretary (2)
Minister of State (2)
Sir Peter Middleton
Sir Terence Burns
Sir Geoffrey Littler
Mr F E R Butler
Mr Wilson
Mr Cassell
Mr Monck
Mr Sedgwick
Mr Odling-Smee
Miss Evans
Mr Cropper
Mr Tyrie
Mr Ross Goobey

Mr Battishill - IR
Mr Isaac - IR
Mr Painter - IR
Sir Angus Fraser - C&E
Mr Knox - C&E

BUDGET SCORECARD

... I attach the sixth Budget Scorecard.

2. Again, there are few changes to record from last week's scorecard.

(a) Pensions: entries amended to take account of new start date (January not April 1988).

(b) Lloyd's RIC: yield in 1988-89 reduced to reflect the Economic Secretary's recommendation that there should be phasing-in over three years.

(c) Lollipops: new entry in Tables 1 and 2.

MCS

M C SCHOLAR

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Additional copies for Scorecard work to:

Miss Sinclair - FP
Mr Haigh - FP
Mr Romanski - FP
Mr Walters - FP
Mr Sedgwick - FP
Mr Riley - MP
Mr Bredenkamp - MP

Mr Beighton - IR
Mr Calder - IR
Mr Johns - IR
Mr Ko - IR
Mr McManus - IR
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Mr Wilmott - C&E
Mr Bone - C&E

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SCORECARD OF 19 FEBRUARY 1987

TABLE 1

DIRECT EFFECTS OF BUDGET MEASURES

(All figures are net of the cost or yield of indexation or revalorisation included in the base forecast)

£m
(rounded to £5m)

Note	Proposal	1987-88 cost (-)/yield (+)		1988-89 cost (-)/yield (+)	
		-	+	-	+
1	Excise duties	20		20	
2	VAT - partial exemption		300		400
	- small business	115		35	
3	Income tax (including higher rates)	2160		2720	
4	Profit related pay	neg		35	
5	Pensions - personal pensions	neg		25	
	- freestanding AVCs	neg		50	
	- anti-abuse measures		neg		10
6	Car and car fuel benefits		nil		30
7	Inheritance tax	70		150	
8	Corporation tax - small companies	nil		40	
	- capital gains		nil		50
	- payment dates		nil		80
	- dual residents		neg		125
	- banks		neg		20
9	Lloyds RIC		nil		10
10	Oil - PRT crossfield allowance	5		10	
	- Oil companies ACT	20		20	
11	Keith: PAYE and sub-contractors		5		45
12	Business Expansion Scheme	5		5	
13	Lollipops	5		10	
14	Minor starters		5		30
	TOTAL TAX MEASURES	2400	310	3120	800
		-2090		-2320	

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SCORECARD OF 19 FEBRUARY 1987

TABLE 2

PSBR EFFECTS[a]

(All figures are net of the cost or yield of indexation or revalorisation included in the base forecast)

£m
(rounded to £5m)
reduction(-)/increase(+)

Proposal	1987-88 +	1987-88 -	1988-89 +	1988-89 -
Excise duties	25		20	
VAT - partial exemption		295		350
- small business	115		35	
Income tax (including higher rates)	2145		2660	
Profit related pay	neg		35	
Pensions - personal pensions	neg		25	
- freestanding AVCs	neg		50	
- anti-abuse measures		neg		10
Car and car fuel benefits		nil		30
Inheritance tax	70		150	
Corporation tax - small companies	nil		40	
- capital gains		nil		50
- payment dates		nil		80
- dual residents		neg		125
- banks		neg		20
Lloyds RIC		nil		10
Oil - PRT crossfield allowance	5		10	
- Oil companies ACT	20		20	
Keith: PAYE and sub-contractors		5		45
Business Expansion Scheme	5		5	
Lollipops	5		10	
Minor starters		5		30
TOTAL	2390	305	3060	750
	+2085		+2310	

(a) The figures for PSBR cost given in this table are calculated in terms of the change in the fiscal adjustment implied by each measure listed. Adding the figures together shows how much of any fiscal adjustment indicated by the forecasts, assuming a given PSBR, would be used up.

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Notes to Table 1

1. Excise duties: Assumes the following package:

Product	Unit	% change in duty	Price change (p)	Revenue effect cost(-)/yield(+) 1987-88 £m
Beer	Pint	+3.0%	0.6	-10
Cider	Pint	-	0.0	-neg
Wine : Table	70cl	+3.0%	2.4	)
Cyprus sherry) between 13 &	70cl	+8.1%	6.4	)
Vermouth) 15% alcohol	75cl	+8.1%	6.8	)
Sherry	70cl	-4.1%	-5.6	) -5
Port	70cl	-3.6%	-5.6	)
Sparkling	70cl	+3.0%	3.9	)
Spirits	75cl	+3.0%	16.3	-5
Cigarettes (including hand-rolling tobacco)	20KS	+3.7%	3.4	nil
Cigars	5 whiffs	+3.7%	1.9	nil
Pipe tobacco	25 grams	-	0.0	-neg
Petrol	gallon	+5.2% (a)	5.3	+75
Derv	gallon	+5.2% (b)	4.5	+20
VED: cars	-	- (a) (b)	0.0 (b)	-75
VED: other	-			-15 (c)
Minor duties (principally minor oils, eg heavy fuel oil, gas oil)	-	-	-	-5

(a) Petrol increase equals revalorisation plus recoupment of standstill on car VED.

(b) Derv increase equals revalorisation plus recoupment of standstill in lorry and other non-car VED. Alternative option is derv increase equal to petrol price increase with lorry VED standstill, which would give an overall £15 million revenue gain compared to revalorisation.

(c) No change in main lorry and most other VED rates involves revenue loss of £20 million offset by £5 million gain from increases in rates for farmers lorries and trade licences and creation of new tax class for recovery vehicles.

To recoup the revenue loss (£20 million) on alcoholic drinks, cigarette duty would have to rise by an additional 0.7% to increase the cost of 20KS by a further 0.7p. The RPI impact effect would be increased by 0.02%.

The RPI impact effect of the package is 0.30%, compared to 0.31% for revalorisation. If the total impact effect of the Budget as a whole were to be contained at 0.25%, and given that 2p off the basic rate of income tax is now estimated to add 0.15% to the RPI, the room for manoeuvre on excise duties would be limited to an RPI impact effect of 0.1%. This

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could be effected by revalorisation of duty on cigarettes (and hand-rolling tobacco), with no increase in any other duty (excluding gaming machine licences and minor VED). Total revenue effect compared to scorecard package would be additional cost of £410 million in 1987-88 (PSBR effect +£435 million).

Customs and Excise (Mr Knox) note of 12 February considers wine duty restructuring and the effects on the RPI of different excise duty options. Decisions required at March 2 Overview.

If there were no change to any current duties (excluding gaming machine licences and minor VED) the revenue effect compared to the scorecard package would be additional costs of:

	£ million	
	1987-88	1988-89
cigarettes (inc hand-rolling tobacco)	-90	-100
all other excise duties including VED	-410	-450
Total	-500	-550

The PSBR effect of this option would be +£550 million in 1987-88 and +£455 million in 1988-89.

2. VAT: Assumes no change in standard rate.

Assumes revalorisation by 3.7% of the VAT registration threshold (the level of turnover at which businesses must register for VAT) raising it to £21,300 (from £20,500). The maximum revenue effect would not exceed £10 million and, depending on the numbers of deregistrations, could be negligible. It is allowed for in the forecast.

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Rate %	Taxable income £
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40	17,901-20,400
45	20,401-25,400
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55	33,301-41,200
60	over 41,200

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figures include consequential effect on the ACT fraction. Also assume matching reduction in rate of deduction for sub-contractors (from 2 November), no increase in mortgage interest relief ceiling, no reduction in rate of Life Assurance Premium Relief (LAPR), statutory indexation of age allowance and no change to composite rate until 1988-89.

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Assumes tax deduction for freestanding AVCs (additional voluntary pension contributions) by employees within current limits on occupational pensions. Costs depend critically on take up. Table now assumes January 1988 start and 250,000 take up in 1988-89; if instead one assumes take-up of 500,000, the 1988-89 cost becomes £100 million.

Assumes introduction of anti-abuse measures to counter pension scheme abuse in particular by high earners. Yield highly speculative. Further Inland Revenue (Messrs Corlett and Munro) submission of 18 February considers a cap on lump sums.

6. Car and car fuel benefit scales: Assumes 10% on car scales but no change to car fuel scales. Inland Revenue (Miss Rhodes) submission of 18 February seeks confirmation of provisional decisions.

7. Inheritance tax: Assumes the following scale ("smooth four point 90") with a full year cost of £210 million:

£000s	Tax Rate %
0-90	nil
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140-220	40
220-330	50
Above 330	60

On business relief, assumes that 50% relief is given to controlling holdings in any company and to holdings of more than 25% in companies without a full or USM listing, with 30% relief restricted to holdings of 25% or less in companies without a full or USM listing. Cost is negligible in both 1987-88 and 1988-89.

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Assumes companies capital gains will be charged in full at normal Corporation Tax rates, with ACT set-off. (Estimated full year yield £90 million.)

Assumes a measure on CT Payment dates, with a three year transition, to oblige all companies to pay corporation tax nine months after the end of their accounting period.

Assumes measures to deny double deduction for interest payments by dual resident companies.

Tax Credit Relief for Banks: Assumes measure to limit credit for foreign withholding tax actually paid, or spared, on interest received by banks from overseas lending to the amount of corporation tax on the turn on the relevant loan. Estimated yield assumes 6% $ LIBOR.

9. Lloyds RIC: Legislation on Lloyds reinsurance to close will bring in a once-for-all yield of £150 million and a continuing yield of £30 million. Estimated yield in 1988-89 is on the basis of the Economic Secretary's recommendation that there should be phasing in over three years and the fact that the yield of £150 million will in any event be spread over 4 to 5 years.

10. Oil: PRT Crossfield Allowance: Measure will allow an oil company to set PRT relief against other fields for up to 10% of expenditure in developing a new field, until that new field reaches payback.

Oil companies ACT: Assumes more scope for setting off ACT against North Sea ring fence profits. Provisional decision currently being reviewed.

NB. PRT Research allowance: measure will provide cross-field relief for research expenditure not specific to a particular field. Nil revenue effect in 1987-88 and 1988-89 but first year cost (1990-91) of £30 million and £25 million thereafter.

11. Keith: Assumes legislation in 1987 to charge interest on PAYE tax and tax paid by subcontractors and to bring certain payments to directors more clearly within PAYE.

12. Business Expansion Scheme: Assumes changes to ease the problem of year-end bunching and to promote investment in the film industry.

13. Lollipops: Following discussion at Overview (16 February), blind allowance to be increased from £360 to £540 at a cost of around £2 million a year.

The limit for capital gains tax retirement relief is to be increased from £100,000 to £125,000 at a full year cost of £5 million (nil in 1987-88 and £2 million in 1988-89).

The limit for tax-exempt friendly society life or endowment business is to be changed in order to help "traditional" friendly societies but not the newer "commercial" societies (negligible cost).

The exemption limits for trade union provident benefits are to be increased (negligible cost).

Charities VAT mini-package of measures to be introduced. Cost £5 million in 1987-88 and 1988-89.

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Following Overview (16 February), Inland Revenue (Mr Mace) note of 19 February on possible lollipops for pensioners.

The Minister of State is considering the case for car tax relief on cars supplied to Motability for leasing.

NB: Enterprise Measures: Following discussion at Overview (26 January) on the CBI and Lord Young proposals, Inland Revenue (Miss Rhodes) note of 19 February discusses the case for putting the Revenue's training extra statutory concession on a statutory footing.

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SCORECARD OF 19 FEBRUARY 1987

TABLE 3

STAFFING EFFECTS

Proposal	Effect on manpower numbers at April 88		April 1989	
	-	+	-	+
Customs and Excise				
Excise duties		nil		nil
VAT - partial exemption		5		5
Minor starters	14		14	
Total Customs		-9		-9
Inland Revenue[a]				
Income tax (including higher rates)[b]		80		185
Profit related pay[c]		15		5
Pensions[d]		35		30
Car and car fuel benefits		nil		nil
Inheritance tax[e]	20		35	
Capital gains tax threshold[f]		nil		60
Stamp duty threshold (no change)		18		20
Corporation Tax - payment dates[g]		nil		35
- capital gains	neg		neg	
- dual resident companies	neg		neg	
- tax credit relief for banks		nil		nil
Lloyds RIC		nil		nil
Oil		neg		neg
Keith: PAYE and sub-contractors		nil		nil
Business Expansion Scheme		neg		neg
Total Inland Revenue		+128		+300
Transport				
Measures to deal with dishonoured cheques (negligible revenue implications)	5		5	
Total Transport		-5		-5
Total (provisional only)		+114		+286

(a) Figures show the effects compared to current PES provision.

(b) Staff effects relate to Option 5. A 5% increase in personal allowances would reduce the cost to 60 and 140 units at 1 April 1988 and 1989 respectively.

(c) In addition to survey provision of 50 (1 April 1988) and 100 (1 April 1989).

(d) The indications are that additional staff will be required earlier than previously expected. The April 1989 figure in the table is in addition to Survey provision of 20 staff at that date.

(e) Figures assume "smooth four point 90".

(f) Assumes statutory indexation. The April 1989 increase arises because Inland Revenue now estimate an additional 40,000 taxpayers compared to the number underlying current Survey provision.

(g) Part of staff cost is transitional: long-run cost 15-20.

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SCORECARD OF 19 FEBRUARY 1987 **TABLE 4**

MINOR STARTERS

(Items in Starters list which Ministers have agreed are now serious contenders, with revenue effect of £3m or more)

FB Starter Number	FB Category	Proposal	1987-88 -	1987-88 +	1988-89 -	1988-89 +
4	B1	VAT: tour operators' margins	nil			20
11	B2	Abolition of on-course betting duty[(a)]	20		20	
	A	Increase in duty on gaming machine licences (a)		20		20
14	C	VAT: blocking of loophole on imported services		neg		5
404-6	C	VED: increasing back duty payable on conviction for offence (b)		5		5
		Total		+5		+30

Notes to Table 5

(a) These two measures are linked and designed to be revenue neutral taken together.

(b) Starter 404 double back duty, 405 minimum back duty and 406 all back duty deemed to be due are alternatives. Revenue yield in both years is £5 million for all but Starter 404 which would produce £10 million in 1988-89.

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FROM: M C SCHOLAR
DATE: 26 FEBRUARY 1987

CHANCELLOR OF THE EXCHEQUER

cc Principal Private Secretary
Chief Secretary (2)
Financial Secretary (2)
Economic Secretary (2)
Minister of State (2)
Sir Peter Middleton
Sir Terence Burns
Sir Geoffrey Littler
Mr F E R Butler
Mr Wilson
Mr Cassell
Mr Monck
Mr Sedgwick
Mr Odling-Smee
Miss Evans
Mr Cropper
Mr Tyrie
Mr Ross Goobey

Mr Battishill - IR
Mr Isaac - IR
Mr Painter - IR
Sir Angus Fraser - C&E
Mr Knox - C&E

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BUDGET SCORECARD

... I attach the seventh Budget Scorecard.

2. There are a number of changes from last week:

(a) VAT. It has been agreed that the small business package will take priority over work on Keith as regards computer resources at Customs. The implementation of Keith Phase III will therefore be deferred until Autumn 1989. Postponement of the additional yield from Keith is scored against VAT and small business.

(b) Corporation tax: entries for small companies and capital gains amended to reflect revised forecasts. Consequential effect on ACT and hence change to the income tax figure in 1988-89.

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(c) Oil: small upward revision to cost in 1988-89 of PRT crossfield allowance to take account of revised Department of Energy estimate of timing of effect on investment.

(d) Lollipops: upward cost revision in both years following decisions on age allowance for over 80.

MCS

M C SCHOLAR

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Additional copies for Scorecard work to:

Miss Sinclair - FP
Mr Haigh - FP
Mr Romanski - FP
Mr Walters - FP
Mr Sedgwick - FP
Mr Riley - MP
Mr Bredenkamp - MP
Mr Culpin
Miss O'Mara

Mr Beighton - IR
Mr Calder - IR
Mr Johns - IR
Mr Ko - IR
Mr McManus - IR
Mr Boyce - IR

Mr Wilmott - C&E
Mr Bone - C&E

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SCORECARD OF 26 FEBRUARY 1987

TABLE 1

DIRECT EFFECTS OF BUDGET MEASURES

(All figures are net of the cost or yield of indexation or revalorisation included in the base forecast)

£m
(rounded to £5m)

Note	Proposal	cost (-)/yield (+) 1987-88 -	1987-88 +	1988-89 -	1988-89 +
1	Excise duties	20		20	
2	VAT - partial exemption		300		400
	- small business	115		60	
3	Income tax (including higher rates)	2160		2740	
4	Profit related pay	neg		35	
5	Pensions - personal pensions	neg		25	
	- freestanding AVCs	neg		50	
	- anti-abuse measures		neg		10
6	Car and car fuel benefits		nil		30
7	Inheritance tax	70		150	
8	Corporation tax - small companies	neg		45	
	- capital gains		neg		60
	- payment dates		neg		100
	- dual residents		neg		125
	- banks		neg		20
9	Lloyd's RIC		nil		10
10	Oil - PRT crossfield allowance	5		15	
	- Oil companies' ACT	20		20	
11	Keith: PAYE and sub-contractors		5		45
12	Business Expansion Scheme	5		5	
13	Lollipops	15		20	
14	Minor starters		5		30
	TOTAL TAX MEASURES	2410	310	3185	830
		-2100		-2355	
		-515		-505	
		-2615		-2910	

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SCORECARD OF 26 FEBRUARY 1987 **TABLE 2**

PSBR EFFECTS[(a)]

(All figures are net of the cost or yield of indexation or revalorisation included in the base forecast)

£m
(rounded to £5m)
reduction(-)/increase(+)

Proposal	1987-88 +	1987-88 -	1988-89 +	1988-89 -
Excise duties	25		20	
VAT - partial exemption		295		365
- small business	115		55	
Income tax (including higher rates)	2145		2680	
Profit related pay	neg		35	
Pensions - personal pensions	neg		25	
- freestanding AVCs	neg		50	
- anti-abuse measures		neg		10
Car and car fuel benefits		nil		30
Inheritance tax	70		150	
Corporation tax - small companies	neg		45	
- capital gains		neg		60
- payment dates		neg		100
- dual residents		neg		125
- banks		neg		20
Lloyds RIC		nil		10
Oil - PRT crossfield allowance	5		15	
- Oil companies ACT	20		20	
Keith: PAYE and sub-contractors		5		45
Business Expansion Scheme	5		5	
Lollipops	15		20	
Minor starters		5		30
TOTAL	2400	565 +2095 +2660	305	3120	460 +2325 +2785	795

(a) The figures for PSBR cost given in this table are calculated in terms of the change in the fiscal adjustment implied by each measure listed. Adding the figures together shows how much of any fiscal adjustment indicated by the forecasts, assuming a given PSBR, would be used up.

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Notes to Table 1

1. Excise duties: Assumes the following package:

Product	Unit	% change in duty	Price change (p)	Revenue effect cost(-)/yield(+) 1987-88 £m
Beer	Pint	+3.0%	0.6	-10
Cider	Pint	-	0.0	-neg
Wine : Table	70cl	+3.0%	2.4	)
Cyprus sherry) between 13 &	70cl	+8.1%	6.4	)
Vermouth) 15% alcohol	75cl	+8.1%	6.8	)
Sherry	70cl	-4.1%	-5.6	) -5
Port	70cl	-3.6%	-5.6	)
Sparkling	70cl	+3.0%	3.9	)
Spirits	75cl	+3.0%	16.3	-5
Cigarettes (including hand-rolling tobacco)	20KS	+3.7%	3.4	nil
Cigars	5 whiffs	+3.7%	1.9	nil
Pipe tobacco	25 grams	-	0.0	-neg
Petrol	gallon	+5.2% (a)	5.3	+75
Derv	gallon	+5.2% (b)	4.5	+20
VED: cars	-	- (a)	0.0 (b)	-75
VED: other	-	(b)		-15 (c)
Minor duties (principally minor oils, eg heavy fuel oil, gas oil)	-	-	-	-5

(a) Petrol increase equals revalorisation plus recoupment of standstill on car VED.

(b) Derv increase equals revalorisation plus recoupment of standstill in lorry and other non-car VED. Alternative option is derv increase equal to petrol price increase with lorry VED standstill, which would give an overall £15 million revenue gain compared to revalorisation.

(c) No change in main lorry and most other VED rates involves revenue loss of £20 million offset by £5 million gain from increases in rates for farmers lorries and trade licences and creation of new tax class for recovery vehicles.

To recoup the revenue loss (£20 million) on alcoholic drinks, cigarette duty would have to rise by an additional 0.7% to increase the cost of 20KS by a further 0.7p. The RPI impact effect would be increased by 0.02%.

The RPI impact effect of the package is 0.30%, compared to 0.31% for revalorisation. If the total impact effect of the Budget as a whole were to be contained at 0.25%, and given that 2p off the basic rate of income tax is now estimated to add 0.15% to the RPI, the room for manoeuvre on excise duties would be limited to an RPI impact effect of 0.1%. This

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could be effected by revalorisation of duty on cigarettes (and hand-rolling tobacco), with no increase in any other duty (excluding gaming machine licences and minor VED). Total revenue effect compared to scorecard package would be additional cost of £415 million in 1987-88 (PSBR effect +£440 million).

Customs and Excise (Mr Knox) notes of 12 and 25 February consider wine duty restructuring and the effects on the RPI of different excise duty options. Decisions required at March 2 Overview.

If there were no change to any current duties (excluding the betting and gaming package, which is revenue neutral, licences and minor VED) the revenue effect compared to the scorecard package would be additional costs of:

	£ million	
	1987-88	1988-89
cigarettes (inc hand-rolling tobacco)	-100	-105
all other excise duties including VED	-415	-450
Total	-515	-555

The PSBR effect of this option would be +£565 million in 1987-88 and +£460 million in 1988-89.

2. VAT: Assumes no change in standard rate.

Assumes revalorisation by 3.7% of the VAT registration threshold (the level of turnover at which businesses must register for VAT) raising it to £21,300 (from £20,500). The maximum revenue effect would not exceed £10 million and, depending on the numbers of deregistrations, could be negligible. It is allowed for in the forecast.

Partial exemption: Assumes implementation from 1 April 1987 of revised rules for deduction of input tax (anti-tax avoidance measure).

Small business package: Assumes annual accounting (to allow an annual returns system with advance payments on account) from 1 July 1988. There is a revenue cost of £25 million in 1988-89 arising from the resultant need to defer Keith phase III (serious misdeclaration penalty and interest on under declarations in VAT returns) to Autumn 1989. Also assumes a cash accounting system (to allow accounting for tax on the basis of cash paid and received) with a turnover ceiling of £250,000 per annum, two-thirds take-up and 1 October 1987 start date: cost in first year of £100 million and continuing annual cost thereafter of £10 million. Also assumes relaxation of period in which to notify and be registered for VAT (from ten days to one month) plus minor amendments to VAT Act 1983, Schedule 1. Cost included is middle of ranges of £5-25 million (1987-88) and £10-40 million (1988-89).

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Ch/ As requested, there is a note in yr box from Nick Monck on this limit JILL

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Assumes introduction of anti-abuse measures to counter pension scheme abuse in particular by high earners. Yield highly speculative.

6. Car and car fuel benefit scales: Assumes 10% on car scales but no change to car fuel scales.

7. Inheritance tax: Assumes the following scale ("smooth four point 90") with a full year cost of £210 million:

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Assumes companies capital gains will be charged in full at normal Corporation Tax rates, with ACT set-off.

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Assumes measures to deny double deduction for interest payments by dual resident companies.

Tax Credit Relief for Banks: Assumes measure to limit credit for foreign withholding tax actually paid, or spared, on interest received by banks from overseas lending to the amount of corporation tax on the turn on the relevant loan. Estimated yield assumes 6% $ LIBOR.

9. Lloyds RIC: Legislation on Lloyds reinsurance to close will bring in a once-for-all yield of £150 million and a continuing yield of £30 million. Estimated yield in 1988-89 is on the basis of the Economic Secretary's recommendation that there should be phasing in over three years and the fact that the yield of £150 million will in any event be spread over 4 to 5 years.

10. Oil: PRT Crossfield Allowance: Measure will allow an oil company to set PRT relief against other fields for up to 10% of expenditure in developing a new field, until that new field reaches payback. Revised figures for 1988-89 due to Department of Energy estimate of timing of effect on investment.

Oil companies ACT: Figure shown is for relief to give more scope for setting off ACT against North Sea ring fence profits. But priority being given to anti-avoidance measure against use of preference share dividends as means of obtaining carry back of ACT within the ring fence. This is required to protect against future loss of revenue.

NB. PRT Research allowance: measure will provide cross-field relief for research expenditure not specific to a particular field. Nil revenue effect in 1987-88 and 1988-89 but first year cost (1990-91) of £30 million and £25 million thereafter.

11. Keith: Assumes secondary legislation in 1987 to charge interest from April 1988 on PAYE tax and tax paid by subcontractors and to bring certain payments to directors more clearly within PAYE.

12. Business Expansion Scheme: Assumes changes to ease the problem of year-end bunching and to promote investment in the film industry.

13. Lollipops: Following discussion at Overview (16 February), blind allowance to be increased from £360 to £540 at a cost of around £2 million a year.

The limit for capital gains tax retirement relief is to be increased from £100,000 to £125,000 at a full year cost of £5 million (nil in 1987-88 and £2 million in 1988-89).

The limit for tax-exempt friendly society life or endowment business is to be changed in order to help "traditional" friendly societies but not the newer "commercial" societies (negligible cost).

The exemption limits for trade union provident benefits are to be increased (negligible cost).

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Charities VAT mini-package of measures to be introduced. Cost £5 million in 1987-88 and 1988-89.

Overview (23 February) agreed higher age allowance for those over 80. Increase to be twice indexation (7.4%) at a cost of around £10 million in both 1987-88 and 1988-89.

NB: Enterprise Measures: Following discussion at Overview (23 February) Inland Revenue (Mr Lewis) note of 26 February discusses tax relief for training course paid for by employers for employees about to become redundant. Cost negligible.

below — under "loose ends"
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SCORECARD OF 26 FEBRUARY 1987 **TABLE 3**

STAFFING EFFECTS

Proposal	Effect on manpower numbers at April 88		April 1989	
	-	+	-	+
Customs and Excise				
Excise duties		nil		nil
VAT - partial exemption		5		5
VAT - small business package [a]	nil		60	
Minor starters	14		14	
Total Customs		-9		-69
Inland Revenue [b]				
Income tax (including higher rates) [c]		80		185
Profit related pay [d]		15		5
Pensions [e]		35		30
Car and car fuel benefits		nil		nil
Inheritance tax [f]	20		35	
Capital gains tax threshold [g]		nil		60
Stamp duty threshold (no change)		18		20
Corporation Tax - payment dates [h]		nil		35
- capital gains	neg		neg	
- dual resident companies	neg		neg	
- tax credit relief for banks		nil		nil
Lloyds RIC		nil		nil
Oil		neg		neg
Keith: PAYE and sub-contractors		nil		nil
Business Expansion Scheme		neg		neg
Lollipops		neg		neg
Total Inland Revenue		+128		+300
Transport				
Measures to deal with dishonoured cheques (negligible revenue implications)	5		5	
Total Transport		-5		-5
Total (provisional only)		+114		+226

(a) The saving of 60 staff shown for April 1989 is a transitional effect, the additional staff required for annual and cash accounting being more than offset by savings from the deferment of Keith phase III in 1988-89. Further details in Customs (Mr Howard) submission of 24 February.

(b) Figures show the effects compared to current PES provision.

(c) Staff effects relate to Option 5. A 5% increase in personal allowances would reduce the cost to 60 and 140 units at 1 April 1988 and 1989 respectively.

(d) In addition to survey provision of 50 (1 April 1988) and 100 (1 April 1989).

(e) The indications are that additional staff will be required earlier than previously expected. The April 1989 figure in the table is in addition to Survey provision of 20 staff at that date.

(f) Figures assume "smooth four point 90".

(g) Assumes statutory indexation. The April 1989 increase arises because Inland Revenue now estimate an additional 40,000 taxpayers compared to the number underlying current Survey provision.

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SCORECARD OF 26 FEBRUARY 1987

TABLE 4

MINOR STARTERS

(Items in Starters list which Ministers have agreed are now serious contenders, with revenue effect of £3m or more)

FB Starter Number	FB Category	Proposal	1987-88 −	1987-88 +	1988-89 −	1988-89 +
4	B1	VAT: tour operators' margins	nil			20
11	B2	Abolition of on-course betting duty[(a)]	20		20	
	A	Increase in duty on gaming machine licences (a)		20		20
14	C	VAT: blocking of loophole on imported services		neg		5
404-6	C	VED: increasing back duty payable on conviction for offence (b)		5		5
		Total		+5		+30

Notes to Table 5

(a) These two measures are linked and designed to be revenue neutral taken together.

(b) Starter 404 double back duty, 405 minimum back duty and 406 all back duty deemed to be due are alternatives. Revenue yield in both years is £5 million for all but Starter 404 which would produce £10 million in 1988-89.

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ps3/6K

CONFIDENTIAL

FROM: A W KUCZYS
DATE: 14 July 1987

PS/FINANCIAL SECRETARY

cc PS/Chief Secretary
Sir P Middleton
Sir T Burns
Mr F E R Butler
Mr Monck
Mr Cassell
Mr Peretz
Mr Scholar
Mr D J L Moore
Mr Turnbull
Mr Odling Smee
Mr Sedgwick
Mrs M E Brown
Mr Tyrie

PRIVATISATION PROCEEDS: 1988-89 TO 1991-92

The Chancellor yesterday discussed Mr Moore's submission of 1 July with the Financial Secretary, Mr Monck and Mr Moore. Since the previous discussion of proceeds, we now knew for certain that the Water legislation would be in the second Session. Electricity proceeds remained extremely uncertain. The Chancellor did not want to agree to increasing the proceeds target to £6 billion unless he was confident that it could be sustained at this level. The problem was that, in the table in Mr Moore's submission, the proceeds for 1990-91 and 1991-92 came almost totally from water and electricity.

2. Mr Moore pointed out that we were probably up to about £5.4 billion in 1988-89 anyway, even without anything from BT, made up as follows:

	£m
Gas debt	250
Gas (III)	1,600
BAA (II)	725*
Miscellaneous	100
BP (II), (III)	2,700*

*Figures revised upwards since Mr Moore's submission of 1 July.

There was a difficulty in postponing the BT sale until 1989-90, in that Professor Carsberg would be revising the RPI -x formula in late summer 1989, and the review of the current duopoly started then. All this could make marketing and drafting the prospectus more difficult. Nonetheless, the Chancellor asked that the option of selling BT in late 1989 be kept open.

3. As far as water authorities were concerned, the Chancellor questioned whether it was sensible to sell them in batches of three or four. The Financial Secretary explained that the advisers supported this. Otherwise, there would be a steady stream of sales taking up all available slots for some time. It would also make it possible to mix the more saleable authorities with the less attractive. Nonetheless, investors would not have to buy into more than one authority if they did not wish to do so, and it was agreed that it would be desirable to have a single "flag-ship" sale to start things off.

4. Finally, the Chancellor noted that there was a considerable residue of BT to be sold even after the one-third tranche Mr Moore had earmarked. That would provide considerable flexibility, although it was essential to avoid any over-restrictive undertaking which would prevent an early further sale. Given that, the Chancellor agreed that the target for future years should be raised to £6 billion. Mr Monck was inclined to avoid announcing this in the Autumn Statement, given that the Chief Secretary would at that stage have just completed the process of scaling spending bids down to save rather smaller amounts than £1 billion. On the other hand, it would be undesirable to put a figure in the Autumn Statement which looked phoney. It was agreed that the revised target should be announced in the Autumn Statement (and revealed to colleagues at the final Cabinet before that). In addition, we should seek advice on the possibility of selling the residual holding in BT as an

annual series of small retail sales. This would increase flexibility still further, possibly at the cost of reducing the overall proceeds.

A W KUCZYS

CHANCELLOR OF THE EXCHEQUER

~~BF~~

10/9

1. Jonathan
2. BF 14/10

Ch

See para 4 of note of meeting attached.

(Will put on agenda for next electricity meeting)

Apologies. My memory failed me. No need to discuss @ Chec. mtg, but may look to reinstate BP price fixing. m

SECRET & PERSONAL

NB. I have not yet agreed X. (Can be discussed @ future meeting or else privately).

SCORECARD
Copy No 3 of 15 Copies

FROM: J GIEVE
DATE: 2 SEPTEMBER 1987

CHIEF SECRETARY +1

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

CC (distant arms till after CST related)

THE SURVEY SCORECARD

I attach an up-to-date scorecard. This reflects the revised bids submitted by departments and our latest assessment of the likely outcomes together with the opening positions that divisions are recommending that you should adopt in your bilaterals.

2. There have been a large number of changes but, as you will see, the overall forecast outcome on programmes is broadly unchanged - up by about £100 million in 1988-89 and down by £200 million in 1990-91. The main changes to this scorecard compared to the previous one (submitted on 21 July) are:

LA Capital. The bids and likely outcomes have been increased to reflect the revised guidelines on allocations. This raises the outcome, for example, for Transport by £40 million a year and Housing by £50 million.

IBAP. The estimating savings set out in Mr MacGregor's letter have evaporated as we anticipated; the forecast outcome remains the same as in the core brief submitted at the beginning of August.

Home Office. The figures have been revised to reflect the revised bids on prisons. This increases the forecast outcome in 1988-89 and 1989-90.

Social Security. As you will have seen from Mr McIntyre's brief for the bilateral, the latest information suggests that our internal forecasts of social security spending may need to be reduced; however, ST's forecast of the outcome of the Survey negotiations has moved the other way because DHSS have submitted rather larger estimating bids than we had anticipated (albeit still well below what our own forecasts point to) and a number of the policy bids have also been increased; the result is an increase in the forecast outcome of about £200 million a year when compared with the scorecard I sent to you on 21 July. (To the extent that the gap between the forecast outcome and our internal forecast of likely spending has narrowed, the probable claim on the Reserves has been reduced.)

Nationalised Industries. The scorecard reflects the "super fallback" position set out in Mr Moore's minute to you of 28 August on the IFR. This is better than the forecast outcome included in the last scorecard by £230 million in 1988-89, £450 million in 1989-90 and £600 million in 1990-91.

Privatisation. The scorecard now reflects the decision to increase the provision for privatisation proceeds by £1 billion a year; this will affect the planning total although it will not help us to achieve our objectives on the ratios since we have decided to focus on GGE excluding privatisation.

3. We will update the scorecard weekly and submit it to you for your weekend box (starting 11 September). At the beginning of October, in preparation for Star Chamber, we will review the position in the ratios in the light of the early work on the autumn forecast.

J GIEVE

SECRET

SUMMARY SCORECARD

Date of last update: 02/09/87

(£million)

	1988-89 BASELINE	1988-89 DEPT POSITION	1988-89 FORECAST OUTCOME	1988-89 HMT POSITION	1989-90 BASELINE	1989-90 DEPT POSITION	1989-90 FORECAST OUTCOME	1989-90 HMT POSITION	1990-91 BASELINE	1990-91 DEPT POSITION	1990-91 FORECAST OUTCOME	1990-91 HMT POSITION
Ministry of Defence	18,980.0	551.0	221.0	221.0	19,464.0	815.0	435.0	335.0	19,892.0	954.0	614.0	414.0
FCO - Overseas Development Administration	1,399.0	83.0	32.5	16.0	1,441.0	158.1	64.3	31.3	1,477.0	238.2	88.4	41.4
FCO - Diplomatic, Information, Culture	730.0	-2.1	-9.2	-26.7	747.0	4.6	-6.9	-28.8	765.0	6.1	-6.3	-29.5
European Communities	440.0	50.0	50.0	50.0	1,060.0	450.0	450.0	450.0	1,087.0	130.0	130.0	130.0
Intervention Board for Agricultural Produce	1,782.0	17.0	-50.0	-74.1	1,878.0	-6.9	-50.0	-143.4	1,925.0	101.9	-25.0	-94.0
Ministry of Agriculture, Fisheries and Food	747.0	36.7	30.0	-2.3	749.0	49.5	35.0	-45.3	768.0	42.7	20.0	-107.5
Forestry Commission	54.0	6.9	5.0	-5.4	55.0	11.4	10.0	-2.8	56.0	10.9	10.0	-3.2
Department of Trade and Industry	973.0	262.8	207.1	172.8	971.0	324.3	238.8	159.4	1,007.0	269.3	166.3	-1.1
Export Credits Guarantee Department	111.0	-8.6	-8.6	-8.6	47.0	76.7	76.7	76.7	48.0	69.9	69.9	69.9
Department of Energy	286.0	35.0	13.0	-33.0	282.0	45.6	18.4	-24.6	289.0	47.6	18.1	-20.4
Department of Employment	4,117.0	207.1	142.8	-129.9	4,216.0	234.9	143.8	-246.2	4,322.0	232.8	103.0	-380.6
Department of Transport	2,166.0	143.4	80.0	-6.2	2,214.0	162.6	80.0	-9.7	2,264.0	144.4	79.0	-12.3
DOE - Housing	2,443.0	522.0	332.0	30.0	2,503.0	674.0	413.0	13.0	2,566.0	788.0	447.0	-17.0
DOE - Other Environmental Services	929.0	192.0	63.0	-86.0	913.0	193.0	58.0	-86.0	936.0	189.0	58.0	-86.1
DOE - Property Services Agency	-99.0	45.4	20.0	-32.7	-101.0	42.0	0.0	-77.9	-104.0	48.6	0.0	-112.4
Home Office	1,237.0	162.0	115.0	-88.7	1,296.0	233.7	125.0	-91.1	1,326.0	223.6	100.0	-114.1
Lord Chancellor's Department	726.0	54.9	46.4	-16.6	781.0	75.1	59.5	-24.5	801.0	127.3	106.5	0.0
Department of Education and Science	3,851.0	567.4	232.3	62.0	3,966.0	679.9	294.7	99.0	4,065.0	777.1	302.1	93.0
Office of Arts and Libraries	367.0	49.9	19.3	6.2	377.0	62.9	29.3	9.2	386.0	68.6	36.5	9.4
DHSS - Health and Personal Social Services	16,932.0	1,021.0	600.0	256.0	17,743.0	1,454.0	850.0	400.0	18,187.0	2,280.0	1,350.0	700.0
DHSS - Social Security	47,258.0	1,474.3	1,205.4	345.9	49,123.0	2,032.0	1,540.8	-26.3	50,351.0	3,556.6	3,002.7	1,184.7
Scotland: negotiable	4,687.0	18.0	1.2	-293.6	4,863.0	30.6	13.8	-347.3	4,984.0	33.5	16.0	-363.1
Scotland: formula		268.5	146.3	17.1		353.1	188.2	32.9		469.4	253.3	65.9
Wales: negotiable	1,933.0	53.8	29.7	-11.4	1,995.0	50.7	26.4	-20.1	2,045.0	51.9	27.2	-26.7
Wales: formula		126.3	67.7	12.1		165.7	88.4	21.0		222.9	120.4	36.8
Northern Ireland: negotiable	5,048.0	17.8	13.2	13.2	5,217.0	32.6	27.5	27.5	5,348.0	60.5	55.3	55.3
Northern Ireland: formula		135.7	95.1	46.0		164.1	108.0	65.6		195.1	123.0	44.5
Chancellor's Departments	2,304.0	182.7	109.0	63.5	2,411.0	255.4	126.2	67.9	2,472.0	310.3	146.3	83.9
Other Departments	604.0	41.3	29.3	6.4	620.0	77.9	57.0	30.3	636.0	127.1	105.0	70.1
Nationalised Industries (inc IFR memo items)	524.4	847.5	500.0	-89.0	81.1	1,222.0	300.0	-475.0	84.3	1,207.0	-200.0	-1,597.0
Local Authority Relevant	32,206.0	1,039.0	1,039.0	1,039.0	33,054.0	1,355.0	1,355.0	1,355.0	33,880.0	1,561.0	1,561.0	1,561.0
Privatisation Proceeds	-5,000.0		-1,000.0		-5,000.0		-1,000.0		-5,000.0		-1,000.0	
Adjustment												
GRAND TOTAL		8,201.7	4,377.5	1,453.0		11,479.5	6,155.8	1,504.7		14,545.3	7,877.6	1,595.0

4403/14

SECRET & PERSONAL

Spare.

This reminds you of how the GGE/GDP ratios may appear in the Autumn Statement on the basis of our present assessment of the Survey outcome. The CST is also going to write on Monday an aide memoire for your talk with the Prime Minister.

SCORECARD
Copy No 2 of 14 Copies

1. MR F E R BUTLER
2. CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Sir P Middleton
Sir T Burns
Mr Anson
Mr Monck
Mr Sedgwick
Mr Turnbull
Miss Walker
Mr Tyrie

pmp

FERB
4.9.

PUBLIC EXPENDITURE RATIOS

As background for your meeting with the Prime Minister and your meeting next week on revisions to the MTFS assumptions, this minute sets out the implications for the GGE/GDP ratios of the latest Survey scorecard.

Cash totals

2. The cash figures are as follows:

£ billion

	1987-88	1988-89	1989-90	1990-91
Programme baselines (excl privatisation)	150.1	153.7	159.0	163.0
Forecast increase in programmes	3.5	+5.4	+7.2	+8.9
Level of reserves	-	4.0	7.0	10.0
Planning total excl privatisation (increase on White Paper)	153.6	163.1 (+3.9)	173.2 (+6.7)	181.9
Debt interest and other accounts adjustments (June Forecast)	+24.5	+25.6	+25.9	+25.4
Implied GGE totals (excl privatisation)	178.1	188.7	199.1	207.3

These figures take credit for the reduction in debt interest and other accounts adjustments in the June forecast. They allow for Reserves of £4 billion, £7 billion and £10 billion.

Ratios

3. The White Paper path for GGE (excluding privatisation proceeds) as a proportion of GDP was:

	1987-88	1988-89	1989-90	1990-91
				%
A	44	42¾	42¼	-

On the basis of the MTFS projections of GDP the above totals would produce:

B	43¼	43¼	43	42½

However, latest indications are that the figures for GDP in 1986-87 will be revised upwards by ½ per cent; on that basis the ratios would be:

C	43	43	42¾	42¼

The June forecast pointed to a more rapid growth of GDP in 1987-88, 9 per cent (5 prices, 4 real) rather than 7½ per cent (4½ prices, 3 real). If, in addition to revision to 1986-87, the estimate of GDP in 1987-88 is revised up to reflect this the ratios would fall to

D	42½	42½	42¼	41½

If, in addition, the growth rate of money GDP in 1988-89 is revised upwards by ½ per cent the ratios would be

E	42½	42¼	42	41½

Finally, using the GDP growth rates in the June forecast for all years applied to the higher estimates for 1986-87, the ratios would be

F	42½	41¾	41¼	40¼

Conclusions

5. The figures are no more than illustrative but they suggest that if the path for money GDP were revised only to reflect

the latest outturn for 1986-87 and the forecast for 1987-88 (line D), the level in 1989-90 would be about the same as in the White Paper (42¼ per cent), but progress from 1987-88 would be negligible. To show a measurable decline it would be necessary to revise growth in money GDP in 1988-89 as well (line E). The tightness of this position makes it essential to do no worse than our current assessment; indeed we really need to do somewhat better.

J GIEVE

PROSPECTS FOR 1987 SURVEY

008/2989

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SCORECARD COPY NO 1 OF 5

FROM: JILL RUTTER
DATE: 7 September 1987

PRINCIPAL PRIVATE SECRETARY

PROSPECTS FOR THE 1987 SURVEY

I understand that the Chancellor is to have a bilateral with the Prime Minister tomorrow.

2 At last week's bilateral the Chancellor told the Chief Secretary he would be grateful for a note setting out the position on the 1987 Survey. I attach such a note - largely the work of Mr Turnbull, reflecting the comments of the Chief Secretary.

Jill Rutter

JILL RUTTER
Private Secretary

2131/10

SECRET

PROSPECTS FOR 1987 SURVEY

Cabinet agreed to hold as close as possible to existing planning totals and certainly not allow public spending to exceed proportion of GDP set out in last White Paper.

2. Latest Treasury assessment of outcome is increases in planning total* of around £1 billion in 1988-89 and £6.5 billion in 1989-90 (compared with £5 billion and £5.75 billion last year). Will have to think carefully about market reaction.

3. May be scope for some increase in privatisation proceeds but that will not reassure markets or reduce spending in proportion to GDP.

4. The figures also assume large Reserves (4/7/10) but they are needed to cover EC uncertainties, inevitable overshoots by local authorities and on social security, as well as genuine contingencies.

5. On the basis of the MTFS projections of GDP in the Budget these increases would not bring the ratio to GDP down as set out in the White Paper. Some upward revisions to GDP likely in Autumn Statement but it will be touch-and-go whether the ratios will come out right.

6. Much will depend on whether we are willing to take difficult decisions:

i. Defence. LTC 87 showed large gap between resources available and planned defence programme. Mr Younger is proposing a holding operation in this Survey pending a more fundamental look in spring of next year after completion of LTC 88. Despite this has still entered bids of 500 rising to 900. Treasury believes 1987 Survey should decide framework for resources so that LTC 88 gets on with bringing planned defence programme into line with resources. Assessment assumes increases of 220/435/615. Much of gap can be closed by greater efficiency.

Robson's new Cmnt shared by Seamer)

* Details in Tables A and B.

ii. Electricity. Bids are enormous (340/830/1040 in England and Wales). Large elements for power station investment need to be considered carefully. Must also look for much higher rate of return from industry, accepting small real increases in prices (about 1-2 per cent a year after 15 per cent fall over last 5 years). Higher returns will help with privatisation; expect Mr Parkinson to adopt helpful attitude, at least on this point. [Large bids also for Scottish Electricity (200/180/190), return also needs to be increased but less room for manoeuvre.]

CST is seeing Mr Rifkind tomorrow will money will get debrief.

iii. Scotland. Mr Rifkind already signalling resistance to cuts on Scotland. Substantial over-provision - around £1 billion or 20 per cent of Scottish block - is being perpetuated by formula. In this Survey should at least adjust for changes in population since 1979, saving £200 million a year.

iv. Social Security. Despite fall in unemployment look like adding massive £1bn/£2bn/£3bn to social security programme in the Survey and the final outturn likely to be higher still. Reflects continuing underlying increase in claims. Could make significant impact by radical measures eg by launching new benefit structure at lower than illustrative rates and cutting back other benefits.

(silent on child benefit (we now give diffs)

v. Health. Recognise strong political pressures to find more resources but bids are enormous (1000/1450/2280). Are seeking greater efficiency but also essential to get larger contribution from users. Can we take radical look at basis of charges and especially widespread exemptions which at present cover 70 per cent of population? Could present attractive package with either reduced prescription charge or two-tier charges if base could be widened.

vi. Education. Mr Baker seeking large additions in all aspects of his programme, eg universities, science, local authority capital. These represent increases of 15-20 per cent on his programme (on top of generous LA current settlement) but relatively little related to Manifesto commitments or E(EP) proposals.

CST seeing Baker tomorrow afternoon (may not have before you see PM)

vii. Regional policy. An extra 100 a year is being sought for RDG/RSA, reflecting more buoyant investment in economy. Strength of corporate sector provides opportunity to make savings and switch some resources (eg to inner cities).

7. Would welcome reactions from Prime Minister. Urge that where individual proposals come either to her or to Cabinet Committees decisions are not taken which foreclose options before total Survey position can be considered.

TABLE A

SECRET

SUMMARY SCORECARD

Date of last update: 02/09/87

(£million)

	1988-89 BASELINE	1988-89 DEPT POSITION	1988-89 FORECAST OUTCOME	1988-89 HMT POSITION	1989-90 BASELINE	1989-90 DEPT POSITION	1989-90 FORECAST OUTCOME	1989-90 HMT POSITION	1990-91 BASELINE	1990-91 DEPT POSITION	1990-91 FORECAST OUTCOME	1990-91 HMT POSITION
Ministry of Defence	18,980.0	551.0	221.0	221.0	19,464.0	815.0	435.0	335.0	19,892.0	954.0	614.0	414.0
FCO - Overseas Development Administration	1,399.0	83.0	32.5	16.0	1,441.0	158.1	64.3	31.3	1,477.0	238.2	88.4	41.4
FCO - Diplomatic, Information, Culture	730.0	-2.1	-9.2	-26.7	747.0	4.6	-6.9	-28.8	765.0	6.1	-6.3	-29.5
European Communities	440.0	50.0	50.0	50.0	1,060.0	450.0	450.0	450.0	1,087.0	130.0	130.0	130.0
Intervention Board for Agricultural Produce	1,782.0	17.0	-50.0	-74.1	1,878.0	-6.9	-50.0	-143.4	1,925.0	101.9	-25.0	-94.0
Ministry of Agriculture, Fisheries and Food	747.0	36.7	30.0	-2.3	749.0	49.5	35.0	-45.3	768.0	42.7	20.0	-107.5
Forestry Commission	54.0	6.9	5.0	-5.4	55.0	11.4	10.0	-2.8	56.0	10.9	10.0	-3.2
Department of Trade and Industry	973.0	262.8	207.1	172.8	971.0	324.3	238.8	159.4	1,007.0	269.3	166.3	-1.1
Export Credits Guarantee Department	111.0	-8.6	-8.6	-8.6	47.0	76.7	76.7	76.7	48.0	69.9	69.9	69.9
Department of Energy	286.0	35.0	13.0	-33.0	282.0	45.6	18.4	-24.6	289.0	47.6	18.1	-20.4
Department of Employment	4,117.0	207.1	142.8	-129.9	4,216.0	234.9	143.8	-246.2	4,322.0	232.8	103.0	-380.6
Department of Transport	2,166.0	143.4	80.0	-6.2	2,214.0	162.6	80.0	-9.7	2,264.0	144.4	79.0	-12.3
DOE - Housing	2,443.0	522.0	332.0	30.0	2,503.0	674.0	413.0	13.0	2,566.0	788.0	447.0	-17.0
DOE - Other Environmental Services	929.0	192.0	63.0	-86.0	913.0	193.0	58.0	-86.0	936.0	189.0	58.0	-86.1
DOE - Property Services Agency	-99.0	45.4	20.0	-32.7	-101.0	42.0	0.0	-77.9	-104.0	48.6	0.0	-112.4
Home Office	1,237.0	162.0	115.0	-88.7	1,294.0	233.7	125.0	-91.1	1,326.0	223.6	100.0	-114.1
Lord Chancellor's Department	726.0	54.9	46.4	-16.6	781.0	75.1	59.5	-24.5	801.0	127.3	106.5	0.0
Department of Education and Science	3,851.0	567.4	232.3	62.0	3,966.0	679.9	294.7	99.0	4,065.0	777.1	302.1	93.0
Office of Arts and Libraries	367.0	49.9	19.3	6.2	377.0	62.9	29.3	9.2	386.0	68.6	36.5	9.4
DHSS - Health and Personal Social Services	16,932.0	1,021.0	600.0	256.0	17,743.0	1,454.0	850.0	400.0	18,187.0	2,280.0	1,350.0	700.0
DHSS - Social Security	47,258.0	1,474.3	1,205.4	345.9	49,123.0	2,032.0	1,540.8	-26.3	50,351.0	3,556.6	3,002.7	1,184.7
Scotland: negotiable	4,687.0	18.0	1.2	-293.6	4,863.0	30.6	13.8	-347.3	4,984.0	33.5	16.0	-363.1
Scotland: formula		268.5	146.3	17.1		353.1	188.2	32.9		469.4	253.3	65.9
Wales: negotiable	1,933.0	53.8	29.7	-11.4	1,995.0	50.7	26.4	-20.1	2,045.0	51.9	27.2	-26.7
Wales: formula		126.3	67.7	12.1		165.7	88.4	21.0		222.9	120.4	36.8
Northern Ireland: negotiable	5,048.0	17.8	13.2	13.2	5,217.0	32.6	27.5	27.5	5,348.0	60.5	55.3	55.3
Northern Ireland: formula		135.7	95.1	46.0		164.1	108.0	45.6		195.1	123.0	44.5
Chancellor's Departments	2,304.0	182.7	109.0	63.5	2,411.0	255.4	126.2	67.9	2,472.0	310.3	146.3	83.9
Other Departments	604.0	41.3	29.3	6.4	620.0	77.9	57.0	30.3	636.0	127.1	105.0	70.1
Nationalised Industries (inc IFR memo items)	524.4	847.5	500.0	-89.0	81.1	1,222.0	300.0	-475.0	84.3	1,207.0	-200.0	-1,597.0
Local Authority Relevant	32,206.0	1,039.0	1,039.0	1,039.0	33,054.0	1,355.0	1,355.0	1,355.0	33,880.0	1,561.0	1,561.0	1,561.0
TOTAL ADDITIONS TO PROGRAMMES		8,201.7	5,377.5	1,453.0		11,479.5	7,155.8	1,504.7		14,545.3	8,877.6	1,595.0

SCORECARD

TABLE B

SURVEY ASSESSMENT (as at 2 September 1987)

			£ billion
Baseline - total programmes	153.7	159.0	163.0
Additions to programmes - see table A	5.4	7.2	8.9
Reserves	4.0	7.0	10.0
New planning total (excluding privatistion proceeds)	163.1	173.2	181.9
cf existing planning total (excluding privatisation proceeds)	159.2	166.5	na
Increase	3.9	6.7	

4403/2

SECRET & PERSONAL

PWP

Phased through S.S+75

SCORECARD
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FROM: J GIEVE
DATE: 11 SEPTEMBER 1987

CHIEF SECRETARY +1

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

Need to keep if final telegram version contains a remit for us to advise on pressures for 1990 & 91.

THE SURVEY SCORECARD

I attach our latest scorecard revised to reflect your bilaterals and the latest information on other departments.

2. Overall, the outlook has improved since the beginning of the month, particularly for 1988-89. As you will see, for that year we are now forecasting an increase in programmes of under £5 billion, a decrease of £550 million on the last scorecard. The forecast outcome for the later years has also come down by £250-£300 million in each year.

3. The main change is the reassessment of the Department of Environment's programmes following your meeting with Mr Ridley and his offer of extra capital receipts both on housing and on other environmental services. As you know, our earlier assessments assumed that his initial bid had been pessimistic about receipts in 1989-90 and 1990-91, but we had not anticipated the large increase in receipts he is now forecasting for 1988-89. On housing, Mr Ridley's bid has now come down to £156 million net in 1988-89; while it will be difficult to get it much lower, we have allowed for some further success in our forecast outcome of £100 million.

4. There are a large number of other changes, most of which are quite small and reflect revisions to estimating bids. Perhaps the main points to note are:

Employment - following your bilateral we have reduced the forecast outcome by £100 million in 1988-89 and £150 million in each of the later years; this represents roughly splitting the difference between Mr Fowler's and your opening positions and is a challenging target;

Lord Chancellor's Department - the scorecard reflects your offer which I understand the Lord Chancellor has now accepted;

Territories - the scorecard assumes that we will achieve some modest savings in the Scottish block but not anything on the scale of the population baseline adjustment (in this it does not differ from the last scorecard); however, the reduction in the forecast outcome for housing and other environmental services does have knock-on effects on all the territories through the formula (which we have assumed will be retained);

Inland Revenue - we have increased our forecast outcome by some £30 million in each year following your bilateral with the Inland Revenue;

Defence - we have increased the likely outcome on defence in 1989-90 by £50 million; it remains a tough settlement;

Education - in the light of your bilateral with Mr Baker and, in particular, his position on local authority capital, we have increased our forecast outcome in each year by £50 million.

5. As you will see, we have included at the bottom of the table a rough breakdown by spending authority and our first estimate of the effect on science and technology expenditure. You will note also that we have removed privatisation proceeds from the table so that it now concentrates entirely on increases to programmes.

J Gieve

J GIEVE

SECRET
SUMMARY SCORECARD

Date of last update: 11/09/87

([redacted]ion)

	1988-89 BASELINE	1988-89 DEPT POSITION	1988-89 FORECAST OUTCOME	1988-89 HMT POSITION	1989-90 BASELINE	1989-90 DEPT POSITION	1989-90 FORECAST OUTCOME	1989-90 HMT POSITION	1990-91 BASELINE	1990-91 DEPT POSITION	1990-91 FORECAST OUTCOME	1990-91 HMT POSITION
Ministry of Defence	18,980.0	551.0	221.0	221.0	19,464.0	815.0	485.0	335.0	19,892.0	954.0	614.0	414.0
FCO - Overseas Development Administration	1,399.0	83.0	32.5	16.0	1,441.0	158.1	64.3	31.3	1,477.0	238.2	88.4	41.4
FCO - Diplomatic, Information, Culture	730.0	-2.5	-8.6	-26.7	747.0	5.2	-5.3	-28.8	765.0	6.6	-4.8	-29.5
European Communities	440.0	50.0	50.0	50.0	1,060.0	450.0	450.0	450.0	1,087.0	130.0	130.0	130.0
Intervention Board for Agricultural Produce	1,782.0	46.7	-36.0	-116.1	1,878.0	50.9	-70.0	-271.4	1,925.0	315.8	-50.0	-269.0
Ministry of Agriculture, Fisheries and Food	747.0	42.1	19.0	-2.3	749.0	64.3	29.0	-45.3	768.0	63.7	11.0	-107.5
Forestry Commission	54.0	6.9	5.0	-5.4	55.0	11.4	10.0	-2.8	56.0	10.9	10.0	-3.2
Department of Trade and Industry	973.0	290.8	229.6	122.7	971.0	351.1	261.0	110.1	1,007.0	290.3	183.8	-50.9
Export Credits Guarantee Department	111.0	-8.6	-8.6	-8.6	47.0	76.7	76.7	76.7	48.0	69.9	69.9	69.9
Department of Energy	286.0	35.7	12.5	-37.1	282.0	45.7	17.0	-32.2	289.0	47.6	11.6	-32.8
Department of Employment	4,117.0	207.1	42.6	-129.9	4,216.0	234.9	-5.7	-246.2	4,322.0	232.8	-60.8	-380.6
Department of Transport	2,166.0	147.3	80.0	-3.9	2,214.0	158.8	80.0	-5.7	2,264.0	137.9	80.0	-9.9
DOE - Housing	2,443.0	156.0	100.0	30.0	2,503.0	420.0	250.0	13.0	2,566.0	539.0	350.0	-17.0
DOE - Other Environmental Services	929.0	-17.0	-122.0	-282.5	913.0	167.0	30.0	-112.0	936.0	182.0	49.0	-93.0
DOE - Property Services Agency	-99.0	45.4	20.0	-32.7	-101.0	42.0	0.0	-77.9	-104.0	48.6	0.0	-112.4
Home Office	1,237.0	177.5	115.0	0.0	1,294.0	235.2	125.0	0.0	1,326.0	225.0	100.0	0.0
Lord Chancellor's Department	726.0	44.9	17.0	17.0	781.0	65.1	22.8	22.8	801.0	127.3	57.1	57.1
Department of Education and Science	3,851.0	567.4	282.3	62.0	3,966.0	679.9	344.7	99.0	4,065.0	777.1	352.1	93.0
Office of Arts and Libraries	367.0	49.9	19.3	6.2	377.0	62.9	29.3	9.2	386.0	68.6	36.5	9.4
DHSS - Health and Personal Social Services	16,932.0	1,026.0	600.0	250.0	17,743.0	1,489.0	850.0	400.0	18,187.0	2,319.0	1,350.0	700.0
DHSS - Social Security	47,258.0	1,433.7	1,192.0	364.0	49,123.0	2,047.1	1,574.8	-31.7	50,351.0	3,553.7	3,020.7	1,203.2
Scotland: negotiable	4,687.0	33.0	-6.2	-283.0	4,863.0	59.7	9.8	-341.9	4,984.0	69.5	-1.2	-380.6
Scotland: formula		202.0	99.2	-8.2		323.2	163.3	28.7		444.0	238.5	64.2
Wales: negotiable	1,933.0	54.3	30.3	-8.3	1,995.0	53.1	22.4	-21.1	2,045.0	55.7	23.1	-43.1
Wales: formula		92.8	45.5	0.2		151.3	77.2	19.4		210.2	114.3	36.4
Northern Ireland: negotiable	5,048.0	17.8	13.2	13.2	5,217.0	32.6	27.5	27.5	5,348.0	60.5	55.3	55.3
Northern Ireland: formula		105.9	71.1	26.3		153.4	99.1	39.3		191.0	122.4	45.6
Chancellor's Departments	2,304.0	182.6	139.9	67.8	2,411.0	254.9	152.2	74.7	2,472.0	310.5	167.5	92.7
Other Departments	604.0	41.1	29.3	6.4	620.0	79.9	59.1	32.6	636.0	129.2	107.5	72.6
Nationalised Industries	347.8	864.0	500.0	-92.3	-55.9	1,244.3	300.0	-451.8	-56.1	1,240.0	-200.0	-1,610.6
Local Authority Relevant	32,206.0	1,039.0	1,039.0	1,039.0	33,054.0	1,355.0	1,355.0	1,355.0	33,880.0	1,561.0	1,561.0	1,561.0
TOTAL ADDITIONS TO PROGRAMMES		7,565.8	4,823.9	1,254.9		11,337.6	6,884.1	1,455.5		14,609.4	8,586.9	1,505.8
Central Government		5,313.7	3,371.2	695.6		8,057.1	5,066.9	773.6		11,020.8	7,019.6	1,800.6
Local Authority Capital		366.7	-32.4	-220.0		419.6	31.4	-203.0		443.5	27.3	-243.0
Local Authority Other Current		14.8	8.3	2.0		29.4	14.5	2.0		34.7	15.9	2.0
Other Public Corporations		-32.4	-62.2	-169.5		232.3	116.3	-20.3		309.6	172.8	-4.3
Science and Technology		374.9	230.3	110.6		480.1	273.4	135.2		480.8	208.3	70.6

L/026

SECRET AND PERSONAL

SCORECARD
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FROM: JOHN GIEVE
DATE: 18 September 1987

CHIEF SECRETARY (+1)

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

Ch
Good if headline can be 1.9

THE SURVEY SCORECARD

I attach our latest scorecard which reflects progress in the first round of bilaterals.

2. There are few changes since last week. Overall our forecast outcome has come down slightly in each year - by nearly £300m in 1988-89 and 1989-90 and by £200m in 1990-91. As a result we are now forecasting an increase in programmes of about £4.5 billion in 1988-89, £6.6 billion in 1989-90, and £8.4 billion in 1990-91.

3. In terms of the likely increases in our published planning totals, we can offset against these increases in programmes any draw-down on the published Reserves. The latter are £5.5 billion in 1988-89 and £7.5 billion in 1989-90. If we decide to reduce these to £4 billion and £7 billion respectively, we would publish increases in the planning totals excluding privatisation proceeds of £3 billion in 1988-89 and £6 billion in 1989-90. If we decide to increase the provision for privatisation proceeds (which are formally included in the planning total) by £1 billion in each year, the headline increase could come down to £2 billion in 1988-89 and £5 billion in 1989-90.

4. There are several minor changes to our forecasts of outcome; the main points to note are:

SECRET AND PERSONAL

Social Security - The forecast outcomes have been reduced by about £200m in each year mainly on the assumption that the Chancellor will agree to the revised economic assumptions on unemployment and the RPI that are being put to him by Mr Davies tonight.

IBAP - The forecast of outcome for the first two Survey years has been reduced following your discussion with Mr MacGregor on Thursday.

DTI - The forecast of outcome has been raised by £20m/£30m/£40m in the three years following the discussion between officials of Lord Young's new proposal on regional policy.

Transport - The outcome has been reduced by £30m in each year to reflect the divisions revised assessment on the programme (which is set out in their brief for Tuesday's bilateral).

PSA - The outcome has been reduced by £10m/£10m/£20m in the three years reflecting further official discussions following your bilateral with Mr Ridley.

Education - Mr Baker's letter reduces his bids by almost exactly £100m in each year. We have reduced the expected outcome by about £15m in each year to reflect the withdrawal of some of his minor bids. However, as you will see there still remains a very large gap between his position and an acceptable outcome.

ODA - We have revised the forecast outcome to reflect the settlement you are to discuss with Mr Patten.

JG

JOHN GIEVE

SECRET

SUMMARY SCORECARD

Date of last update: 18/09/87

(£million)

	1988-89 BASELINE	1988-89 DEPT POSITION	1988-89 FORECAST OUTCOME	1988-89 HMT POSITION	1989-90 BASELINE	1989-90 DEPT POSITION	1989-90 FORECAST OUTCOME	1989-90 HMT POSITION	1990-91 BASELINE	1990-91 DEPT POSITION	1990-91 FORECAST OUTCOME	1990-91 HMT POSITION
Ministry of Defence	18,980.0	551.0	221.0	221.0	19,464.0	815.0	485.0	335.0	19,892.0	954.0	614.0	414.0
FCO - Overseas Development Administration	1,399.0	83.0	30.0	15.0	1,441.0	158.1	50.0	20.0	1,477.0	238.2	70.0	27.0
FCO - Diplomatic, Information, Culture	730.0	-4.5	-8.6	-17.6	747.0	5.2	-5.3	-19.0	765.0	6.6	-4.8	-20.4
European Communities	440.0	50.0	50.0	50.0	1,060.0	450.0	450.0	450.0	1,087.0	130.0	130.0	130.0
Intervention Board for Agricultural Produce	1,782.0	-4.3	-65.0	-74.1	1,878.0	-63.1	-130.8	-156.4	1,925.0	18.8	-26.9	-79.0
Ministry of Agriculture, Fisheries and Food	747.0	38.2	14.6	-13.7	749.0	63.6	24.1	-35.8	768.0	62.1	6.7	-76.9
Forestry Commission	54.0	6.9	5.0	-5.4	55.0	11.4	10.0	-2.8	56.0	10.9	10.0	-3.2
Department of Trade and Industry	973.0	290.8	251.8	122.7	971.0	351.1	293.3	110.1	1,007.0	290.3	227.7	-50.9
Export Credits Guarantee Department	111.0	-8.6	-8.6	-8.6	47.0	76.7	76.7	76.7	48.0	69.9	69.9	69.9
Department of Energy	286.0	23.6	13.5	-2.3	282.0	30.2	18.0	3.6	289.0	29.6	12.4	2.4
Department of Employment	4,117.0	207.1	43.2	-129.9	4,216.0	234.9	-5.6	-246.2	4,322.0	232.8	-58.6	-380.6
Department of Transport	2,166.0	142.8	50.0	-3.9	2,214.0	163.4	52.0	-6.9	2,264.0	149.3	53.0	-9.9
DOE - Housing	2,443.0	152.0	96.0	-70.0	2,503.0	370.0	263.0	-117.0	2,566.0	459.0	348.0	-117.0
DOE - Other Environmental Services	929.0	-17.0	-122.0	-189.0	913.0	167.0	30.0	-112.0	936.0	182.0	49.0	-93.0
DOE - Property Services Agency	-99.0	30.4	10.0	10.0	-101.0	19.0	-10.0	-15.0	-104.0	18.6	-20.0	-20.0
Home Office	1,237.0	127.0	115.0	0.0	1,294.0	182.9	125.0	0.0	1,326.0	153.0	100.0	0.0
Lord Chancellor's Department	726.0	44.9	17.0	17.0	781.0	65.1	22.8	22.8	801.0	127.3	57.1	57.1
Department of Education and Science	3,851.0	466.0	267.0	62.0	3,966.0	573.0	330.0	99.0	4,065.0	652.0	337.0	93.0
Office of Arts and Libraries	367.0	49.9	19.3	6.2	377.0	62.9	29.3	9.2	386.0	68.6	36.5	9.4
DHSS - Health and Personal Social Services	16,932.0	1,026.0	600.0	250.0	17,743.0	1,489.0	850.0	400.0	18,187.0	2,319.0	1,350.0	700.0
DHSS - Social Security	47,258.0	1,185.2	949.0	146.0	49,123.0	1,823.6	1,365.8	-219.7	50,351.0	3,325.1	2,807.7	1,015.2
Scotland: negotiable	4,687.0	33.0	-2.8	-283.0	4,863.0	59.7	13.4	-341.9	4,984.0	69.5	2.7	-310.6
Scotland: formula		232.9	120.9	18.3		334.8	177.8	26.0		453.0	248.8	62.6
Wales: negotiable	1,933.0	53.2	34.9	-3.7	1,995.0	53.1	31.4	-12.1	2,045.0	55.6	33.4	-32.8
Wales: formula		103.8	52.8	10.4		150.9	79.9	14.5		207.1	114.6	31.6
Northern Ireland: negotiable	5,048.0	17.8	13.2	13.2	5,217.0	32.6	27.5	27.5	5,348.0	60.5	55.3	55.3
Northern Ireland: formula		109.9	70.5	31.3		151.8	95.5	36.6		191.2	119.9	46.7
Chancellor's Departments	2,304.0	183.9	132.3	118.2	2,411.0	237.0	136.4	116.8	2,472.0	291.4	163.3	139.2
Other Departments	604.0	37.6	28.2	8.9	620.0	77.1	49.9	26.7	636.0	122.0	92.8	61.6
Nationalised Industries	347.8	839.4	500.0	-88.8	-55.9	1,244.3	300.0	-461.8	-56.1	1,240.0	-200.0	-1,693.6
Local Authority Relevant	32,206.0	1,039.0	1,039.0	1,039.0	33,054.0	1,355.0	1,355.0	1,355.0	33,880.0	1,561.0	1,561.0	1,561.0
TOTAL ADDITIONS PROGRAMMES		7,090.9	4,537.2	1,249.3		10,745.2	6,590.1	1,382.9		13,748.4	8,360.5	1,588.1

SCORECARDS
25/9

L/043

SECRET AND PERSONAL

SCORECARD
No 3 of 16 Copies

FROM: JOHN GIEVE
DATE: 25 September 1987

CHIEF SECRETARY (+1)

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

THE SURVEY SCORECARD

I attach our latest scorecard.

2. The overall totals have edged down again since last week, especially for the last two years. The scorecard now points to increases of 4.5/6.1/7.8 (compared with 4.5/6.6/8.4 last week). Although your recent discussions have narrowed the gaps in most programmes, there remain a number of major uncertainties and the figures could still change by several £100m. In particular we are still some way from agreement on Defence, the Energy industries, Education, and Health and we remain at risk on estimating changes on EC contributions and Social Security (if assumptions about future inflation are altered). On balance, I think our current forecast outcome is on the optimistic side particularly perhaps for 1988-89.

Progress of Bilaterals

3. The current position of negotiations is set out in annex B. In the summary the position might be described as follows:

Settled	Near Settlement	Probable bilateral settlements	Probable Star Chamber candidates
DTI	FCO (diplomatic)	Agriculture	Defence
ECGD	Dept of Energy	Employment	Scotland
Lord Chancellor	Home Office	Energy industries	Education
Northern Ireland	Environment/ PSA	Wales	Health
Social Security (benefits)	Transport	LA relevant, 1988-89 & 90-91	Arts
	Social Security (admin)	Other small departments	Aid
11 out of 14 nationalised industries (all except energy)		Chancellor's departments	

LA relevant 1988-89

4. The allocation of departments is still somewhat speculative and, in particular, there are some signs that both Mr Baker and Mr Moore would like to settle bilaterally while it is still possible that some of the small gaps eg on the Home Office or Environment, will be taken to Star Chamber.

5. In procedural terms, the main problem could arise over regional policy. If the quadrilateral on Wednesday does not reach agreement on the policy, you might have to reopen the settlement on DTI. There is also a risk of other interested Ministers seeking to unpick the agreement on Social Security benefits.

6. In terms of timing, you will wish to consider early next week whether and how to report to Cabinet on Thursday. As yet you have not reached a final disagreement on any programme. If that position has not altered on Wednesday, it may be best to postpone asking the Prime Minister to set up the Star Chamber beyond Cabinet.

Implications for the Planning Totals

7. We plan to put a paper to you and the Chancellor on Wednesday on the "end game" and that will draw together the threads on the

real growth rates and ratios to GDP that are implied by the current forecast outcome.

8. On the basis of Reserves of 4/7/10 (as compared with 3.5/5.5/7.5 in the last White Paper), the scorecard would point to increases in the published planning totals of £3 billion in 1988-89 and £5½ 6 billion in 1989-90 leaving privatisation proceeds out of account. If we decide to increase the provision for the latter to £6 billion a year, the headline increase in the planning total would come down to £2 billion in 1988-89 and £4.5 billion in 1989-90.

Main changes on programmes

9. At annex C I attach a sheet showing the changes since the scorecard I put up on Friday last week. The main developments are the following.

Social Security - Agreement on policy measures brought considerably larger savings than we were anticipating especially in the first year but this is masked in the figures because the estimated reduction resulting from the latest unemployment assumptions has been revised downwards.

DTI - The scorecard registers the figures agreed this week with Mr Clark.

Department of Energy - The forecast outcome has been increased to reflect Mr Parkinson's bid on running costs (on the assumption that you will not wish to press Mr Parkinson on this).

Transport - The outcome has been reduced to reflect Mr Gilmore's advice.

Environment - The outcomes for the later years have been revised to take account of Mr Ridley's higher forecasts of receipts.

Scotland - The forecast of outcome has been revised to remove the 20/20/30 of arbitary cuts to the block but to assume that Mr Rifkind will have to absorb the £69m formula consequential of the local authority relevant settlement within his other formula adjustments in 1988-89. In the later years all the territorites formula additions are reduced to reflect the lower outcome now foreseen on environment.

Nationalised Industries - In the light of the satisfactory settlements of the water industry, BSC and the Post Office, and the imminence of satisfactory deals on the transport industries, PE have reduced their forecast outcome by £100m in the two later years. They still hope that a better outcome will prove possible but there remain uncertainties on both coal and electricity.

Local Authority Capital Allocations

10. LG division have been monitoring the impact of the negotiations on the main English local authority capital cash limit in 1988-89 and on the allocations for various levels of local Government. Their conclusions are:

i. Total allocations are likely to come out at around 99 per cent of 1987-88 levels.

ii. Education are likely to receive a substantial increase in allocations while, Transport and Personal Social Services are expected to obtain at least 100 per cent of 1987-88 allocations.

iii. As a result Shire counties are likely to receive around 106 per cent of their 1987-88 allocations. Shire districts will suffer a fall in allocations while London and the Metropolitan districts are likely to receive allocations at much the same levels as in 1987-88.

iv. The new PES change is very near 0, with extra receipts matching extra gross provision.

Science and Technology

11. In the Government's response to the House of Lords report, we undertook to publish in the White Paper the effect of the Survey decisions on Science and Technology spending. Although you are not committed publicly to do so, we envisage that you will include a (brief) report on the S&T position when you report to Cabinet. I attach at annex D a print-out showing the current position. As you will see, we are forecasting that there will be a substantial increase in Science and Technology spending over plans mainly as a result of the launch aid for Airbus and academic pay.

12. Below the main table setting out bids and forecast outcomes, there are a set of rows showing the year on year percentage growth for Science and Technology including Defence, Civil Science and Technology, and Civil Science and Technology excluding launch aid. I have ringed the percentages resulting from our forecast outcome. As you will see these show a large increase in the first year, and continuing real increase in 1989-90 for Civil S&T, and a droop in the last year.

13. Clearly the totals are very much effected by the position on Defence. The table includes the totals approved by E(A). As you know the Ministry of Defence is uneasy with these but it seems unlikely that there will be a formal decision to alter them before the Autumn Statement.

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JOHN GIEVE

SECRET

SUMMARY SCORECARD

Date of last update: 25/09/87

(£million)

	1988-89 BASELINE	1988-89 DEPT POSITION	1988-89 FORECAST OUTCOME	1988-89 HMT POSITION	1989-90 BASELINE	1989-90 DEPT POSITION	1989-90 FORECAST OUTCOME	1989-90 HMT POSITION	1990-91 BASELINE	1990-91 DEPT FOSITION	1990-91 FORECAST OUTCOME	1990-91 HMT POSITION
Ministry of Defence	18,980.0	551.0	221.0	221.0	19,464.0	815.0	485.0	335.0	19,892.0	954.0	614.0	414.0
FCO - Overseas Development Administration	1,399.0	76.8	31.0	16.0	1,441.0	152.1	51.3	21.3	1,477.0	232.2	71.4	28.4
FCO - Diplomatic, Information, Culture	730.0	-4.5	-13.4	-17.6	747.0	5.2	-10.8	-19.0	765.0	6.6	-9.5	-20.4
European Communities	440.0	50.0	50.0	50.0	1,060.0	450.0	450.0	450.0	1,087.0	130.0	130.0	130.0
Intervention Board for Agricultural Produce	1,782.0	-4.3	-65.0	-74.1	1,878.0	-63.1	-130.8	-156.4	1,925.0	18.8	-26.9	-79.0
Ministry of Agriculture, Fisheries and Food	747.0	38.2	14.6	-13.7	749.0	63.6	24.1	-35.8	768.0	62.1	6.7	-76.9
Forestry Commission	54.0	6.9	5.0	-5.4	55.0	11.4	10.0	-2.8	56.0	10.9	10.0	-3.2
Department of Trade and Industry	973.0	280.0	280.0	280.0	971.0	289.0	289.0	289.0	1,007.0	194.0	194.0	194.0
Export Credits Guarantee Department	111.0	-8.6	-8.6	-8.6	47.0	76.7	76.7	76.7	48.0	69.9	69.9	69.9
Department of Energy	286.0	23.6	22.9	-2.3	282.0	30.2	29.6	3.6	289.0	29.6	29.2	2.4
Department of Employment	4,117.0	207.1	43.2	-129.9	4,216.0	234.9	-5.7	-246.2	4,322.0	232.8	-60.8	-380.6
Department of Transport	2,166.0	142.8	30.0	-3.9	2,214.0	163.4	35.0	-6.9	2,264.0	149.3	35.0	-9.9
DOE - Housing	2,443.0	111.0	81.0	51.0	2,503.0	78.0	13.0	13.0	2,566.0	0.0	-2.0	-2.0
DOE - Other Environmental Services	929.0	-111.5	-119.0	-171.5	913.0	26.0	-19.0	-54.0	936.0	42.0	7.0	-24.0
DOE - Property Services Agency	-99.0	10.0	10.0	10.0	-101.0	5.0	-10.0	-10.0	-104.0	5.0	-10.0	-10.0
Home Office	1,237.0	117.3	100.0	42.8	1,294.0	183.3	125.0	68.8	1,326.0	160.8	100.0	43.5
Lord Chancellor's Department	726.0	44.9	17.0	17.0	781.0	65.1	22.8	22.8	801.0	127.3	57.1	57.1
Department of Education and Science	3,851.0	465.6	254.5	92.0	3,966.0	559.2	326.6	139.0	4,065.0	633.8	338.6	143.0
Office of Arts and Libraries	367.0	49.9	19.3	6.2	377.0	62.9	29.3	9.2	386.0	68.6	36.5	9.4
DHSS - Health and Personal Social Services	16,932.0	833.0	600.0	340.0	17,743.0	1,264.0	850.0	470.0	18,187.0	2,067.0	1,350.0	800.0
DHSS - Social Security	47,258.0	972.7	935.5	917.1	49,123.0	1,544.5	1,341.7	1,442.2	50,351.0	3,057.8	2,812.3	2,631.3
Scotland: negotiable	4,687.0	33.0	17.2	-283.0	4,863.0	59.7	33.4	-341.9	4,984.0	69.5	32.7	-380.6
Scotland: formula		192.0	53.6	63.6		258.0	146.5	79.1		354.3	207.9	118.2
Wales: negotiable	1,933.0	53.2	37.8	-3.7	1,995.0	53.1	35.4	-12.1	2,045.0	55.6	37.5	-32.8
Wales: formula		85.1	52.8	26.0		113.8	64.2	32.5		159.8	94.1	51.3
Northern Ireland: negotiable	5,048.0	17.8	13.2	13.2	5,217.0	32.6	27.5	27.5	5,348.0	60.5	55.3	55.3
Northern Ireland: formula		97.1	71.8	50.3		128.8	86.3	57.3		163.2	107.5	69.4
Chancellor's Departments	2,304.0	177.1	132.3	118.2	2,411.0	229.5	136.4	116.8	2,472.0	285.9	163.3	139.2
Other Departments	604.0	32.7	28.3	9.0	620.0	77.1	49.3	26.7	636.0	121.9	92.0	61.6
Nationalised Industries	347.8	864.0	500.0	-92.3	-55.9	1,244.3	200.0	-451.8	-56.1	1,240.0	-300.0	-1,610.6
Local Authority Relevant	32,206.0	1,039.0	1,039.0	1,039.0	33,054.0	1,355.0	1,355.0	1,355.0	33,880.0	1,561.0	1,561.0	1,561.0
TOTAL ADDITIONS TO PROGRAMMES		6,443.0	4,455.0	2,556.4		9,568.3	6,116.8	3,698.6		12,324.3	7,803.8	3,949.0
Memo Items:												
Total Central Government		4,276.1	3,005.7	1,865.1		6,708.1	4,656.9	3,055.0		9,314.4	6,664.4	4,275.3
Total Local Authority Capital		343.0	40.0	-76.0		80.4	-195.4	-302.0		-45.2	-280.1	-371.3
Total Local Authority Other		23.4	16.0	10.0		35.6	24.6	11.6		42.3	29.1	14.0
Total Other Public Corporations		-102.6	-145.7	-189.4		144.9	75.7	30.8		211.8	129.5	80.7
Total Science and Technology		316.3	259.3	163.0		413.4	312.9	193.0		395.0	253.4	124.4
Privatisation proceeds		-1,000.0	-1,000.0	-1,000.0		-1,000.0	-1,000.0	-1,000.0		-1,000.0	-1,000.0	-1,000.0

POSITION OF SURVEY DISCUSSIONS

Defence: Mr Younger has written responding to your suggestions last week on the scope for savings. You are due to have a further bilateral on Tuesday evening. It seems likely that this will be inconclusive and the programme will go to Star Chamber.

FCO: **On the diplomatic wing** officials have reached an agreement subject to approval by Ministers. There are some signs that the Foreign Secretary will not agree. On **aid** we await the Foreign Secretary's response to the offer you made at your first bilateral. You have agreed with the Lord President that you will not make a further offer at this stage. A second bilateral should not be needed.

EC: EC division are preparing a revised projection of our net contribution. This will be available in the week of the Party Conference.

Agriculture: You have written to Mr MacGregor following your bilateral. Mr MacGregor is due to respond before the second bilateral planned for Thursday evening. A settlement should be possible.

DTI: You have reached agreement on both DTI and ECGD subject to approval of Lord Young's policy proposals on regional aid and approval for legislation. The regional quadrilateral on Wednesday morning should show whether the first condition will be met. You have also reached agreement on DTI's nationalised industries.

Energy: Mr Parkinson has spoken to his industries and is to meet the Electricity Chairman again on Monday. A time has been pencilled in on Tuesday morning for a second bilateral. The prospects for a satisfactory settlement seemed good at the first bilateral. Mr Williams has put a submission to you on the departmental programme advicing you to accept Mr Parkinson's interpretation of his "baseline" agreement (by which he appeared to mean baseline plus most of his bids).

[redacted]ployment: You have written again to Mr Fowler setting out your general arguments on his programme. You are to meet him on Monday and hope to reach a settlement.

Transport: Following your bilateral with Mr Channon, officials have reached agreement on the nationalised industries. Mr Gilmore has also made progress at official level and Mr Channon has written to you making a revised bid. A settlement may be possible next week. However Mr Channon has also tried to reopen the rules relating allocations to provision for local authority capital in 1988-89. You will wish to squash this attempt quickly and LG will be submitting advice.

Environment: You have written to Mr Ridley setting out your revised offer. We will need to check with his office on Monday how he wishes to proceed but there is a reasonable prospect of a settlement perhaps in a private meeting. You have already agreed figures for the water industry.

Home Office: Following your second bilateral you have written making a revised offer. Again we will need to check early next week on his response. The prospects for a settlement are reasonably good.

Lord Chancellor's Department: You have agreed figures for this programme subject to agreement on tape recording with the Home Secretary.

Education: You are to meet Mr Baker on Tuesday morning. It is not clear how far he will be prepared to move.

Arts: We still await a letter from Mr Luce following your first bilateral. A second meeting may be needed but this is a probable for Star Chamber.

Health: We are due to respond to Mr Moore's revised offer of today. We will need to decide early next week whether a further meeting is called for.

Social Security: You have reached agreement on benefits. There are some outstanding points on administration but a satisfactory settlement should be possible on these in due course.

Scotland: You are due to meet Mr Rifkind on Thursday to discuss his industry bids following the quadrilateral and to pick up your discussion of his electricity bids and running costs. He has made it plain that he will resist any measures on the block. He is an obvious candidate, therefore, for Star Chamber. Unfortunately he is due to be out of the country for much of October.

Wales: You are due to meet Mr Walker next week.

Northern Ireland: ST have submitted a letter for you to send Mr King concluding a settlement.

Chancellor's Departments: We will be putting an omnibus submission to you on the small departments early next week. You are due to respond in due course to the Revenue departments' following your first round bilaterals in Mr Battishill's subsequent letter.

Other Departments: We will be putting a second omnibus submission on other small departments' to you next week.

Local Authority Relevant: The provision and service distribution for 1988-89 has been settled. LG will be putting up a letter for your to send to the relevant Ministers on the later years. We hope this will be settled in correspondence.

Social Security: You have reached agreement on benefits. There are some outstanding points on administration but a satisfactory settlement should be possible on these in due course.

Scotland: You are due to meet Mr Rifkind on Thursday to discuss his industry bids following the quadrilateral and to pick up your discussion of his electricity bids and running costs. He has made it plain that he will resist any measures on the block. He is an obvious candidate, therefore, for Star Chamber. Unfortunately he is due to be out of the country for much of October.

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ANNEX C

SECRET 25/09/87

SUMMARY OF CHANGES IN FORECAST OUTCOME
SINCE LAST SCORECARD

	1988-89 CHANGE IN FORECAST OUTCOME	1989-90 CHANGE IN FORECAST OUTCOME	1990-91 CHANGE IN FORECAST OUTCOME
Ministry of Defence	0.0	0.0	0.0
FCO - Overseas Development Administration	1.0	1.3	1.4
FCO - Diplomatic, Information, Culture	-4.8	-5.5	-4.7
European Communities	0.0	0.0	0.0
Intervention Board for Agricultural Produce	0.0	0.0	0.0
Ministry of Agriculture, Fisheries and Food	0.0	0.0	0.0
Forestry Commission	0.0	0.0	0.0
Department of Trade and Industry	28.2	-4.3	-33.7
Export Credits Guarantee Department	0.0	0.0	0.0
Department of Energy	9.4	11.6	16.8
Department of Employment	0.0	-0.1	-2.2
Department of Transport	-20.0	-17.0	-18.0
DOE - Housing	-15.0	-250.0	-350.0
DOE - Other Environmental Services	3.0	-49.0	-42.0
DOE - Property Services Agency	0.0	0.0	10.0
Home Office	-15.0	0.0	0.0
Lord Chancellor's Department	0.0	0.0	0.0
Department of Education and Science	-12.5	-3.4	1.6
Office of Arts and Libraries	0.0	0.0	0.0
DHSS - Health and Personal Social Services	0.0	0.0	0.0
DHSS - Social Security	-13.5	-24.1	4.6
Scotland: negotiable	20.0	20.0	30.0
Scotland: formula	-67.3	-31.3	-40.9
Wales: negotiable	2.9	4.0	4.1
Wales: formula	0.0	-15.7	-20.5
Northern Ireland: negotiable	0.0	0.0	0.0
Northern Ireland: formula	1.3	-9.2	-12.4
Chancellor's Departments	0.0	0.0	0.0
Other Departments	0.1	-0.6	-0.8
Nationalised Industries	0.0	-100.0	-100.0
Local Authority Relevant	0.0	0.0	0.0
Adjustment	0.0	0.0	0.0
TOTAL ADDITIONS TO PROGRAMMES	-82.2	-473.3	-556.7

CONFIDENTIAL

SCIENCE AND TECHNOLOGY EXPENDITURE BY DEPARTMENT

Date of last update: 25/09/87

(£million)

	1987-88 EST OUTTURN	1988-89 BASELINE	1988-89 DEPT POSITION	1988-89 FORECAST OUTCOME	1988-89 HMT POSITION	1989-90 BASELINE	1989-90 DEPT POSITION	1989-90 FORECAST OUTCOME	1989-90 HMT POSITION	1990-91 BASELINE	1990-91 DEPT POSITION	1990-91 FORECAST OUTCOME	1990-91 HMT POSITION
Ministry of Defence	2,421.0	2,458.0				2,408.0				2,352.0			
FCO - Overseas Development Administration	29.0	30.0				30.0				31.0			
Agriculture (inc Forestry)	149.0	153.0	5.9	1.7	0.0	157.0	7.8	1.3	0.0	161.0	9.2	0.8	0.0
Department of Trade and Industry	462.0	489.0	177.2	152.2	152.2	536.0	218.6	168.6	168.6	545.0	183.3	108.3	108.3
Department of Energy	184.0	190.0	5.0	5.0	-19.8	197.0	11.0	11.0	-14.2	200.0	11.0	11.0	-14.7
Department of Employment	22.0	24.0	0.2	0.2	0.0	25.0	0.2	0.2	0.0	26.0	-0.4	-0.4	-0.6
Department of Transport	27.0	27.0	1.6	1.6	0.0	27.0	2.2	2.2	0.0	28.0	2.3	2.3	0.0
DOE - Other Environment Services	63.0	60.0	2.0	2.0	2.0	62.0	3.0	2.0	2.0	64.0	2.0	2.0	2.0
Home Office (inc LCD)	16.0	17.0	0.2	0.2	0.2	17.0	0.2	0.2	0.2	18.0	0.2	0.2	0.2
Department of Education and Science (inc OAL)	1,515.0	1,509.0	120.2	96.4	28.4	1,547.0	166.4	127.4	36.4	1,585.0	183.4	129.2	29.2
DHSS - Health and social security	34.0	37.0	4.0	0.0	0.0	35.0	4.0	0.0	0.0	36.0	4.0	0.0	0.0
Scotland	56.0	58.0				60.0				61.0			
Wales	3.0	3.0				2.0				2.0			
Northern Ireland	16.0	18.0				19.0				19.0			
Chancellor's Departments	1.0	1.0				1.0				1.0			
Other Departments	3.0	3.0				4.0				4.0			
TOTAL SCIENCE AND TECHNOLOGY (CHANGES)			316.3	259.3	163.0		413.4	312.9	193.0		395.0	253.4	124.4
TOTAL SCIENCE AND TECHNOLOGY (LEVELS)	5,001.0	5,077.0	5,393.3	5,336.3	5,240.0	5,127.0	5,540.4	5,439.9	5,320.0	5,133.0	5,528.0	5,386.4	5,257.4
IMPLIED YEAR-ON-YEAR % GROWTH (CASH):													
Baseline		1.5				1.0				0.1			
Department's position			7.8				2.7				-0.2		
Forecast outcome				6.7				1.9				-1.0	
Treasury position					4.8				1.5				-1.2
TOTAL CIVIL SCIENCE AND TECHNOLOGY (LEVELS)	2,580.0	2,619.0	2,935.3	2,878.3	2,782.0	2,719.0	3,132.4	3,031.9	2,912.0	2,781.0	3,176.0	3,034.4	2,905.4
IMPLIED YEAR-ON-YEAR % GROWTH (CASH):													
Baseline		1.5				3.8				2.3			
Department's position			13.8				6.7				1.4		
Forecast outcome				11.6				5.3				0.1	
Treasury position					7.8				4.7				-0.2
CIVIL S&T, EXCLUDING LAUNCH AID (LEVELS)	2,580.0	2,619.0	2,819.3	2,762.3	2,666.0	2,719.0	2,990.4	2,889.9	2,770.0	2,781.0	3,092.0	2,950.4	2,821.4
IMPLIED YEAR-ON-YEAR % GROWTH (CASH):													
Baseline		1.5				3.8				2.3			
Department's position			9.3				6.1				3.4		
Forecast outcome				7.1				4.6				2.1	
Treasury position					3.3				3.9				1.9

ANNEX D

L/030

SECRET AND PERSONAL

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SCORECARD
No 13 of 17 Copies

FROM: JOHN GIEVE
DATE: 30 September 1987

CHIEF SECRETARY
CHANCELLOR

cc Sir P Middleton
Sir T Burns
Mr F E R Bulter
Mr Anson
Mr Monck
Mr Sedgwick
Mr Luce
Mr Turnbull
Miss Walker
PS/CST
PS/Chancellor
Mr Tyrie

PUBLIC EXPENDITURE SURVEY: THE ENDGAME

This note is intended to serve as the basis for our discussion with you on Friday morning in preparation for your meeting with the PM and the Lord President on Monday. You may wish to read it before Cabinet. It covers:

i. our latest assessment of the outcome of the Survey negotiations on programmes;

ii. our latest assessment of what that might imply in terms of published growth rates and ratios;

iii. our views on handling the Star Chamber discussions.

Latest Assessment of Outcome on Programmes

2. I am submitting separately our latest scorecard.

3. It points to net additions to programmes of 4.6/6.3/7.8 in the three years. Depending on decisions on the Reserves etc (see paragraphs 6-10) below this could imply increases in the planning total of £3.1 billion in 1988-89 and £5.8 billion in 1989-90. There are still a

number of major uncertainties notably on Defence, Education, and Health so the numbers could still move by several £0.1 billions.

4. More has been achieved in the bilateral negotiations than we expected in July. Not only has the forecast outcome been reduced by 0.8/1.2/1.7 compared to our July assessment but more programmes have been settled or are near settlement. The position in negotiations could look as follows:

	88-89	89-90	£ million 90-91
Settlements agreed and forecast outcome on programmes where bilateral settlement probable	3,550	4,500	5,400
Forecast outcome on Star Chamber candidates - Aid	30	50	70
Defence	220	485	615
Health	~~600~~ 700	~~850~~ 900	~~1350~~ 1400
Education	255	330	340
Scotland	-50	35	35
Total	~~1055~~ 1155	~~1750~~ 1800	~~2410~~ 2460

5. Nonetheless, as the scorecard shows there is still a large gap between the departments' positions and the forecast outcomes on the disagreed programmes and achieving the latter will not be easy. In addition if you were to decide that a higher figure than 4 per cent should be published for the inflation rate to Q4 1988, the social security figures for 1989-90 would rise (and other Ministers might seek to reopen their settlements for 1988-89).

Implications for the Planning Totals and GGE

6. The implications for the planning totals will depend on decisions on the size of the Reserves and privatisation proceeds. The totals for GGE will depend also on the provision for debt interest and other accounts adjustments.

7. **Reserves** - Our earlier assessments have been based on Reserves of 4/7/10 (compared to Reserves in the current plans of 3.5/5.5/7.5).

Annex B discusses the potential pressures on the Reserves and concludes that there is a strong case for going for rather higher reserves still in the later years ie 4/8/12. Including these higher reserves would increase our chances of holding to the cash planning totals in the next Survey while remaining well below the outcomes indicated by preliminary work on the forecast. Against that you will wish to weigh the risk of setting a higher baseline for subsequent Surveys and the difficulty of presenting in the Autumn Statement a higher rate of growth in public expenditure and a slower fall in the ratio to national output. In the figures below (and in Annex C), we have assumed reserves of 4/7/10 but annex B sets out the implications of 4/8/12.

8. **Privatisation** - The figures are based on your provisional view that we should raise our estimate of privatisation proceeds from £5 billion to £6 billion a year from 1988-89, though we are working on the basis that the primary presentation will be in terms of the figures excluding privatisation.

9. **Debt Interest and Accounting Adjustments** - Early work on the Autumn forecast suggests that debt interest may fall appreciably in the later years (in contrast with the figures published in the FSBR which projected an increase from £18 billion in 1988-89 to £19 billion in 1989-90 and 1990-91). This could make room for higher Reserves. However for the time being we have assumed below that in order to avoid attracting questions on the forecasts of the PSBR you will wish to publish a flat path of £18 billion in all three years and (as in the PEWP) £7.5 billion for accounts adjustments.

10. On the basis of these assumptions the increases in the Planning Totals and GGE compared with the last White Paper would be as follows:

	£ billion	
	88-89	89-90
Planning total including privatisation	2.1	4.8
Planning total excluding pp	3.1	5.8
GGE total including pp	2.2	4.0
GGE total excluding pp	3.2	5.0

Real Growth Rates and GDP Ratios

11. The real rates of growth and ratios we will publish in the Autumn Statement will depend on the projections of the real growth in output and the GDP deflator that you decide to publish after considering the forecast. For illustrative purposes we have calculated the figures on the basis:

a. of the latest figure for money GDP in 1986-87;

b. the FSBR path for the GDP deflator:

	1987-88	1988-89	1989-90	1990-91
%	4½	4	3½	3

c. a path for real growth in GDP ¾% higher in 1987-88 and ¼% higher in 1988-89 than the path published in the FSBR:

	1987-88	1988-89	1989-90	1990-91
%	3¾	2¾	2½	2½

12. Annex C sets out the numbers of each aggregate. The key figures are the following:

	1987-88	1988-89	1989-90	1990-91	Average 87-88 - 90-91
Real increases %					
Planning Total (inc pp)		1.5	2.7	2.1	2.1*
GGE exc pp		1.4	1.7	1.3	1.5*
Ratio to GDP					
GGE exc pp	42½	42	41¾	41¼	
[White Paper path]	44	42¾	42¼	-	

* These figures compare to averages of 1.9% for the Planning Total and 1.3% for GGE for the four year period from 1986-87 to 1990-91.

The growth figure for 1989-90 seems the most difficult to present. We are investigating the possibilities of smoothing the path eg on EC contributions.

13. These is also a presentational issue on 1987-88. The figures in this note reflect the last report on the position of the Reserve which showed a shortfall of £0.6 billion on the Planning Total for the current year. Latest information on 1.a. receipts suggest that the shortfall could be even larger. We will need to decide to what extent we should take credit for this undershoot in the Autumn Statement and White Paper. Obviously the lower the figure we publish for 1987-88, the higher the published growth rate for 1988-89. We will let you have a submission separately on the case for publishing a figure somewhat higher than our internal forecast and on how this might be done.

Star Chamber tactics

14. It seems likely that Star Chamber will have a smaller list of programmes to decide than in recent years. The probable candidates are **Aid, Defence, Education, Health,** and **Scotland.**

15. Of the remainder we have settled DTI (conditionally), DOE, Energy, Home Office, Lord Chancellor's Department, Social Security (subject to admin), Northern Ireland and nearly all nationalised industries and expect to settle FCO (diplomatic wing), Agriculture, Employment, Transport, and Arts before Star Chamber starts work. That would leave relatively few issues to be settled outside Star Chamber. The main candidates for this treatment are the Revenue Departments, EC contributions, and Wales.

16. What does this imply for the Star Chamber remit and the way we justify it to them? We need to suggest to them a cash "pot" within which they should try to settle the programmes they deal with. We need to set a demanding objective but one which is not demonstrably heroic. We need also to avoid accusations when the final result is published that the Treasury had far more room for manoeuvre than it

had indicated (some members may have felt misled last year). Experience shows that they will tend to go a little above our proposals so we should correspondingly set the pot slightly below our forecast of outcome. On that basis we might recommend figures of the following order (although we will need to review these in the light of the actual list of candidates and the Treasury's and departmental positions on each):

	88-89	89-90	£ billion 90-91
Forecast outcome on Star Chamber candidates	1.1	1.8	2.4
Proposed Star Chamber 'pot'	0.75	1.25	1.75

17. Last year the increases we faced were close to the total size of the Reserves and we framed the remit for Star Chamber in terms of exhausting the reserves. As the additions to programmes we expect this year are less than the size of the Reserves we cannot use that tactic again. In presenting the remit, there seem to be three options:

a. deriving the totals and, hence, the "pot" from an illustrative path for GDP and the ratios;

b. deriving the pot from proposals on the planning totals themselves;

c. proposing figures without showing explicity what they imply for the Planning Totals or the ratios; the justification would rely on Cabinet's decision to stay as close as possible to the existing Planning Totals and a demonstration that our proposals will take us well above the existing plans.

18. We feel option (a) introduces unnecessary complication in the presentation and runs the risk that members of Star Chamber will feel misled if we subsequently publish a higher path for GDP and lower ratios. Option (b) is also vulnerable on both counts, if less so. Our preferred option, if we can get away with it, is therefore (c).

19. Annex D illustrates how we might present the remit in this way. It makes clear that a significant increase in the totals is inevitable without specifying figures. It also warns that higher Reserves than in previous years will be required. We would welcome your views on whether this strikes the right balance between giving the Group enough information to carry out their task and preserving the Treasury's freedom of manoeuvre. You may of course want to explain more of the background to the Lord President than to the Group as a whole.

Summary

20. In the summary:

i. Our present assessment is that the Survey will lead to increases in programmes of 4.6/6.3/7.8;

ii. we think the choice of reserves lies between 4/7/10 and 4/8/12;

iii. on the basis of 4/7/10 and illustrative assumptions, this wold produce an average real growth in the planning total from 1987-88 to 1990-91 of 2.1% with a particularly high figure in 1989-90, the growth of GGE would be lower at around 1.5% (the figures would be lower if we focussed on the four year period from 1986-87);

iv. on the basis of the same assumptions, GGE excluding privatisation would decline steadily (if slowly) as a proportion of GDP and would be below the White Paper path in each year;

v. we expect the main programmes to go to Star Chamber to be: **Defence, Education, Health, and Scotland;**

vi. we recommend that the remit for Star Chamber should ask them to limit the increases in these programmes to 0.75/1.25/1.75;

vii. we recommend that in justifying this figure, the Chief Secretary should rely on the decision Cabinet to stick as close

to the planning totals as possible without making firm proposals on the Planning Totals or the ratios.

J.G.

JOHN GIEVE

SECRET AND PERSONAL

RESERVES FOR FUTURE YEARS

Background

The Reserves in the current baselines are

	1987-88	1988-89	1989-90	1990-91
£ billion	3.5	5.5	7.5	7.5

Our forecast of increases in programmes are

2.9	4.5	6.3	8.0

Early indications from the September forecast point to spending above those figures of about

5	10	15

Although the position has varied from year to year, analysis of the last five years suggests that Reserves would have to be in the ratio 1:2:3 to provide sustainable cash totals for the later years.

1987-88

It now seems probable that we will undershoot the planning total this year. Claims on the Reserve are well below £3.5 billion for two main reasons

a. privatisation proceeds are now expected to be £250m higher than planned;

b. local authorities' capital receipts are almost £750m higher than anticipated (although some of this has fed back into higher gross spending).

1988-89 - 1990-91

It would not be sensible to rely on (a) and (b) above recurring in future because we will already have increased our provision for both

privatisation proceeds and l.a. receipts in the Survey to reflect the results in 1987-88.

In addition we can now foresee a number of large probable claims on the Reserves in the Survey period.

a. Local authority relevant. We have set the increase in provision well below the likely outcome. This is likely to lead to an overspend of £2 billion in 1988-89, £4 billion in 1989-90 and £6 billion in 1990-91 (compared with a claim in 1987-88 of £1.2 billion).

b. Social Security. Although we are reducing our forecasts of expenditure, we still expect overspending of perhaps £1 billion in 1988-89, £2 billion in 1989-90, and £3 billion in 1990-91.

c. Defence. We expect to face a net claim of between £¼ billion and £½ billion on end-year flexibility in 1988-89 as MOD draw down the 'cushion' they have built up over the last three years.

d. EC contributions are likely to be higher than published in the Autumn Statement since the latter will assume no change in the 1.4% VAT ceiling. For example moving to 1.6% in 1988 could add £¼ billion to spending in 1988-89.

e. Coal. We could face additions of perhaps £¼/½/¾ billion in British Coal's EFLs in the three years if the Electricty industry enforces price reductions and passes them on to the consumer.

f. Electricity privatisation. At present we are assuming both £6 billion a year privatisation proceeds and a negative EFL of £1½ billion in 1990-91 for the English electricity industry. To the extent that the £6 billion included an element of electricity there is double-counting As privatisation plans become clearer we will need to eliminate this.

g. Running costs. We are settling with a number of departments on baselines for years 2 and 3 on the basis that we will look at the provision next year in the light of proper efficiency plans.

h. A number of potential additions are not being logged in programmes during the Survey because they are not certain. These include the Chancellor's initiative on Sub Saharan Africa, a long outage at Hunterston B, and probable further claims on AIDS.

CONCLUSION

Simply adding up (a) - (f) above gives potential claims of £4 billion in 1988-89, £6-7 billion in 1989-90, and £11½ billion in 1990-91. On the experience of this year (g) might amount to £½ billion. These figures are necessarily very speculative but they suggest that it would be prudent to go for a Reserve of at least £4 billion in 1988-89 and that figures of £8 billion and £12 billion in the later years would not be excessive.

IMPLICATIONS OF 4/8/12

If Reserves were set at £4, £8, and £12 billion. The real growth rates and ratios set out in paragraph of the main minute would change to

	1987-88	1988-89	1989-90	1990-91	Average 1987-88 - 1990-91
Real increases					
Planning Total (inc pp)		1.5	3.4	2.6	2.5
GGE exc pp		1.4	2.3	1.7	1.8
Ratios					
GGE exc pp	42½	42	42	41½	
[White Paper Path	44	42¾	42¼	-]	

ANNEX C

SECRET AND PERSONAL

LIKELY INCREASES IN TOTALS (ASSUMING RESERVES OF 4/7/10)

	1987-88	1988-89	1989-90	1990-91	Average 1987-88 to 1990-91
Cash totals £billion					
Planning total inc pp	148.0	156.3	166.3	174.8	
Planning total exc pp	153.3	162.3	172.3	180.8	
GGE inc pp	172.7	181.8	191.8	200.3	
GGE exc pp	178.0	187.8	197.8	206.3	
Real increases %					
Planning total inc pp	1.3	1.5	2.8	2.8	2.1
Planning total exc pp	1.7	1.8	2.6	1.9	2.1
GGE inc pp	0.2	1.2	1.9	1.4	1.5
GGE exc pp	0.6	1.4	1.8	1.3	1.5
Ratios %					
GGE inc pp	41¼	40¾	40½	40	
[White Paper	42¾	41¾	41¼	-]	
GGE exc pp	42½	42	41¾	41¾	
[White Paper	44	42¾	42¼	-]	

DRAFT REMIT TO STAR CHAMBER

Cabinet decided in July that the Public Expenditure plans should be kept as close as possible to the previously published cash planning totals and, at all events, within the declining proportions of general Government expenditure to national income projected in the last White Paper.

2. In my bilateral discussions it has become clear that some increase in the Planning Totals will indeed be needed. The position reached at the end of the bilaterals is:

	1988-89	1989-90	£m 1990-91
Existing Reserves	5.5	7.5	7.5
Less			
Extra local authority provision	-1.0	-1.4	-1.6
Additions to programmes agreed in bilaterals	-2.6	-3.1	-3.8
Remaining Reserves	1.9	3.0	2.1

So the remaining Reserves already fall short of those published in this year's White Paper. Moreover, it is clear that we need larger Reserves than we have provided in previous years. We need to provide for the continuing growth for local authority current expenditure (for which the provision we agreed in July is well below the likely outcome), social security expenditure and other risks, for example the probability that EC contributions will increase above the 1.4% VAT ceiling on which our current provision is based. The need for higher Reserves is particularly necessary to give credibility to our plans for years 2 and 3 following two Surveys in which we will have

added to our plans. As a result increases in the planning totals will be required even if no further additions are made to programmes by this Group.

3. In the wake of the recent poor trade figures, markets are concerned about the possibility that the economy may be over-heating with consequent risks for inflation and the exchange rate. They will be disturbed by any signs in the Autumn Statement that we have relaxed our resolve on public expenditure and that we are allowing increases there to fuel the current expansion. It is essential, therefore, that we should keep the total additions as low as possible.

4. In considering the maximum presentable increase, we have also reviewed the likely level of privatisation proceeds in the coming three years. Some increase may be possible but we have to realise that the time has passed when we could mask increases in spending by raising these estimates. The markets look at the totals excluding privatisation proceeds.

5. Against this background I would suggest the Group aims to restrict the total additions for the outstanding programmes to £¾ billion in 1988-89, £1¼ billion in 1989-90 and £1¾ billion in 1990-91.

6. When provision has been made for adequate Reserves, this will imply substantial increases to the existing planning totals which are the figures at which the markets and the commentators will look first. The implications for the ratios of General Government expenditure to national output will not be clear until the economic forecast which will accompany the Autumn Statement is complete. Early indications are that the increases I propose would be consistent with a continuing decline in the ratio over the Survey period. This path should be below the path set out in the White Paper because the above trend growth in the current year will lower the current ratio. However, it seems likely that there will be only a very slow decline in 1988-89 and the later years from this new base.

SCORECARDS
30/9

P/006

SECRET AND PERSONAL

SCORECARD
No 3 of 17 Copies

FROM: JOHN GIEVE
DATE: 30 September 1987

CHIEF SECRETARY (+1)

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

THE SURVEY SCORECARD

I attach our latest scorecard at Annex A together with a table showing the changes since the last scorecard we submitted on Friday at Annex B.

2. The overall totals have increased slightly since last week especially in the first two years. The scorecard now points to increases of 4.6/6.3/7.8.

3. There remain a number of major uncertainties and the figures could still change by several £0.1 billions. In particular, we are still showing an ambitious settlement on defence. However on a number of other programmes the gap between you and the departmental Minister has narrowed or disappeared.

Main Changes

4. The main changes since last week are the following.

EC Contributions - As foreshadowed in last week's scorecard, the reworking of our projections of net contributions is pointing

to an increase of £300m in 1988-89 and £200m in 1989-90 compared with the assessment in May. EC division are still working on the projection and we will be putting a submission to you next week.

IBAP - The scorecard reflects our latest intelligence on the effects of this year's poor harvest. Mr MacGregor will no doubt review more this evening.

Forestry Commission, Environment, Home Office - The figures reflect the latest deals or proposed settlements.

Arts - The numbers have been increased to reflect our latest view on the cost of a three year settlement.

Health - The outcome has been increased to reflect Ms Boys' latest advice.

Nationalised Industries - The forecast outcomes have been brought down to reflect the offer Mr Parkinson made you on the energy industries at your second bilateral. We have not yet taken into account the additional savings that he is going to try and achieve; so we hope to be able to edge these figures down especially in the last year.

Implications for the Planning Totals

5. On the basis of Reserves of 4/7/10 (as compared with 3.5/5.5/7.5 in the last White Paper) the scorecard would point to increases in the published planning totals of £3.1 billion in 1988-89 and £5.8 billion in 1989-90 leaving privatisation proceeds out of the count.

J.G. Gieve

JOHN GIEVE

ANNEX A

SECRET

SUMMARY SCORECARD

Date of last update: 30/09/

(£mill

	1988-89 BASELINE	1988-89 DEPT POSITION	1988-89 FORECAST OUTCOME	1988-89 HMT POSITION	1989-90 BASELINE	1989-90 DEPT POSITION	1989-90 FORECAST OUTCOME	1989-90 HMT POSITION	1990-91 BASELINE	1990-91 DEPT POSITION	1990-91 FORECAST OUTCOME	1990 POSIT
Ministry of Defence	18,980.0	551.0	221.0	221.0	19,464.0	815.0	485.0	335.0	19,892.0	954.0	614.0	41
FCO - Overseas Development Administration	1,399.0	76.8	31.0	16.0	1,441.0	152.1	51.3	21.3	1,477.0	232.2	71.4	2
FCO - Diplomatic, Information, Culture	730.0	-4.5	-13.4	-17.6	747.0	5.2	-10.8	-19.0	765.0	6.6	-9.5	-2
European Communities	440.0	360.0	360.0	360.0	1,060.0	640.0	640.0	640.0	1,087.0	133.0	133.0	13
Intervention Board for Agricultural Produce	1,782.0	-99.3	-160.0	-169.1	1,878.0	-73.1	-140.8	-166.4	1,925.0	-8.2	-53.9	-10
Ministry of Agriculture, Fisheries and Food	747.0	38.2	14.6	-13.7	749.0	63.6	24.1	-35.8	768.0	62.1	6.7	-7
Forestry Commission	54.0	6.1	6.1	6.1	55.0	8.7	8.7	8.7	56.0	8.6	8.6	
Department of Trade and Industry	983.0	290.8	280.0	280.0	981.0	351.1	289.0	289.0	1,017.0	290.3	194.0	19
Export Credits Guarantee Department	111.0	-8.6	-8.6	-8.6	47.0	76.7	76.7	76.7	48.0	69.9	69.9	6
Department of Energy	286.0	23.4	23.4	23.4	282.0	30.0	30.0	30.0	289.0	29.4	29.4	2
Department of Employment	4,107.0	207.1	43.2	-129.9	4,206.0	234.9	-5.7	-246.2	4,311.0	232.8	-60.8	-38
Department of Transport	2,166.0	142.8	30.0	22.0	2,214.0	163.4	40.0	23.0	2,264.0	149.3	45.0	2
DOE - Housing	2,443.0	111.0	85.0	51.0	2,503.0	78.0	20.0	13.0	2,566.0	0.0	0.0	-
DOE - Other Environmental Services	929.0	-111.5	-141.0	-171.5	913.0	26.0	0.0	-54.0	936.0	42.0	0.0	-2
DOE - Property Services Agency	-99.0	10.0	10.0	10.0	-101.0	5.0	-10.0	-10.0	-104.0	5.0	-10.0	-1
Home Office	1,237.0	117.3	81.0	42.8	1,294.0	183.3	115.0	68.8	1,326.0	160.8	100.0	4
Lord Chancellor's Department	726.0	44.9	17.0	17.0	781.0	65.1	22.8	22.8	801.0	127.3	57.1	5
Department of Education and Science	3,851.0	465.6	254.5	92.0	3,966.0	559.2	325.9	139.0	4,065.0	633.8	335.0	14
Office of Arts and Libraries	367.0	49.9	35.0	6.2	377.0	62.9	45.0	9.2	386.0	68.6	52.0	
DHSS - Health and Personal Social Services	16,932.0	772.0	700.0	630.0	17,743.0	1,058.0	900.0	760.0	18,187.0	1,604.0	1,400.0	1,25
DHSS - Social Security	47,258.0	972.7	935.5	917.1	49,123.0	1,544.5	1,341.7	1,442.2	50,351.0	3,057.8	2,812.3	2,63
Scotland: negotiable	4,687.0	33.0	17.2	-283.0	4,863.0	59.7	33.4	-341.9	4,984.0	69.5	32.7	-38
Scotland: formula		176.0	49.9	76.9		231.1	149.4	99.6		298.1	209.8	15
Wales: negotiable	1,933.0	53.2	37.8	-3.7	1,995.0	53.1	35.4	-12.1	2,045.0	55.6	37.5	-3
Wales: formula		77.1	50.9	32.6		100.4	65.7	42.7		131.7	95.1	7
Northern Ireland: negotiable	5,048.0	17.8	13.2	13.2	5,217.0	32.6	27.5	27.5	5,348.0	60.5	55.3	5
Northern Ireland: formula		91.3	70.8	54.0		118.0	86.2	62.9		142.9	106.6	8
Chancellor's Departments	2,304.0	177.1	132.3	118.2	2,411.0	229.5	136.4	116.8	2,472.0	285.9	163.3	13
Other Departments	604.0	32.7	28.3	9.0	620.0	77.1	49.3	26.7	636.0	121.9	92.0	6
Nationalised Industries	347.8	864.0	375.0	-92.3	-55.9	1,244.3	75.0	-451.8	-56.1	1,240.0	-320.0	-1,61
Local Authority Relevant	32,206.0	1,039.0	1,039.0	1,039.0	33,054.0	1,355.0	1,355.0	1,355.0	33,880.0	1,561.0	1,561.0	1,56
Adjustment												
TOTAL ADDITIONS TO PROGRAMMES		6,577.0	4,618.7	3,148.1		9,550.5	6,261.1	4,272.8		11,826.4	7,827.4	4,52
Memo Items:												
Total Central Government		4,458.8	3,287.9	2,441.4		6,701.8	4,889.3	3,621.0		8,840.2	6,696.6	4,83
Total Local Authority Capital		296.3	46.9	-62.1		72.5	-158.6	-296.0		-61.8	-268.6	-35
Total Local Authority Other		22.5	15.8	10.7		33.8	24.6	12.6		38.9	29.0	16
Total Other Public Corporations		-103.6	-145.9	-188.6		143.0	75.8	32.0		208.1	129.5	83
Total Science and Technology		314.7	257.7	187.8		411.2	310.7	218.2		392.7	251.1	15

SECRET

30/09/87

ANNEX B

SUMMARY OF CHANGES IN FORECAST OUTCOME
SINCE LAST SCORECARD

	1988-89 CHANGE IN FORECAST OUTCOME	1989-90 CHANGE IN FORECAST OUTCOME	1990-91 CHANGE IN FORECAST OUTCOME
Ministry of Defence	0.0	0.0	0.0
FCO - Overseas Development Administration	0.0	0.0	0.0
FCO - Diplomatic, Information, Culture	0.0	0.0	0.0
European Communities	310.0	190.0	3.0
Intervention Board for Agricultural Produce	-95.0	-10.0	-27.0
Ministry of Agriculture, Fisheries and Food	0.0	0.0	0.0
Forestry Commission	1.1	-1.3	-1.4
Department of Trade and Industry	0.0	0.0	0.0
Export Credits Guarantee Department	0.0	0.0	0.0
Department of Energy	0.5	0.4	0.2
Department of Employment	0.0	0.0	0.0
Department of Transport	0.0	5.0	10.0
DOE - Housing	4.0	7.0	2.0
DOE - Other Environmental Services	-22.0	19.0	-7.0
DOE - Property Services Agency	0.0	0.0	0.0
Home Office	-19.0	-10.0	0.0
Lord Chancellor's Department	0.0	0.0	0.0
Department of Education and Science	0.0	-0.7	-3.6
Office of Arts and Libraries	15.7	15.7	15.5
DHSS - Health and Personal Social Services	100.0	50.0	50.0
DHSS - Social Security	0.0	0.0	0.0
Scotland: negotiable	0.0	0.0	0.0
Scotland: formula	-3.7	2.9	1.9
Wales: negotiable	0.0	0.0	0.0
Wales: formula	-1.9	1.4	0.9
Northern Ireland: negotiable	0.0	0.0	0.0
Northern Ireland: formula	-1.0	-0.1	-0.9
Chancellor's Departments	0.0	0.0	0.0
Other Departments	0.0	0.0	0.0
Nationalised Industries	-125.0	-125.0	-20.0
Local Authority Relevant	0.0	0.0	0.0
Adjustment	0.0	0.0	0.0
TOTAL ADDITIONS TO PROGRAMMES	163.7	144.3	23.6

Memo Items:

Total Central Government	282.2	232.4	32.2
Total Local Authority Capital	6.9	36.8	11.5
Total Local Authority Other	-0.2	0.0	-0.1
Total Other Public Corporations	-0.2	0.1	0.0
Total Science and Technology	-1.6	-2.2	-2.3
Privatisation Proceeds	0.0	0.0	0.0

THE ENDGAME

L/030

SECRET AND PERSONAL

GIEVE → O+E 30/9

SCORECARD
No 2 of 17 Copies

FROM: JOHN GIEVE
DATE: 30 September 1987

CHIEF SECRETARY
CHANCELLOR

cc Sir P Middleton
Sir T Burns
Mr F E R Bulter
Mr Anson
Mr Monck
Mr Sedgwick
Mr Luce
Mr Turnbull
Miss Walker
PS/CST
PS/Chancellor
Mr Tyrie

PUBLIC EXPENDITURE SURVEY: THE ENDGAME

This note is intended to serve as the basis for our discussion with you on Friday morning in preparation for your meeting with the PM and the Lord President on Monday. You may wish to read it before Cabinet. It covers:

i. our latest assessment of the outcome of the Survey negotiations on programmes;

ii. our latest assessment of what that might imply in terms of published growth rates and ratios;

iii. our views on handling the Star Chamber discussions.

Latest Assessment of Outcome on Programmes

2. I am submitting separately our latest scorecard. – below

3. It points to net additions to programmes of 4.6/6.3/7.8 in the three years. Depending on decisions on the Reserves etc (see paragraphs 6-10) below this could imply increases in the planning total of £3.1 billion in 1988-89 and £5.8 billion in 1989-90. There are still a

number of major uncertainties notably on Defence, Education, and Health so the numbers could still move by several £0.1 billions.

4. More has been achieved in the bilateral negotiations than we expected in July. Not only has the forecast outcome been reduced by 0.8/1.2/1.7 compared to our July assessment but more programmes have been settled or are near settlement. The position in negotiations could look as follows:

	88-89	89-90	£ million 90-91
Settlements agreed and forecast outcome on programmes where bilateral settlement probable	3,550	4,500	5,400
Forecast outcome on Star Chamber candidates - Aid	30	50	70
Defence	220	485	615
Health	700	850	1350
Education	255	330	340
Scotland	-50	35	35
Total	1055	1750	2410

5. Nonetheless, as the scorecard shows there is still a large gap between the departments' positions and the forecast outcomes on the disagreed programmes and achieving the latter will not be easy. In addition if you were to decide that a higher figure than 4 per cent should be published for the inflation rate to Q4 1988, the social security figures for 1989-90 would rise (and other Ministers might seek to reopen their settlements for 1988-89).

Implications for the Planning Totals and GGE

6. The implications for the planning totals will depend on decisions on the size of the Reserves and privatisation proceeds. The totals for GGE will depend also on the provision for debt interest and other accounts adjustments.

7. **Reserves** - Our earlier assessments have been based on Reserves of 4/7/10 (compared to Reserves in the current plans of 3.5/5.5/7.5).

Annex B discusses the potential pressures on the Reserves and concludes that there is a strong case for going for rather higher reserves still in the later years ie 4/8/12. Including these higher reserves would increase our chances of holding to the cash planning totals in the next Survey while remaining well below the outcomes indicated by preliminary work on the forecast. Against that you will wish to weigh the risk of setting a higher baseline for subsequent Surveys and the difficulty of presenting in the Autumn Statement a higher rate of growth in public expenditure and a slower fall in the ratio to national output. In the figures below (and in Annex C), we have assumed reserves of 4/7/10 but annex B sets out the implications of 4/8/12.

8. **Privatisation** - The figures are based on your provisional view that we should raise our estimate of privatisation proceeds from £5 billion to £6 billion a year from 1988-89, though we are working on the basis that the primary presentation will be in terms of the figures excluding privatisation.

9. **Debt Interest and Accounting Adjustments** - Early work on the Autumn forecast suggests that debt interest may fall appreciably in the later years (in contrast with the figures published in the FSBR which projected an increase from £18 billion in 1988-89 to £19 billion in 1989-90 and 1990-91). This could make room for higher Reserves. However for the time being we have assumed below that in order to avoid attracting questions on the forecasts of the PSBR you will wish to publish a flat path of £18 billion in all three years and (as in the PEWP) £7.5 billion for accounts adjustments.

10. On the basis of these assumptions the increases in the Planning Totals and GGE compared with the last White Paper would be as follows:

	£ billion	
	88-89	89-90
Planning total including privatisation	2.1	4.8
Planning total excluding pp	3.1	5.8
GGE total including pp	2.2	4.0
GGE total excluding pp	3.2	5.0

Real Growth Rates and GDP Ratios

11. The real rates of growth and ratios we will publish in the Autumn Statement will depend on the projections of the real growth in output and the GDP deflator that you decide to publish after considering the forecast. For illustrative purposes we have calculated the figures on the basis:

a. of the latest figure for money GDP in 1986-87;

b. the FSBR path for the GDP deflator:

	1987-88	1988-89	1989-90	1990-91
%	4½	4	3½	3

c. a path for real growth in GDP ¾% higher in 1987-88 and ¼% higher in 1988-89 than the path published in the FSBR:

	1987-88	1988-89	1989-90	1990-91
%	3¾	2¾	2½	2½

12. Annex C sets out the numbers of each aggregate. The key figures are the following:

	1987-88	1988-89	1989-90	1990-91	Average 87-88 - 90-91
Real increases %					
Planning Total (inc pp)		1.5	2.7	2.1	2.1*
GGE exc pp		1.4	1.7	1.3	1.5*
Ratio to GDP					
GGE exc pp	42½	42	41¾	41¼	
[White Paper path]	44	42¾	42¼	-	

* These figures compare to averages of 1.9% for the Planning Total and 1.3% for GGE for the four year period from 1986-87 to 1990-91.

The growth figure for 1989-90 seems the most difficult to present. We are investigating the possibilities of smoothing the path eg on EC contributions.

13. These is also a presentational issue on 1987-88. The figures in this note reflect the last report on the position of the Reserve which showed a shortfall of £0.6 billion on the Planning Total for the current year. Latest information on l.a. receipts suggest that the shortfall could be even larger. We will need to decide to what extent we should take credit for this undershoot in the Autumn Statement and White Paper. Obviously the lower the figure we publish for 1987-88, the higher the published growth rate for 1988-89. We will let you have a submission separately on the case for publishing a figure somewhat higher than our internal forecast and on how this might be done.

Star Chamber tactics

14. It seems likely that Star Chamber will have a smaller list of programmes to decide than in recent years. The probable candidates are **Aid, Defence, Education, Health,** and **Scotland.**

15. Of the remainder we have settled DTI (conditionally), DOE, Energy, Home Office, Lord Chancellor's Department, Social Security (subject to admin), Northern Ireland and nearly all nationalised industries and expect to settle FCO (diplomatic wing), Agriculture, Employment, Transport, and Arts before Star Chamber starts work. That would leave relatively few issues to be settled outside Star Chamber. The main candidates for this treatment are the Revenue Departments, EC contributions, and Wales.

16. What does this imply for the Star Chamber remit and the way we justify it to them? We need to suggest to them a cash "pot" within which they should try to settle the programmes they deal with. We need to set a demanding objective but one which is not demonstrably heroic. We need also to avoid accusations when the final result is published that the Treasury had far more room for manoeuvre than it

had indicated (some members may have felt misled last year). Experience shows that they will tend to go a little above our proposals so we should correspondingly set the pot slightly below our forecast of outcome. On that basis we might recommend figures of the following order (although we will need to review these in the light of the actual list of candidates and the Treasury's and departmental positions on each):

	£ billion		
	88-89	89-90	90-91
Forecast outcome on Star Chamber candidates	1.1	1.8	2.4
Proposed Star Chamber 'pot'	0.75	1.25	1.75

17. Last year the increases we faced were close to the total size of the Reserves and we framed the remit for Star Chamber in terms of exhausting the reserves. As the additions to programmes we expect this year are less than the size of the Reserves we cannot use that tactic again. In presenting the remit, there seem to be three options:

a. deriving the totals and, hence, the "pot" from an illustrative path for GDP and the ratios;

b. deriving the pot from proposals on the planning totals themselves;

c. proposing figures without showing explicity what they imply for the Planning Totals or the ratios; the justification would rely on Cabinet's decision to stay as close as possible to the existing Planning Totals and a demonstration that our proposals will take us well above the existing plans.

18. We feel option (a) introduces unnecessary complication in the presentation and runs the risk that members of Star Chamber will feel misled if we subsequently publish a higher path for GDP and lower ratios. Option (b) is also vulnerable on both counts, if less so. Our preferred option, if we can get away with it, is therefore (c).

19. Annex D illustrates how we might present the remit in this way. It makes clear that a significant increase in the totals is inevitable without specifying figures. It also warns that higher Reserves than in previous years will be required. We would welcome your views on whether this strikes the right balance between giving the Group enough information to carry out their task and preserving the Treasury's freedom of manoeuvre. You may of course want to explain more of the background to the Lord President than to the Group as a whole.

Summary

20. In the summary:

i. Our present assessment is that the Survey will lead to increases in programmes of 4.6/6.3/7.8;

ii. we think the choice of reserves lies between 4/7/10 and 4/8/12;

4/7/10

iii. on the basis of 4/7/10 and illustrative assumptions, this wold produce an average real growth in the planning total from 1987-88 to 1990-91 of 2.1% with a particularly high figure in 1989-90, the growth of GGE would be lower at around 1.5% (the figures would be lower if we focussed on the four year period from 1986-87);

iv. on the basis of the same assumptions, GGE excluding privatisation would decline steadily (if slowly) as a proportion of GDP and would be below the White Paper path in each year;

v. we expect the main programmes to go to Star Chamber to be: **Defence, Education, Health, and Scotland;**

vi. we recommend that the remit for Star Chamber should ask them to limit the increases in these programmes to 0.75/1.25/1.75;

vii. we recommend that in justifying this figure, the Chief Secretary should rely on the decision of Cabinet to stick as close

to the planning totals as possible without making firm proposals on the Planning Totals or the ratios.

J.G.

JOHN GIEVE

SECRET AND PERSONAL

RESERVES FOR FUTURE YEARS

Background

The Reserves in the current baselines are

	1987-88	1988-89	1989-90	1990-91
£ billion	3.5	5.5	7.5	7.5

Our forecast of increases in programmes are

2.9	4.5	6.3	8.0

Early indications from the September forecast point to spending above those figures of about

5	10	15

Although the position has varied from year to year, analysis of the last five years suggests that Reserves would have to be in the ratio 1:2:3 to provide sustainable cash totals for the later years.

1987-88

It now seems probable that we will undershoot the planning total this year. Claims on the Reserve are well below £3.5 billion for two main reasons

a. privatisation proceeds are now expected to be £250m higher than planned;

b. local authorities' capital receipts are almost £750m higher than anticipated (although some of this has fed back into higher gross spending).

1988-89 - 1990-91

It would not be sensible to rely on (a) and (b) above recurring in future because we will already have increased our provision for both

privatisation proceeds and l.a. receipts in the Survey to reflect the results in 1987-88.

In addition we can now foresee a number of large probable claims on the Reserves in the Survey period.

a. Local authority relevant. We have set the increase in provision well below the likely outcome. This is likely to lead to an overspend of £2 billion in 1988-89, £4 billion in 1989-90 and £6 billion in 1990-91 (compared with a claim in 1987-88 of £1.2 billion).

b. Social Security. Although we are reducing our forecasts of expenditure, we still expect overspending of perhaps £1 billion in 1988-89, £2 billion in 1989-90, and £3 billion in 1990-91.

c. Defence. We expect to face a net claim of between £¾ billion and £½ billion on end-year flexibility in 1988-89 as MOD draw down the 'cushion' they have built up over the last three years.

d. EC contributions are likely to be higher than published in the Autumn Statement since the latter will assume no change in the 1.4% VAT ceiling. For example moving to 1.6% in 1988 could add £¾ billion to spending in 1988-89.

e. Coal. We could face additions of perhaps £¾/½/¾ billion in British Coal's EFLs in the three years if the Electricty industry enforces price reductions and passes them on to the consumer.

f. Electricity privatisation. At present we are assuming both £6 billion a year privatisation proceeds and a negative EFL of £1½ billion in 1990-91 for the English electricity industry. To the extent that the £6 billion included an element of electricity there is double-counting As privatisation plans become clearer we will need to eliminate this.

g. Running costs. We are settling with a number of departments on baselines for years 2 and 3 on the basis that we will look at the provision next year in the light of proper efficiency plans.

h. A number of potential additions are not being logged in programmes during the Survey because they are not certain. These include the Chancellor's initiative on Sub Saharan Africa, a long outage at Hunterston B, and probable further claims on AIDS.

CONCLUSION

Simply adding up (a) - (f) above gives potential claims of £4 billion in 1988-89, £6-7 billion in 1989-90, and £11½ billion in 1990-91. On the experience of this year (g) might amount to £½ billion. These figures are necessarily very speculative but they suggest that it would be prudent to go for a Reserve of at least £4 billion in 1988-89 and that figures of £8 billion and £12 billion in the later years would not be excessive.

IMPLICATIONS OF 4/8/12

If Reserves were set at £4, £8, and £12 billion. The real growth rates and ratios set out in paragraph of the main minute would change to

	1987-88	1988-89	1989-90	1990-91	Average 1987-88 - 1990-91
Real increases					
Planning Total (inc pp)		1.5	3.4	2.6	2.5
GGE exc pp		1.4	2.3	1.7	1.8
Ratios					
GGE exc pp	42½	42	42	41½	
[White Paper Path	44	42¾	42¾	-]	

ANNEX C

SECRET AND PERSONAL

LIKELY INCREASES IN TOTALS (ASSUMING RESERVES OF 4/7/10)

	1987-88	1988-89	1989-90	1990-91	Average 1987-88 to 1990-91
Cash totals £billion					
Planning total inc pp	148.0	156.3	166.3	174.8	
Planning total exc pp	153.3	162.3	172.3	180.8	
GGE inc pp	172.7	181.8	191.8	200.3	
GGE exc pp	178.0	187.8	197.8	206.3	
Real increases %					
Planning total inc pp	1.3	1.5	2.8	2.8	2.1
Planning total exc pp	1.7	1.8	2.6	1.9	2.1
GGE inc pp	0.2	1.2	1.9	1.4	1.5
GGE exc pp	0.6	1.4	1.8	1.3	1.5
Ratios %					
GGE inc pp	41¼	40¾	40½	40	
[White Paper	42¾	41¾	41¼	-]	
GGE exc pp	42½	42	41¾	41¼	
[White Paper	44	42¾	42¼	-]	

DRAFT REMIT TO STAR CHAMBER

Cabinet decided in July that the Public Expenditure plans should be kept as close as possible to the previously published cash planning totals and, at all events, within the declining proportions of general Government expenditure to national income projected in thc last White Paper.

2. In my bilateral discussions it has become clear that some increase in the Planning Totals will indeed be needed. The position reached at the end of the bilaterals is:

£m

	1988-89	1989-90	1990-91
Existing Reserves	5.5	7.5	7.5
Less			
Extra local authority provision	-1.0	-1.4	-1.6
Additions to programmes agreed in bilaterals	-2.6	-3.1	-3.8
Remaining Reserves	1.9	3.0	2.1

So the remaining Reserves already fall short of those published in this year's White Paper. Moreover, it is clear that we need larger Reserves than we have provided in previous years. We need to provide for the continuing growth for local authority current expenditure (for which the provision we agreed in July is well below the likely outcome), social security expenditure and other risks, for example the probability that EC contributions will increase above the 1.4% VAT ceiling on which our current provision is based. The need for higher Reserves is particularly necessary to give credibility to our plans for years 2 and 3 following two Surveys in which we will have

added to our plans. As a result increases in the planning totals will be required even if no further additions are made to programmes by this Group.

3. In the wake of the recent poor trade figures, markets are concerned about the possibility that the economy may be over-heating with consequent risks for inflation and the exchange rate. They will be disturbed by any signs in the Autumn Statement that we have relaxed our resolve on public expenditure and that we are allowing increases there to fuel the current expansion. It is essential, therefore, that we should keep the total additions as low as possible.

4. In considering the maximum presentable increase, we have also reviewed the likely level of privatisation proceeds in the coming three years. Some increase may be possible but we have to realise that the time has passed when we could mask increases in spending by raising these estimates. The markets look at the totals excluding privatisation proceeds.

5. Against this background I would suggest the Group aims to restrict the total additions for the outstanding programmes to £¾ billion in 1988-89, £1¼ billion in 1989-90 and £1¾ billion in 1990-91.

6. When provision has been made for adequate Reserves, this will imply substantial increases to the existing planning totals which are the figures at which the markets and the commentators will look first. The implications for the ratios of General Government expenditure to national output will not be clear until the economic forecast which will accompany the Autumn Statement is complete. Early indications are that the increases I propose would be consistent with a continuing decline in the ratio over the Survey period. This path should be below the path set out in the White Paper because the above trend growth in the current year will lower the current ratio. However, it seems likely that there will be only a very slow decline in 1988-89 and the later years from this new base.

2131/13

SECRET & PERSONAL

SCORECARD
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FROM: A TURNBULL
DATE: 1 OCTOBER 1987

CHANCELLOR OF THE EXCHEQUER (+1)

cc Chief Secretary (+1)
Sir P Middleton
Sir T Burns
Mr F E R Butler
Mr Anson
Mr Monck
Mr Luce
Mr Sedgwick
Mr Gieve
Miss Walker

TURNBULL To CH/EX 1/10

REVIEW OF SURVEY POSITION

You are meeting the Prime Minister and Lord President on Monday to take stock of the Survey and have a meeting on Friday to prepare for this. Your meeting will have before it:

Still with you

i. Mr Gieve's submission of 30 September on the Survey Endgame;

ii. the latest GEP Survey Scorecard of 30 September;

iii. the latest Running Costs Scorecard of 30 September.

2. I suggest the meeting could take the issues in the following order.

i. The likely overall settlement and the resulting figures. The points to consider are the acceptability of the projected planning total increases, the resulting GGE/GDP ratios and the year to year growth rates (where year 2 looks particularly difficult).

ii. The major issues still outstanding.

iii. Consider Star Chamber membership in the light of (ii). In particular, does the continuing disagreement on regional aid disqualify Mr Clarke, or can he be a member but stand

down if regional aid comes before the Group? Can the remaining differences on MAFF be resolved in time to admit Mr MacGregor?

iv. Star Chamber timetable - should it start on Monday 12 October or Thursday 15 October, allowing a couple of days extra for bilateral talks?

v. Star Chamber agenda. Candidates are Defence, Health, Education and Scotland. Should Aid go to it or be resolved outside? How should regional policy be resolved?

vi. Remit for Star Chamber. How much reasoning on size of pot should be set out?

vii. Note issues on size of reserves.

viii. Preparation for meeting with Prime Minister. Do you want to give her a note in advance? There are advantages in a note as we can be sure that she has focussed on the size of the problem. I attach a draft of a note which could be sent on Friday evening, to be updated as necessary to reflect latest developments.

A TURNBULL

PROSPECTS FOR 1987 SURVEY

The overall picture

Cabinet agreed to hold as close as possible to existing planning totals and certainly not allow public spending to exceed proportions to GDP set out in White Paper. It is important to emphasise the "as close as possible" condition and not allow colleagues to think in terms of a limit up to which we can spend.

2. The latest assessment is that we face increases in the planning totals of just over £3 billion in 1988-89 and £5¾ billion in 1989-90 (compared with £5 billion and £5¾ billion last year).

3. There may be scope for some increase in privatisation proceeds but while they may reduce the headline totals it will not help us with our aim to reduce spending in proportion to GDP where we have defined our objective excluding privatisation proceeds, or with the markets who also set privatisation proceeds aside in making their assessments.

4. The figures assume larger Reserves than last year but these will be needed to cover EC uncertainties, unavoidable overshoots on local authorities and on social security, as well as genuine contingencies.

5. It is likely that the increases above will be within the ratios to GDP in the last White Paper. But the size of the increases and the growth in real terms (about 1½ per cent a year on average) will need very careful presentation.

Issues outstanding

6. The Chief Secretary has reached or is close to agreement on nearly all the nationalised industries and a majority of the programmes, but difficult issues remain in a number of areas.

7. Defence. Over the last two years the Ministry has done its programme planning (through the annual long-term costings) more or less without reference to their public expenditure provision. A large gap has opened up between the two. The

Secretary of State has put forward bids of over £2 billion in aggregate on an 'interim' basis while he completes the current costings exercise with a view to taking final decisions both on the programme and resources next year. He has asked for higher additions - some £2¾ billion - for a 'final settlement'.

8. The Treasury considers increases of this order completely unjustified. It considers it very important to establish a firm cash envelope for the current costings exercise and believes this can be done with much more modest additions by taking full account of the major savings from improved efficiency which should be possible.

9. Health. Agreement has been reached for the Family Practitioner Service including the ways in which service improvements are to be financed (principally from the dental charges agreed in Cabinet). Disagreement remains on the Hospital Service and what extra resources should be made available and how they should be financed. A substantial gap remains of around £175 million in the first year rising to £180 million in the third.

10. Education. The Secretary of State has moderated his original bids, principally for science, universities and capital for local authority schools, by a total of £100 million a year but at around £450 million in the first year, rising thereafter, they remain much too large. The Chief Secretary will be prepared to offer some additions but a gap of more than £200 million is likely to remain.

11. Scotland. Treasury believes there is massive over-provision relative to need - around £1 billion or 20 per cent of Scottish block - which is being perpetuated by the formula. Treasury has proposed making a start on reducing this, principally by making an adjustment to reflect recent trends in population distribution. Mr Rifkind is totally opposed to this. He is also seeking compensation for fact that without more resources the higher local authority settlement in Scotland this year will require cuts elsewhere in the block.

12. Aid. The Foreign Secretary is arguing for a policy decision to bring the Aid programme to a specified proportion of GNP (0.33 per cent). The Treasury has offered an amount which would be sufficient to hold it constant in real terms (as was done in the last Survey) plus whatever is required to meet the Chancellor's debt initiative. By 1990-91 the gap is substantial, £230 million sought against £65 million (including the costs of the debt initiative) which has been offered.

13. Regional policy. Agreement has been reached with DTI on a package which includes switching, from 1 April 1988, from Regional Development Grants in part to Regional Selective Assistance, and in part to advisory services in the regions. But the agreement is conditional on the territories being prepared to follow the same course, which the Secretary of State for Wales is currently opposing.

Next Steps

14. The Chief Secretary will have further bilateral discussions on education, health and defence either in London or in the margins of the Conference. One possibility is to continue these on the Monday and Tuesday after the Conference, with the Lord President's group beginning work on the Thursday. On aid there is a choice between asking the Foreign Secretary to appear before the Group or a private meeting with the Lord President. On regional policy, the way forward is as yet unclear. Lord Young and the Chief Secretary are seeing the Secretaries of State for Scotland and Wales separately to put the arguments for a change in policy.

P/007

SECRET AND PERSONAL

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CHIEF SECRETARY (+1)

cc Mr F E R Butler - 3
Mr Anson - 4
Mr Monck - 5
Mr Luce - 6
Mr Turnbull - 7
Miss Walker - 8

PROGRESS IN BILATERALS

I attach a table comparing our current forecast outcomes programme by programme (from the scorecard circulated on 30 September) with those in the first one we sent you on 2 September.

2. **In total** the forecast outcome has come down from 5.4/7.2/8.9 to 4.6/6.2/7.8.

3. The main increases in the forecast outcome are for EC Contributions in 1988-89 and 1989-90, DTI which is higher not only because of the unexpected change in regional policy but also because we underestimated the force of some of the minor bids, and Health where we have recently revised up our forecast of outcome. You will see also that our settlements on Department of Energy and our forecasts for Education and Arts and the Chancellor's Departments have also edged up.

4. The main decreases have been for Housing and Environment where your settlement is very much better than we anticipated partly of course because of higher receipts, and Employment and the Nationalised Industries where you have extracted more than we had thought likely. You have also done better (or we expect them to do better) than originally anticipated on the FCO, MAFF, Transport, Home Office, and Social Security (although the bulk of the reductions in this case result from changes to economic assumptions).

Jn. Gieve

JOHN GIEVE

SECRET 02/10/87

SUMMARY OF CHANGES IN FORECAST OUTCOME
SINCE LAST SCORECARD

	1988-89 CHANGE IN FORECAST OUTCOME	1989-90 CHANGE IN FORECAST OUTCOME	1990-91 CHANGE IN FORECAST OUTCOME
Ministry of Defence	0.0	50.0	0.0
FCO - Overseas Development Administration	-1.5	-13.0	-17.0
FCO - Diplomatic, Information, Culture	-4.2	-3.9	-3.2
European Communities	310.0	190.0	3.0
Intervention Board for Agricultural Produce	-110.0	-90.8	-28.9
Ministry of Agriculture, Fisheries and Food	-15.4	-10.9	-13.3
Forestry Commission	1.1	-1.3	-1.4
Department of Trade and Industry	72.9	50.2	27.7
Export Credits Guarantee Department	0.0	0.0	0.0
Department of Energy	10.4	11.6	11.4
Department of Employment	-99.6	-149.5	-163.8
Department of Transport	-50.0	-40.0	-34.0
DOE - Housing	-247.0	-393.0	-447.0
DOE - Other Environmental Services	-204.0	-58.0	-58.0
DOE - Property Services Agency	-10.0	-10.0	-10.0
Home Office	-34.0	-10.0	0.0
Lord Chancellor's Department	-29.4	-36.7	-49.4
Department of Education and Science	22.2	31.2	32.9
Office of Arts and Libraries	15.7	15.7	15.5
DHSS - Health and Personal Social Services	100.0	50.0	50.0
DHSS - Social Security	-269.9	-199.1	-190.4
Scotland: negotiable	16.0	19.6	16.7
Scotland: formula	-96.4	-38.8	-43.5
Wales: negotiable	8.1	9.0	10.3
Wales: formula	-16.8	-22.7	-25.4
Northern Ireland: negotiable	0.0	0.0	0.0
Northern Ireland: formula	-24.3	-21.8	-16.4
Chancellor's Departments	23.3	10.2	17.0
Other Departments	-1.0	-7.7	-13.0
Nationalised Industries	-125.0	-225.0	-120.0
Local Authority Relevant	0.0	0.0	0.0
Adjustment	0.0	0.0	0.0
TOTAL ADDITIONS TO PROGRAMMES	-758.8	-894.7	-1,050.2

2131/18

SECRET & PERSONAL

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FROM: A TURNBULL
DATE: 2 OCTOBER 1987

TURN-BULL → CH/EX 2/10

CHANCELLOR OF THE EXCHEQUER +1

cc Chief Secretary +1
Sir P Middleton
Sir T Burns
Mr F E R Butler
Mr Anson
Mr Monck
Mr Gieve
Miss Walker

PM OK. Draft, with for Bull I do not 1.45 draft P/S letter to L'W at all. This is for letter from me to PM's mtg on subsequent

SURVEY PROSPECTS: MEETING WITH PRIME MINISTER

I attach a revised version of the note for the Prime Minister, together with a draft Private Secretary letter suggesting an agenda for the meeting. Changes from the version considered at the meeting earlier today are:

i. the planning total increase in 1989-90 is expressed as "around £6 billion; a figure which could encompass a reserve of 7 and 8, or an increase in the social security figures should you decide on higher inflation assumptions;

ii. the disagreement with the Secretary of State for Wales is given greater prominence;

iii. there is a firm steer towards starting the work of the Group on Thursday 15 October.

2. The Private Secretary letter envisages that the note would be copied to the Lord President. Although this involves giving him the same information on the Survey outcome as the Prime Minister, something it would be difficult to avoid if he is at the meeting, there is no indication of the size of the Reserves we are seeking and hence it will not be possible for him to establish from the size of the 'pot' how much we are holding in our back pocket.

3. In drafting the position paper for the Group it would be helpful to know if the Lord President is content with the way

we are proposing to justify the size of the pot to the other members of the Group. One possibility would be for the Chief Secretary's Private Office to send his, after Monday's meeting, a draft of the relevant passage of the paper. A copy of what we have in mind is attached.

A TURNBULL

Covering **SECRET & PERSONAL**

David Norgrove Esq
No 10

DRAFT PRIVATE SECRETARY LETTER TO No 10

SURVEY PROSPECTS

The Chancellor and Chief Secretary are meeting ~~you~~ the Prime Minister and the Lord President on Monday to take stock of where the Survey has got to, the issues outstanding and to consider the next steps. I attach a copy of a note summarising this.

2. The meeting might like to take the questions in the following order:

i. the prospects for the overall outcome;

ii. the outstanding issues and the channels for resolving them;

iii. membership of the Lord President's Group;

iv. the starting date for its work.

3. I am copying this letter and attachment to Mike Eland in the Lord President's Office.

[A C S ALLAN]

2131/13

SECRET & PERSONAL

PROSPECTS FOR 1987 SURVEY

The overall picture

Cabinet agreed to hold as close as possible to existing planning totals and certainly not allow public spending to exceed proportions ~~to~~ GDP set out in White Paper. It is important to emphasise the "as close as possible" condition and not allow colleagues to think in terms of ~~a~~ limit up to which we can spend.

2. The latest assessment is that we face increases in the planning totals of ~~just over~~ £3 billion in 1988-89 and around £6 billion in 1989-90 (compared with £5 billion and £5¾ billion last year).

3. There may be scope for some increase in privatisation proceeds, but while ~~they~~ may reduce the headline totals ~~it~~ will not help us with our ~~aim~~ of reducing spending ~~in~~ proportion ~~to~~ GDP, where we have defined our objective excluding privatisation proceeds, or with the markets who also set privatisation proceeds aside in making their assessments.

4. The figures assume larger Reserves than last year. These will be needed to cover ~~EC~~ uncertainties, ~~unavoidable~~ overshoots on local authorities and on social security, as well as genuine contingencies.

5. It is likely that the increases ~~above~~ will be ~~within the ratios to GDP in the last White Paper~~. But the size of the increases and the growth in real terms (about 1½ per cent a year on average) will need very careful presentation.

Issues outstanding

6. The Chief Secretary has reached or is close to agreement on nearly all the nationalised industries and ~~a~~ majority of the programmes, but difficult issues remain in a number of areas.

7. Defence. Over the last two years ~~the Ministry~~ has done its programme planning (through the annual long-term costings)

more or less without reference to their public expenditure provision. A large gap has opened up between the two. The Secretary of State has put forward bids of over £2 billion over the three years on an 'interim' basis while he completes the current costings exercise with a view to taking final decisions both on the programme and resources next year. He has asked for higher additions - some £2¾ billion - if his settlement this year was to be a full and final one.

8. The Treasury considers increases of this order unjustified. It considers it desirable to establish a firm cash envelope for the current costings exercise and believes this can be done with much more modest additions by taking full account of the major savings from improved efficiency which should be possible. A gap of more than £1 billion over the three years remains.

9. Health. Agreement has been reached for the Family Practitioner Service including the ways in which service improvements are to be financed (principally from the dental charges agreed in Cabinet). Disagreement remains on the Hospital Service and what extra resources should be made available and how they should be financed. A substantial gap remains of around £175 million in the first year rising to £500 million in the third.

10. Education. The Secretary of State has moderated his original bids, principally for science, universities and capital for local authority schools, by a total of £100 million a year, but at around £450 million in the first year, rising thereafter, they remain much too large. The Chief Secretary will be prepared to offer some additions, but a gap of more than £200 million remains in each year.

11. Wales. Agreement has been reached with DTI on a package which includes switching, from 1 April 1988, from Regional Development Grants in part to Regional Selective Assistance, and in part to advisory services in the regions. But the agreement is conditional on the territories being prepared to follow the same course, which the Secretary of State for Wales is currently opposing. Even if he acquiesces he will be seeking compensating

increases on which it may be difficult to reach agreement.

12. Scotland. Treasury believes there is massive over-provision relative to need - around £1 billion or 20 per cent of Scottish block - which is being perpetuated by the formula. Treasury has proposed making a start on reducing this, principally by making an adjustment to reflect recent trends in population distribution. Mr Rifkind is totally opposed to this. He is also seeking an extra £70 million to finance the higher local authority settlement in Scotland this year, money which would normally be found from the block. We have still to agree the consequences for Scotland of the regional policy proposals.

13. Aid. The Foreign Secretary is arguing for a policy decision to bring the Aid programme to a specified proportion of GNP (0.33 per cent). The Treasury has offered an amount which would be sufficient to hold it broadly constant in real terms (as was done in the last Survey) plus whatever is required to meet the Chancellor's debt initiative. By 1990-91 the gap is substantial, £230 million sought against £25 million (plus an assurance that the Treasury will meet the costs of the debt initiative) which has been offered. However, the Foreign Secretary has suggested further talks between the Chief Secretary and the Minister of Overseas Development though it is unlikely that he will be willing to resolve it without further involvement himself.

Next Steps

14. The Chief Secretary will have further bilateral discussions on education, health and defence either in London or in the margins of the Conference. He thinks it would be better to allow time for these to continue on the Monday and Tuesday after the Conference, with the Lord President's group beginning work on the Thursday (15 October). It is still hoped to bring the final proposals before Cabinet on 5 November.

P/009

DRAFT

PS/LORD PRESIDENT

PUBLIC EXPENDITURE SURVEY

Following the Prime Minister's meeting on Monday the Chief Secretary has been considering how best to present the overall public expenditure prospect in his initial paper to the Lord President's group.

2. It has not been customary for this paper to set out proposals or forecasts of the increases in the public expenditure Planning Totals and the Chief Secretary would not wish to do so this year. He would prefer to include something on the lines of the attached draft. But he would be most grateful for the Lord President's comments on this approach.

3. You will understand, of course, that the figures in the paper are purely illustrative since it is not yet clear which programmes will be settled bilaterally and which will be referred to the Group for decision.

L/039

SECRET AND PERSONAL

Cabinet decided in July that the Public Expenditure plans should be kept as close as possible to the previously published cash planning totals and, at all events, within the declining proportions of General Government expenditure to national income projected in the last White Paper.

2. In my bilateral discussions it has become clear that some increase in the Planning Totals will indeed be needed. The position reached at the end of the bilaterals is:

			£billion
	1988-89	**1989-90**	**1990-91**
Existing Reserves	5½	7½	7½
Less			
Extra local authority provision	1	[1½]	[1½]
Additions to programmes agreed in bilaterals	[2½]	[3]	[4]
Remaining Reserves	2	3	2

So the remaining Reserves already fall short of those published in this year's White Paper. Moreover, it is clear that we need larger Reserves than we have provided in previous years. We need to provide for the continuing growth for local authority current expenditure (for which the provision we agreed in July is well below the likely outcome), social security expenditure and other risks, for example the probability that EC contributions will increase above the 1.4% VAT ceiling on which our current provision is based. The need for higher Reserves is particularly necessary to give credibility to our plans for years 2 and 3 following two Surveys in which we will have

added to our plans. As a result increases in the planning totals will be required even if no further additions are made to programmes by this Group.

3. In the wake of the recent poor trade figures, markets are concerned about the possibility that the economy may be over-heating with consequent risks for inflation and the exchange rate. They will be disturbed by any signs in the Autumn Statement that we have relaxed our resolve on public expenditure and that we are allowing increases there to fuel the current expansion. It is essential, therefore, that we should keep the total additions as low as possible.

4. We will be reviewing the likely level of privatisation proceeds in the coming three years. Some increase may be possible but we have to realise that the time has passed when we could mask increases in spending by raising these estimates. The markets look at the totals excluding privatisation proceeds.

5. Against this background I would suggest the Group aims to restrict the total additions for the outstanding programmes to £[½] billion in 1988-89, £[1] billion in 1989-90 and £[1½] billion in 1990-91.

6. When provision has been made for adequate Reserves, this will imply substantial increases to the existing planning totals which are the figures at which the markets and the commentators will look first. The implications for the ratios of General Government expenditure to national output will not be clear until the economic forecast which will accompany the Autumn Statement is complete. Early indications are that the increases I propose would be consistent with a continuing decline in the ratio over the Survey period. This path should be below the path set out in the White Paper because the above trend growth in the current year will lower the current ratio. However, it seems likely that there will be only a slow decline in 1988-89 and the later years from this new base.

do we want to be as forthcoming as this?
could just say "consistent with our objectives"

001/4212

1 Mox
2 pwp

SECRET AND PERSONAL

SCORECARD
COPY NO. 1 OF 15 COPIES

NOTE OF A MEETING ON FRIDAY 2 OCTOBER 1987 AT 11.30AM
HELD IN THE CHANCELLOR'S ROOM, H M TREASURY

Those present:

Chancellor
Chief Secretary
Sir T Burns
Mr F E R Butler
Mr Anson
Mr Monck
Mr Sedgwick
Mr Turnbull
Mr Gieve
Mr Culpin

1987 PUBLIC EXPENDITURE SURVEY

Papers:
Mr Gieve of 30 September ("The End-Game")
Mr Turnbull of 1 October

The Chancellor opened by congratulating the Chief Secretary on the progress he had achieved in the Bilateral negotiations during September. He proposed to use the agenda in Mr Turnbull's minute of 1 October. He had seen the submission from Mr S J Davies on economic assumptions on public expenditure. These would be discussed at a meeting on the 15 October, and he did not propose to take decisions now. The Chancellor noted that he would, however, take some persuading to publish a 5% RPI assumption for Q4 1988, rather than 4¾%.

2 The first issue raised was the likely overall settlement and the resulting figures. The Chancellor asked the Chief Secretary for his view. The Chief Secretary said that he thought the papers set out the position clearly. He was concerned though that there might be a degree of optimism on figures scored. He thought it would be very desirable

NOTE OF MTG 2/10

if the increase in the planning total could be below £3bn rather than just above. But that was crucially dependent on the outcome of the outstanding programmes, where the risks were all for outcomes higher than those presently scored. Mr F E R Butler agreed. He noted that at the previous discussion with the Chancellor the range of outcomes varied around £4bn rather than around £3bn. That showed that we were now expecting a substantially better outcome to the Survey.

3 Turning to the individual figures the Chancellor queried the reduction scored for Scotland in 1988-89. Mr Turnbull explained that this made no assumption about the population baseline adjustment. The £50m assumed that Mr Rifkind would have to bear the consquences of the comparatively more expensive RSG settlement in Scotland within his block resources, meaning a de facto cut on other programmes of £70m, and that his other minor non-industry bids were conceded. This was simply normal operation of the block rules. The Chancellor thought that represented a tough but fair settlement in the circumstances.

4 On health, Mr Turnbull noted that there was a questionmark over the way in which pay realism should be treated. Mr Moore had refused to accept provision of 5% per annum for pay throughout the Survey period accompanied by an undertaking that he would not seek access to the Reserve for the excess on the Review Body awards. There was a choice to be made, given that Mr Moore would not accept that condition, whether it was in the Treasury's interest simply to provide for the GDP deflator for pay, with the concomitant risk of higher provision needed in-year for Review Body awards, or whether it was better to concede the extra now with a lower potential claim on the Reserve. The Chancellor noted that the Chief Secretary would of course give no unequivocal undertaking of access to the Reserve. That was an issue that would have to be addressed

when the Review Body Reports were considered. Mr Turnbull and Mr Gieve saw advantage in putting the money into the health numbers now. That allowed the Government to present a better outcome on the health programme and take credit for it. But it ran the risk that Mr Moore would not discount it fully in any bid he made from the Reserve next year. Mr Anson thought it would be safer to provide simply for the GDP deflator of 4%. The Chancellor agreed with Mr Anson's view. On this basis the forecast outcome would be 650/700/1150.

5 On Education, Mr F E R Butler noted that the figures were a tight forecast of the likely outcome. However it was noted that risks for a higher settlement were only in the range of £20 - £25m.

6 Sir T Burns noted that the Social Security Programme had been settled at numbers which were still well below the forecasters' expectation of likely Social Security spending. Mr F E R Butler said that the Treasury considered whether they should press DHSS to bring their forecast more up into line with the Treasury's own forecast. But the Treasury had taken the view that since large reserves would be needed in any case for market reasons it was not in the Treasury's interests to force the DHSS to make higher bids. The Chancellor asked whether it was inevitable that DHSS spending would continue on its inexorable upward trend. The Chief Secretary said he believed that take-up would continue to grow. DHSS would argue that their forecasting methods had been considerably refined and were now much more accurate. There was an undeniable upward trend, particularly in areas such as benefits for the disabled which had experienced phenomenal growth. He thought that the final outcome might well lie somewhere between the Treasury projection and the DHSS bid. The Chancellor agreed that it would not be desirable to put in the full excess Treasury forecasters had been expecting because

that would make life too easy for the DHSS. But the Social Security programme was now settled, so the issue was in that sense academic. Mr F E R Butler noted that there were the first signs this year that the growth of the Social Security spending might be beginning to abate.

7 The Chancellor noted that that meant Defence, Health and Education would be definite Star Chamber candidates. There was a presumtion that the Aid Programme would go to Star Chamber. In the light of the position described on Scotland he wondered whether it would not be possible to achieve the Treasury settlement without invoking Star Chamber. The Chief Secretary thought that this was realistic if the Treasury did not press the population baseline adjustment. Mr Rifkind appeared to be lining up to accept the deal on Regional Development grants as a partial quid pro quo for that. The Chancellor thought there was a deal to be done on this basis with Mr Rifkind accepting the RDG change and receiving the full block consequential (bearing the £70 million adjustment for local authorities), in return for the Treasury dropping the population baseline adjustment for this year, but without commitment for the future. Mr F E R Butler saw difficulty in the Treasury dropping this since it was a matter of principle. He thought that for tactical reasons it might be preferable for the Lord President to offer such a deal outside Star Chamber to Mr Rifkind. The Chancellor thought the formulation he had offered would guard against that, but noted that this was a matter for the Chief Secretary to decide. The Chancellor noted a benefit of this approach would be that it would serve to isolate Mr Walker. The Chief Secretary reported that at his meeting that morning with Mr Walker, Mr Walker had made clear that he recognised that he would have no option but to accept a Treasury/ DTI deal on RDGs but that his price would be high. The Chancellor expressed a preference for Star Chamber considering Wales in such circumstances.

8 Mr F E R Butler noted that there were now signs that the Defence Secretary did not wish to refer the defence programme to Star Chamber because of the potential damage from press stories about rows over Defence provision. He had some sympathy with that position. The Chancellor stressed that we must exploit this vulnerability of Mr Younger. Mr Younger should not be allowed to see going to full Cabinet as an alternative to going to Star Chamber. The alternative would be for the matter to be referred to the Prime Minister. Mr F E R Butler noted that there was a prospect of a settlement on Defence bilaterally on figures within striking distance of the forecast outcome. The Chancellor noted that it was important to have a decent range of candidates for Star Chamber given that it was impossible for the Treasury to be seen to be agreeing to an increase in the planning totals without referring programmes for collective decision.

9 There was some discussion of Star Chamber membership. The Chancellor's marginal preference was the cast list already decided on, viz Mr Wakeham, Mr Parkinson, Mr Clarke and Mr MacGregor. If a change were to be made he would substitute Mr Fowler for Mr Clarke. The Lord President had however expressed a preference for Mr Fowler replacing Mr MacGregor. The Chief Secretary said he would like Mr Fowler definitely to be a member of Star Chamber. There was an advantage in this as Mr Fowler felt relatively aggrieved at the settlement he had received. He had a marginal preference for Mr MacGregor over Mr Clarke. It was noted there could be difficulties in having two former health ministers present if the Health programme were referred and a further difficulty with Mr Clarke if Welsh opposition to the changes in regional development were another of the issues to be referred.

10 On the Star Chamber timetable, the Chief Secretary noted that there was still considerable uncertainty on a number of programmes including the regional programmes.

That was why he had been considering postponing Star Chamber's start until the Thursday. Mr Turnbull said that he now perceived definite advantages in starting late. The Chief Secretary said his preference was to start on Thursday.

11 The Chancellor said he did not think the remit described in Mr Gieve's paper was satisfactory. He thought that the remit should be drawn up along the lines that Cabinet had agreed that the Government should get as close as possible to the planning total. Additions to programmes of A/B/C had already been agreed this year and it was quite clear that reserves of X/Y/Z would be needed. Given that the maximum increase in the planning total which the Treasury could contemplate was α/β/δ the amount available for Star Chamber to distribute was E/F/G.

12 Mr F E R Butler had reservations about this approach. The figures given to Star Chamber would be lower than the Treasury's expected final outcome. In previous years Star Chamber had not been given a specific figure for the increase in the planning total because of the danger that this artificially low figure would leak. He thought it might be possible to construct a remit which did not expose full arithmetic in as unambiguous a way as the Chancellor had proposed. This could be done by concealing the size of Reserves the Treasury had in mind. The Chancellor thought that a possible compromise between the two positions was to expose the arithmetic to Lord Whitelaw and discuss with him how much he wanted to tell Star Chamber. His view was that Star Chamber had not in the past proved leaky. He noted in the past the Lord President and been reluctant to learn the full unvarnished truth. The Chancellor would

not wish privatisation proceeds to be mentioned - that had been a necessary expedient last year to square the arithmetic in the Star Chamber remit. It should not be repeated.

13 There was some discussion on the choice and the size of Reserves. The Chancellor noted that when he had looked at Annex B he had noted that Reserves or 4/8/12 produce an increase in the planning total including privatisation proceeds of 3.4 per cent in 1980-90. He did not think that was a satisfactory position. Mr F E R Butler noted that even though the forecasters had proved pessimistic £8bn was still less than the likely requirement next year. Mr Turnbull noted that there were conflicting choices. The lower Reserve would give less chance of holding the planning total next year but a higher Reserve would run the risk of acting as a honey pot to potential bidders. The Chancellor feared that such high Reserves would simply look sloppy. Mr Sedgwick thought that the markets would now come to expect an increase in the planning total each year, and would not be bought off by an £8bn Reserve.

14 The Chancellor also noted that there were advantages for the Treasury of a lower percentage path for the GGE/GDP ratio in the White Paper. He was also concerned that the increase in the second year was the same size as last year. Mr Culpin expressed concern about the second year figure and about the average growth rate over the period which was now much higher than that published in the 1987 PEWP. The Year One increase was already discounted but the second year increase would look very bad indeed. There was some discussion on the size of the Reserve in the later years. The Chief Secretary preferred Reserves of 4/7/10. The feeling otherwise was divided between this option or lower Reserves still/the higher Reserve option of 4/8/12.

15 The Chancellor asked whether there was any scope for a smaller Reserve in the first year. Mr Turnbull said that

although there was going to be a substantial undershoot on the Reserve of £3½bn this year that was mainly due to factors such as the extreme bouyancy of local authority receipts which had been built into the programme totals for 1988-89. The Chancellor thought further thought should be given to the Reserve totals and to the possibility for altering the profile between years by for example changing the profile of EC receipts.

JILL RUTTER
Private Secretary

Distribution
Those present
Sir Peter Middleton
Mr Luce
Miss S Walker

P/012

SECRET AND PERSONAL

To Chancellor's Office

SCORECARD

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CHIEF SECRETARY (+1)

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

TS14 prep

THE SURVEY SCORECARD

I attach at Annex A our latest scorecard and at Annex B a table showing the changes since the version I sent up on Wednesday.

2. The overall totals have come down in the last two days by £60m/£325m/£385m the scorecard now points to increases of £billion 4.6/5.9/7.4. The main changes are:

a. **Health** - The forecast outcome has been reduced following the decision not to provide explicitly for review body awards above the GDP deflator.

b. **Nationalised Industries** - The totals have been revised to reflect the settlement with Mr Parkinson and the proposals from Mr Rifkind. [There has also been a reallocation between the Department of Energy's programme and the nationalised industries' line].

c. **Scotland** - The later years have been amended on the assumption that we will require Mr Rifkind to absorb within his overall formula increases, the excess increases in local authority relevant provision that will result from marking that up in line with the GDP deflators in the later years (as proposed in LG's submission of today). The formula increases for all three territories are also reduced in line with the changes in Health.

d. **Defence** - We have raised the forecast outcome for the final year by £50m. The numbers assume a "two stop" settlement and reflect the proposal negotiated by officials on that basis. A "one stop" settlement would be considerably more expensive in the second and third years. Mr Robson is putting a submission to you on the options.

Implications for the Planning Totals

3. On the basis of reserves of 4/7/10 (as compared with 3.5/5.5/7.5 in the last White Paper), the scorecard would point to increases in the published planning totals of £3.1 billion in 1988-89 and £5½ billion in 1989-90 leaving aside any changes in privatisation proceeds.

Progress of Bilaterals

4. You have now settled all the nationalised industries (with the exception of the Scottish Electricity Boards) the DTI, ECGD, Department of Energy, Employment, Environment, Home Office, Lord Chancellor's Department, Social Security, and Northern Ireland. You are close to agreement on the FCO (Diplomatic), Transport, Arts, Social Security Administration, and the Scottish Electricity Boards. It should be possible to tie these up by the end of next week and you hope also to settle Agriculture in that time scale. We hope that the provision for local authority relevant in 1989-90 and 1990-91 will be settled by correspondence next week.

5. That leaves Defence, Scotland, Education, Health, Aid, and Wales. Of these all except Defence and Scotland are likely to go to Star Chamber. You will be considering whether to try and reach a settlement on Scotland and Defence in the margins of the Conference after your meeting with the Prime Minister on Monday.

Changes since August

6. At Annex C I attach a table showing the change in our forecast outcomes for each programme between the current scorecard and the scorecard we put up on 2 September.

7. In total the forecast outcome has come down from 5.4/7.2/8.9 to 4.6/5.9/7.4. The main increases are for EC Contributions and DTI. We have also edged up our forecasts for Education, the Arts, the Chancellor's Departments, and Department of Energy. The main decreases have been for Housing and Environment, Employment, the Nationalised Industries and Health in years 2 and 3. You have also done better than originally anticipated on the Home Office and Social Security (although the bulk of the reduction in this case results from changes to economic assumptions) and we expect you to better our original forecast on the FCO, Agriculture, and Transport.

Science and Technology

8. I attach a revised table on Science and Technology at Annex D. The numbers have changed a little because we identified some double-counting of launch aid, we also have revised information on Lord Young's proposals and Mr Baker has reduced his science bids. The broad picture, however, remains that of an increase in the first year, a continuing real increase in the next year for Civil Science and Technology spending but with a droop in the last year.

9. We do not think that there is a case for changing your proposals on any programmes to alter this pattern of S&T expenditure but we will need to prepare a defensive line on the final year while drawing attention to the increase in provision in each year in the report to Cabinet and, possibly, in the Autumn Statement itself.

JOHN GIEVE

ANNEX A

SECRET

SUMMARY SCORECARD

Date of last update: 02/10/87

(£million)

	1988-89 BASELINE	1988-89 DEPT POSITION	1988-89 FORECAST OUTCOME	1988-89 HMT POSITION	1989-90 BASELINE	1989-90 DEPT POSITION	1989-90 FORECAST OUTCOME	1989-90 HMT POSITION	1990-91 BASELINE	1990-91 DEPT POSITION	1990-91 FORECAST OUTCOME	1990-91 HMT POSITION
Ministry of Defence	18,980.0	551.0	221.0	221.0	19,464.0	815.0	485.0	335.0	19,892.0	954.0	664.0	414.0
FCO - Overseas Development Administration	1,399.0	76.8	31.0	16.0	1,441.0	152.1	51.3	21.3	1,477.0	232.2	71.4	28.4
FCO - Diplomatic, Information, Culture	730.0	-4.5	-13.4	-24.5	747.0	5.2	-10.8	-25.9	765.0	6.6	-9.5	-27.3
European Communities	440.0	360.0	360.0	360.0	1,060.0	640.0	640.0	640.0	1,087.0	133.0	133.0	133.0
Intervention Board for Agricultural Produce	1,782.0	-159.7	-159.7	-159.7	1,878.0	-160.8	-160.8	-160.8	1,925.0	-65.3	-65.3	-65.3
Ministry of Agriculture, Fisheries and Food	747.0	38.2	14.6	-13.7	749.0	63.6	24.1	-35.8	768.0	62.1	6.7	-76.9
Forestry Commission	54.0	6.1	6.1	6.1	55.0	8.7	8.7	8.7	56.0	8.6	8.6	8.6
Department of Trade and Industry	983.0	280.0	280.0	280.0	981.0	289.0	289.0	289.0	1,017.0	194.0	194.0	194.0
Export Credits Guarantee Department	111.0	-8.6	-8.6	-8.6	47.0	76.7	76.7	76.7	48.0	69.9	69.9	69.9
Department of Energy	286.0	34.6	34.6	34.6	282.0	38.8	38.8	38.8	289.0	1.0	1.0	1.0
Department of Employment	4,107.0	37.6	37.6	37.6	4,206.0	-6.0	-6.0	-6.0	4,311.0	-61.7	-61.7	-61.7
Department of Transport	2,166.0	125.8	30.0	25.0	2,214.0	140.6	40.0	10.0	2,264.0	125.3	45.0	18.0
DOE - Housing	2,443.0	81.0	81.0	81.0	2,503.0	13.0	13.0	13.0	2,566.0	-2.0	-2.0	-2.0
DOE - Other Environmental Services	929.0	-141.5	-141.5	-141.5	913.0	0.0	0.0	0.0	936.0	0.0	0.0	0.0
DOE - Property Services Agency	-99.0	10.0	10.0	10.0	-101.0	-10.0	-10.0	-10.0	-104.0	-10.0	-10.0	-10.0
Home Office	1,237.0	80.8	80.8	80.8	1,294.0	115.2	115.2	115.2	1,326.0	99.5	99.5	99.5
Lord Chancellor's Department	726.0	17.0	17.0	17.0	781.0	22.8	22.8	22.8	801.0	57.1	57.1	57.1
Department of Education and Science	3,851.0	459.3	254.5	92.0	3,966.0	533.0	325.9	139.0	4,065.0	583.7	335.0	143.0
Office of Arts and Libraries	367.0	37.7	34.7	31.7	377.0	49.5	46.5	43.5	386.0	56.4	52.9	49.4
DHSS - Health and Personal Social Services	16,932.0	715.0	660.0	540.0	17,743.0	905.0	760.0	530.0	18,187.0	1,360.0	1,160.0	860.0
DHSS - Social Security	47,258.0	927.4	927.4	927.4	49,123.0	1,326.8	1,326.8	1,326.8	50,351.0	2,799.8	2,799.8	2,799.8
Scotland: negotiable	4,687.0	33.0	17.2	-283.0	4,863.0	59.7	33.4	-341.9	4,984.0	69.5	32.7	-380.6
Scotland: formula		159.2	42.4	9.4		198.5	57.7	11.7		253.0	102.8	47.8
Wales: negotiable	1,933.0	53.2	37.8	-3.7	1,995.0	53.1	35.4	-12.1	2,045.0	55.6	37.5	-32.8
Wales: formula		70.7	48.4	31.9		87.9	57.8	34.8		112.5	81.4	53.9
Northern Ireland: negotiable	5,048.0	13.2	13.2	13.2	5,217.0	27.5	27.5	27.5	5,348.0	55.3	55.3	55.3
Northern Ireland: formula		86.9	69.1	55.1		109.0	82.4	63.2		130.3	99.5	75.6
Chancellor's Departments	2,304.0	177.6	134.5	120.7	2,411.0	225.9	133.6	116.2	2,472.0	281.5	160.2	137.8
Other Departments	604.0	35.5	29.8	9.1	620.0	63.8	41.9	20.8	636.0	117.2	91.1	61.5
Nationalised Industries	347.8	827.2	365.7	365.7	-55.9	1,232.9	36.2	36.2	-56.1	1,268.4	-326.1	-326.1
Local Authority Relevant	32,206.0	1,039.0	1,039.0	1,039.0	33,054.0	1,355.0	1,355.0	1,355.0	33,880.0	1,561.0	1,561.0	1,561.0
TOTAL ADDITIONS TO PROGRAMMES		6,019.6	4,554.2	3,769.6		8,431.5	5,937.1	4,682.7		10,508.5	7,444.8	5,885.9
Total Central Government		5,834.2	4,656.5	3,991.4		8,213.5	6,037.9	4,919.9		10,380.7	7,605.1	6,165.8
Total Local Authority Capital		293.2	48.4	-41.3		44.6	-215.5	-309.1		-88.5	-305.7	-379.0
Total Local Authority Other		21.7	15.5	10.1		32.3	23.0	11.7		36.7	26.8	14.0
Total Other Public Corporations		-129.5	-166.3	-190.5		141.1	91.7	60.2		179.5	118.5	85.1
Total Science and Technology		271.1	233.1	163.2		361.8	313.3	218.8		326.7	249.1	144.1

ANNEX B

SECRET 02/10/87

SUMMARY OF CHANGES IN FORECAST OUTCOME
SINCE SCORECARD (30 September)

	1988-89 CHANGE IN FORECAST OUTCOME	1989-90 CHANGE IN FORECAST OUTCOME	1990-91 CHANGE IN FORECAST OUTCOME
Ministry of Defence	0.0	0.0	50.0
FCO - Overseas Development Administration	0.0	0.0	0.0
FCO - Diplomatic, Information, Culture	0.0	0.0	0.0
European Communities	0.0	0.0	0.0
Intervention Board for Agricultural Produce	0.3	-20.0	-11.4
Ministry of Agriculture, Fisheries and Food	0.0	0.0	0.0
Forestry Commission	0.0	0.0	0.0
Department of Trade and Industry	0.0	0.0	0.0
Export Credits Guarantee Department	0.0	0.0	0.0
Department of Energy	11.2	8.8	-28.4
Department of Employment	-5.6	-0.3	-0.9
Department of Transport	0.0	0.0	0.0
DOE - Housing	-4.0	-7.0	-2.0
DOE - Other Environmental Services	-0.5	0.0	0.0
DOE - Property Services Agency	0.0	0.0	0.0
Home Office	-0.2	0.2	-0.5
Lord Chancellor's Department	0.0	0.0	0.0
Department of Education and Science	0.0	0.0	0.0
Office of Arts and Libraries	-0.3	1.5	0.9
DHSS - Health and Personal Social Services	-40.0	-140.0	-240.0
DHSS - Social Security	-8.1	-14.9	-12.5
Scotland: negotiable	0.0	0.0	0.0
Scotland: formula	-7.5	-91.7	-107.0
Wales: negotiable	0.0	0.0	0.0
Wales: formula	-2.6	-7.8	-13.7
Northern Ireland: negotiable	0.0	0.0	0.0
Northern Ireland: formula	-1.7	-3.8	-7.1
Chancellor's Departments	2.2	-2.8	-3.1
Other Departments	1.5	-7.4	-0.9
Nationalised Industries	-9.3	-38.8	-6.1
Local Authority Relevant	0.0	0.0	0.0
Adjustment	0.0	0.0	0.0
TOTAL ADDITIONS TO PROGRAMMES	-64.5	-324.0	-382.6

Memo Items:

Total Central Government	-36.1	-242.6	-326.4
Total Local Authority Capital	1.5	-57.0	-37.1
Total Local Authority Other	-0.3	-1.5	-2.1
Total Other Public Corporations	-20.4	15.8	-11.0
Total Science and Technology	-24.6	2.6	-2.0
Privatisation Proceeds	0.0	0.0	0.0

ANNEX C

SECRET 02/10/87

SUMMARY OF CHANGES IN FORECAST OUTCOME
SINCE SCORECARD (2 September)

	1988-89 CHANGE IN FORECAST OUTCOME	1989-90 CHANGE IN FORECAST OUTCOME	1990-91 CHANGE IN FORECAST OUTCOME
Ministry of Defence	0.0	50.0	50.0
FCO - Overseas Development Administration	-1.5	-13.0	-17.0
FCO - Diplomatic, Information, Culture	-4.2	-3.9	-3.2
European Communities	310.0	190.0	3.0
Intervention Board for Agricultural Produce	-109.7	-110.8	-40.3
Ministry of Agriculture, Fisheries and Food	-15.4	-10.9	-13.3
Forestry Commission	1.1	-1.3	-1.4
Department of Trade and Industry	72.9	50.2	27.7
Export Credits Guarantee Department	0.0	0.0	0.0
Department of Energy	21.6	20.4	-17.1
Department of Employment	-105.2	-149.8	-164.7
Department of Transport	-50.0	-40.0	-34.0
DOE - Housing	-251.0	-400.0	-449.0
DOE - Other Environmental Services	-204.5	-58.0	-58.0
DOE - Property Services Agency	-10.0	-10.0	-10.0
Home Office	-34.2	-9.8	-0.5
Lord Chancellor's Department	-29.4	-36.7	-49.4
Department of Education and Science	22.2	31.2	32.9
Office of Arts and Libraries	15.4	17.2	16.4
DHSS - Health and Personal Social Services	60.0	-90.0	-190.0
DHSS - Social Security	-278.0	-214.0	-202.9
Scotland: negotiable	16.0	19.6	16.7
Scotland: formula	-103.9	-130.5	-150.5
Wales: negotiable	8.1	9.0	10.3
Wales: formula	-19.4	-30.6	-39.1
Northern Ireland: negotiable	0.0	0.0	0.0
Northern Ireland: formula	-26.0	-25.6	-23.5
Chancellor's Departments	25.5	7.4	13.9
Other Departments	0.5	-15.1	-13.9
Nationalised Industries	-134.3	-263.8	-126.1
Local Authority Relevant	0.0	0.0	0.0
Adjustment	0.0	0.0	0.0
TOTAL ADDITIONS TO PROGRAMMES	-823.3	-1,218.7	-1,432.9

ANNEX D

CONFIDENTIAL

SCIENCE AND TECHNOLOGY EXPENDITURE BY DEPARTMENT

Date of last update: 2/10/87

(£million)

	1987-88 EST OUTTURN	1988-89 BASELINE	1988-89 DEPT POSITION	1988-89 FORECAST OUTCOME	1988-89 HMT POSITION	1989-90 BASELINE	1989-90 DEPT POSITION	1989-90 FORECAST OUTCOME	1989-90 HMT POSITION	1990-91 BASELINE	1990-91 DEPT POSITION	1990-91 FORECAST OUTCOME	1990-91 HMT POSITION
Ministry of Defence	2,421.0	2,458.0				2,408.0				2,352.0			
Agriculture (inc Forestry)	149.0	153.0	5.9	1.7	0.0	157.0	7.8	3.3	0.0	161.0	9.2	4.8	0.0
Department of Trade and Industry	435.0	382.0	141.0	126.0	126.0	379.0	192.0	167.0	167.0	414.0	159.0	100.0	100.0
Department of Energy	184.0	190.0	5.0	5.0	5.0	197.0	11.0	11.0	11.0	200.0	11.0	11.0	11.0
Department of Employment	22.0	24.0	0.2	0.2	0.0	25.0	0.2	0.2	0.0	26.0	-0.4	-0.4	-0.6
Department of Transport	31.0	31.0	1.6	1.6	1.6	31.0	2.2	2.2	2.2	32.0	2.3	2.3	2.3
DOE - Other Environment Services	63.0	60.0	2.0	2.0	2.0	62.0	2.0	2.0	2.0	64.0	2.0	2.0	2.0
Home Office (inc LCD)	16.0	17.0	0.2	0.2	0.2	17.0	0.2	0.2	0.2	18.0	0.2	0.2	0.2
Department of Education and Science (inc OAL)	1,515.0	1,509.0	115.2	96.4	28.4	1,547.0	146.4	127.4	36.4	1,585.0	143.4	129.2	29.2
DHSS - Health and social security	34.0	37.0	0.0	0.0	0.0	35.0	0.0	0.0	0.0	36.0	0.0	0.0	0.0
Other departments	108.0	113.0				116.0				118.0			
TOTAL SCIENCE AND TECHNOLOGY (CHANGES)			271.1	233.1	163.2		361.8	313.3	218.8		326.7	249.1	144.1
TOTAL SCIENCE AND TECHNOLOGY (LEVELS)	4,978.0	4,974.0	5,245.1	5,207.1	5,137.2	4,974.0	5,335.8	5,287.3	5,192.8	5,006.0	5,332.7	5,255.1	5,150.1
IMPLIED YEAR-ON-YEAR % GROWTH (CASH):													
Baseline		-0.1				0.0				0.6			
Department's position			5.4				1.7				-0.1		
Forecast outcome				4.6				1.5				-0.6	
Treasury position					3.2				1.1				-0.8
TOTAL CIVIL SCIENCE AND TECHNOLOGY (LEVELS)	2,557.0	2,516.0	2,787.1	2,749.1	2,679.2	2,566.0	2,927.8	2,879.3	2,784.8	2,654.0	2,980.7	2,903.1	2,798.1
IMPLIED YEAR-ON-YEAR % GROWTH (CASH):													
Baseline		-1.6				2.0				3.4			
Department's position			9.0				5.0				1.8		
Forecast outcome				7.5				4.7				0.8	
Treasury position					4.8				3.9				0.5
CIVIL S&T, EXCLUDING AIRBUS (LEVELS)	2,511.0	2,516.0	2,671.1	2,633.1	2,563.2	2,566.0	2,785.8	2,737.3	2,642.8	2,654.0	2,896.7	2,819.1	2,714.1
IMPLIED YEAR-ON-YEAR % GROWTH (CASH):													
Baseline		0.2				2.0				3.4			
Department's position			6.4				4.3				4.0		
Forecast outcome				4.9				4.0				3.0	
Treasury position					2.1				3.1				2.7

P/020

SECRET AND PERSONAL

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SCORECARD
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FROM: JOHN GIEVE
DATE: 9 October 1987

CHIEF SECRETARY (+1)

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

THE SURVEY SCORECARD

I attach our latest scorecard at Annex A and at Annex B a table showing the changes since the version I sent up last Friday. As you will see we have changed the format to bring it into line with "Star Card" we plan to send to the Star Chamber. It now groups programmes into three categories: settled, probable bilateral settlements, and Star Chamber candidates.

2. The overall totals have not changed much since last week and the scorecard still points to increases of £billion 4.6/5.8/7.6. Within the totals, the main changes are the following: (in programmes)

EC Contributions - we have reduced the increases, especially in 1989-90, to reflect the 'smoothed' path recommended to you by Mr Mortimer.

Agriculture - we have increased the domestic outcome in line with your discussion with Mr MacGregor. Two territorial bids are outstanding.

Education - the new forecast outcome reflects the brief submitted today by HE.

Scotland/LA relevant - we have adjusted the local authority relevant line downwards to reflect your proposal that the Scots should only receive their strict formula consequences of the change in English provision. This will leave the Scots with a rate of growth below the GDP deflator and they will probably choose to top up local authority line from within their other formula consequentials - as they have agreed to do for 1988-89.

Implications for the Planning Totals

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

Real growth rates and ratios to GDP

4. In order to illustrate the implications for both growth rates and ratios, we need to make assumptions about:

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

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

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

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

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

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

	1987-88	1988-89	1989-90	1990-91	1987-88 to 1990-91
Planning Total (inc PP) - percentage real growth	1.3	1.7	2.7	2.2	2.2
GGE (exc pp) - percentage real growth	0.7	1.0	1.6	1.4	1.3
- percentage of GDP	42¾	42	41½	41¼	
[PEWP 1987	44	42¾	42¼	-]	

Next Steps

6. You are to meet Mr Baker and Mr Walker on Monday afternoon. You need also to respond to Mr Younger's offer. Officials are negotiating the fine print on Agriculture and Transport. Following these moves we will need to reassess the Star Chamber prospects papers and timetable.

JG

JOHN GIEVE

ANNEX A

SECRET

SUMMARY SCORECARD

Date of last update: 09/10/87

(£million)

	1988-89 BASELINE	1988-89 DEPT POSITION	1988-89 FORECAST OUTCOME	1988-89 HMT POSITION	1989-90 BASELINE	1989-90 DEPT POSITION	1989-90 FORECAST OUTCOME	1989-90 HMT POSITION	1990-91 BASELINE	1990-91 DEPT POSITION	1990-91 FORECAST OUTCOME	1990-91 HMT POSITION
TOTAL ALREADY AGREED		2,975.8	2,975.8	2,975.8		3,746.0	3,746.0	3,746.0		4,731.6	4,731.6	4,731.6
BEING CONSIDERED BY GROUP												
FCO - Overseas Development Administration	1,399.0	76.8	31.2	16.0	1,441.0	152.1	51.6	21.3	1,477.0	232.2	71.7	28.4
Department of Education and Science	3,851.0	368.8	277.0	205.5	3,966.0	466.7	349.6	270.7	4,065.0	472.1	353.9	260.9
DHSS - Health and Personal Social Services	16,932.0	738.0	680.0	554.0	17,743.0	960.0	760.0	544.0	18,187.0	1,427.0	1,170.0	880.0
Territorial consequences: Scotland		125.2	110.0	85.2		154.7	125.7	104.9		205.5	174.9	143.3
: Wales		62.6	55.0	42.0		77.3	62.9	52.5		102.8	87.5	71.6
: N Ireland		34.4	30.3	23.0		42.5	34.0	28.8		56.5	48.1	39.4
TOTAL		1,405.8	1,183.5	925.7		1,853.3	1,383.8	1,022.2		2,496.1	1,906.1	1,423.6
STILL IN BILATERAL DISCUSSIONS												
Ministry of Defence	18,980.0	551.0	221.0	221.0	19,464.0	785.0	485.0	335.0	19,892.0	884.0	664.0	414.0
FCO - Diplomatic, Information, Culture	730.0	-12.9	-13.4	-13.4	747.0	-10.8	-10.8	-10.8	765.0	-9.5	-9.5	-9.5
Ministry of Agriculture, Fisheries and Food	747.0	35.7	31.3	25.4	749.0	40.2	36.8	31.4	768.0	31.2	30.4	30.4
Department of Transport	2,166.0	30.0	30.0	30.0	2,214.0	35.0	35.0	25.0	2,264.0	28.0	28.0	32.0
Wales	1,933.0	64.6	48.6	38.7	1,995.0	51.5	34.5	8.5	2,045.0	45.7	29.3	-27.1
Other Departments	604.0	35.5	29.8	9.1	620.0	63.8	41.9	20.8	636.0	117.2	91.1	61.5
Chancellor's Departments (excl LAPR/MIRAS)	2,069.0	137.6	94.5	80.7	2,149.0	185.9	93.6	76.2	2,203.0	220.5	99.2	76.8
TOTAL		841.5	441.8	391.5		1,150.6	716.0	486.1		1,317.1	932.5	578.1
TOTAL ADDITIONS TO PROGRAMMES		5,223.1	4,601.1	4,293.0		6,749.9	5,845.8	5,254.3		8,544.8	7,570.2	6,733.3

SECRET 09/10/87

ANNEX B

SUMMARY OF CHANGES IN FORECAST OUTCOME
SINCE LAST SCORECARD

	1988-89 CHANGE IN FORECAST OUTCOME	1989-90 CHANGE IN FORECAST OUTCOME	1990-91 CHANGE IN FORECAST OUTCOME
Ministry of Defence	0.0	0.0	0.0
FCO - Overseas Development Administration	0.2	0.3	0.3
FCO - Diplomatic, Information, Culture	0.0	0.0	0.0
European Communities	-10.0	-120.0	100.0
Intervention Board for Agricultural Produce	0.0	0.0	0.0
Ministry of Agriculture, Fisheries and Food	16.7	12.7	23.7
Forestry Commission	0.0	0.0	0.0
Department of Trade and Industry	0.0	0.0	0.0
Export Credits Guarantee Department	0.0	0.0	0.0
Department of Energy	0.0	0.0	0.0
Department of Employment	0.0	0.0	0.0
Department of Transport	0.0	-5.0	-17.0
DOE - Housing	0.0	0.0	0.0
DOE - Other Environmental Services	0.0	0.0	0.0
DOE - Property Services Agency	0.0	0.0	0.0
Home Office	-2.0	-1.0	3.0
Lord Chancellor's Department	0.0	0.0	0.0
Department of Education and Science	22.5	23.7	18.9
Office of Arts and Libraries	0.9	0.0	0.0
DHSS - Health and Personal Social Services	20.0	0.0	10.0
DHSS - Social Security	-20.0	5.0	-2.0
Scotland: negotiable	18.5	2.5	-5.7
Scotland: formula	5.0	80.8	85.9
Wales: negotiable	10.8	-0.9	-8.2
Wales: formula	3.6	2.5	2.8
Northern Ireland: negotiable	0.0	0.0	0.0
Northern Ireland: formula	1.9	1.3	1.6
Chancellor's Departments	0.0	0.0	0.0
Other Departments	0.0	0.0	0.0
Nationalised Industries	-21.0	-12.0	-4.0
Local Authority Relevant	0.0	-82.0	-85.0
Adjustment	0.0	0.0	0.0
TOTAL ADDITIONS TO PROGRAMMES	47.1	-92.2	124.2

P/016

SECRET AND PERSONAL

SCORECARD
No 5 of 11 Copies

FROM: JOHN GIEVE
DATE: 9 October 1987

CHIEF SECRETARY (+1)

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

STAR CHAMBER REMIT

I attach a first draft of your paper to Star Chamber setting out the position following your bilaterals and proposing an envelope for their discussions. It builds on the draft we discussed last week (attached to Mr Turnbull's minute of 2 October). It will need to be updated in the light of developments on Monday and Tuesday but it would be helpful to have any early comments on the structure, argumentation, and format of the tables. I have not included a draft at Annex C at this stage

2. You will see that I have assumed that you will have settled Transport and Agriculture before Star Chamber. For the time being I have not amended the Defence figures but have included the programme among those you expect to settle bilaterally.

3. I have assumed also that, as last year, you will prefer to leave the figures for Chancellor's departments unsettled until the Star Chamber has completed its work. However, again as last year, the tables include LAPRA/MIRAS as a separate line. The case for delay on the revenue departments is that it is harder to present Star Chamber with a large increase for the Chancellor's departments at the beginning of these operations than to amend the figures later on - when they will have in all likelihood conceded increases elsewhere beyond your proposals.

4. Since the paper has only three candidates for Star Chamber, we have adjusted the envelope to fit them (paragraph 11). The relevant figures are:

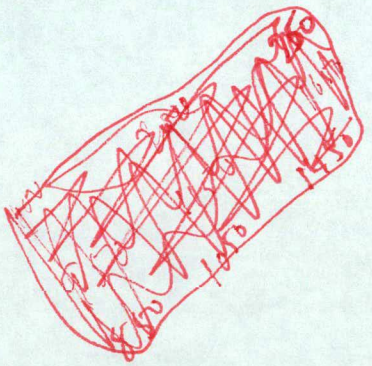
GIEVE → CST 9/10

SECRET AND PERSONAL

	1988-89	1989-90	£m 1990-91
Department's Bids	1170	1567	2131
Your offers	763	825	1159
Forecast outcome	955	1150	1585
Suggested envelope	850	950	1350
Implied movement by dept/you: - remit	79/21	83/17	80/20
- forecast outcome	53/47	56/44	56/44

As this shows the remit requires the Star Chamber to come down heavily on your side but to achieve our forecast outcome is nearly consistent with splitting the difference.

5. AEF and ST will be submitting draft papers and briefing on the FCO and Health this evening. We will review the position on Education, Defence, Wales and Agriculture following your meetings on Monday.



JG. Gieve

JOHN GIEVE

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SECRET AND PERSONAL

CMO UNTIL 31/12/87

PUBLIC EXPENDITURE SURVEY: POSITION REACHED AFTER BILATERALS

MEMORANDUM BY THE CHIEF SECRETARY TREASURY

This paper reports the outcome of my bilateral discussions with colleagues and ~~suggests a possible approach to the~~ outstanding issues.

2. I am circulating separate papers setting out the position on each of the programmes on which the Group is invited to make recommendations. I am still conducting bilateral discussions about two other programmes and I hope it will not prove necessary to trouble the Group with these. I hope also to avoid having to put to the Group any issues concerning running costs and manpower.

Progress in the Bilaterals

3. The present state of play is set out in the attached annexes.

a. The table at **Annex A** records the settlements I have been able to reach bilaterally.

b. The table at **Annex B** sets out the departmental and Treasury positions on the remaining programmes.

c. **Annex C** gives a brief description of the settlements at Annex A.

4. In aggregate the settlements I have agreed with colleagues add £2.9/3.7/4.5 billion to plans for the three Survey years.

5. The two largest increases are for local authority relevant spending, reflecting the RSG settlement announced in July, and for social security, where some difficult policy measures have made only a small dent in the large estimating increases reflecting rising take up. We have also to make room for a large increase in the estimates of our net EC Contributions. Other significant increases have been

agreed for the nationalised industries in 1988-89 (but not in the later years), DTI (including launch aid for Airbus), and the Home Office (mainly for prison building). On the other side net reductions have been agreed for IBAP, Environment and Employment.

6. I am continuing discussions on Defence and Wales and I hope these will be settled without the need to come to the Group. I have also to settle the provision for the Revenue departments

7. I have not been able to reach agreement with colleagues on three programmes and ~~we have agreed to refer them~~ there are arrears to reform to the Group. ~~These~~ They are:

(i) FCO
(ii) Health
(iii) Education

~~A possible approach~~ The task for the Lord President's group

Cabinet decided in July that the Public Expenditure plans should be kept as close as possible to the previously published cash planning totals and, at all events, within the declining proportions of General Government expenditure to national income projected in the last White Paper.

8. In my bilateral discussions it has become clear that some increase in the Planning Totals will indeed be needed. The position reached at the end of the bilaterals is:

	1988-89	1989-90	£billion 1990-91
Existing Reserves	5.5	7.5	7.5
Less			
Extra local authority provision	1.0	1.3	1.4
Additions to programmes agreed in bilaterals	1.9	2.5	3.2
Remaining Reserves	2.6	3.7	2.9

What is the basis for this figure? How are we to know a fig. of must seem to be q.s.

So the remaining Reserves already fall short of those published in this year's White Paper. Moreover, it is clear that we need larger Reserves than we have provided in previous years. We need to provide for the continuing growth for local authority current expenditure (for which the provision we agreed in July is well below the likely outcome), social security expenditure and other risks, for example the probability that EC contributions will increase above the 1.4% VAT ceiling on which our current provision is based. The need for higher Reserves is particularly necessary to give credibility to our plans for years 2 and 3 following two Surveys in which we will have added to our plans. As a result increases in the planning totals will be required even if no further additions are made to programmes by this Group.

9. In the wake of the recent poor trade figures, markets are concerned about the possibility that the economy may be over-heating with consequent risks for inflation ~~and the exchange rate.~~ They will be disturbed by any signs in the Autumn Statement that we have relaxed our resolve on public expenditure and that we are allowing increases there to fuel the current expansion. It is essential, therefore, that we should keep the total additions as low as possible.

10. ~~We~~ The Chancellor will be reviewing the likely level of privatisation proceeds in the coming three years. Some increase may be possible but we have to realise that the time has passed when we could mask increases in spending by raising these estimates. The markets look at the totals excluding privatisation proceeds.

11. Against this background I must ask ~~would suggest~~ the Group ~~aims~~ to restrict the total additions for the outstanding programmes to £850 million in 1988-89, £950 million in 1989-90 and £1,350 million in 1990-91.

12. When provision has been made for adequate Reserves, this will imply substantial increases to the existing planning totals, which are the figures at which the markets and the commentators will look first. The implications for the ratios of General Government expenditure (excluding privatisation proceeds) to national output will not be clear until the economic

and a more rapid rate of real growth of public spending than we have hitherto seen proposed is also.

forecast which will accompany the Autumn Statement is complete. Early indications are that the increases I propose would be consistent with a continuing decline in the ratio over the Survey period. This path should be below the path set out in the White Paper because the above trend growth in the current year will lower the current ratio. However, it seems likely that there will be only a slow decline in 1988-89 and the later years from this new base.

The Cabinet remit to remain within the ratios set out in the White Paper, though the annual decline in the ratio over the Survey period could well be minimal.

ANNEX A

TOTAL AGREED PROGRAMMES SECRET

9/10/87

	1988-89 BASELINE	1988-89 FORECAST OUTCOME	1989-90 BASELINE	1989-90 FORECAST OUTCOME	1990-91 BASELINE	1990-91 FORECAST OUTCOME
European Communities	440.0	350.0	1,060.0	520.0	1,087.0	233.0
Intervention Board for Agricultural Produce	1,782.0	-159.7	1,878.0	-160.8	1,925.0	-65.3
Forestry Commission	54.0	6.1	55.0	8.7	56.0	8.6
Department of Trade and Industry	983.0	280.0	981.0	289.0	1,017.0	194.0
Export Credits Guarantee Department	111.0	-8.6	47.0	76.7	48.0	69.9
Department of Energy	286.0	34.6	282.0	38.8	289.0	1.0
Department of Employment	4,107.0	37.6	4,206.0	-6.0	4,311.0	-61.7
DOE - Housing	2,443.0	81.0	2,503.0	13.0	2,566.0	-2.0
DOE - Other Environmental Services	929.0	-141.5	913.0	0.0	936.0	0.0
DOE - Property Services Agency	-99.0	10.0	-101.0	-10.0	-104.0	-10.0
Home Office	1,237.0	78.8	1,294.0	114.2	1,326.0	102.5
Lord Chancellor's Department	726.0	17.0	781.0	22.8	801.0	57.1
Office of Arts and Libraries	367.0	35.6	377.0	46.5	386.0	52.9
DHSS - Social Security	47,258.0	907.4	49,123.0	1,331.8	50,351.0	2,797.8
Scotland: negotiable	4,687.0	35.7	4,863.0	35.9	4,984.0	27.0
Scotland: formula		-65.6		8.4		8.5
Wales: formula		-4.5		-4.7		-5.9
Northern Ireland: negotiable	5,048.0	13.2	5,217.0	27.5	5,348.0	55.3
Northern Ireland: formula		45.0		57.0		62.0
Inland Revenue: LAPR/MIRAS	235.0	40.0	262.0	40.0	269.0	61.0
Nationalised Industries	347.8	344.7	-55.9	24.2	-56.1	-330.1
Local Authority Relevant	32,206.0	1,039.0	33,054.0	1,273.0	33,880.0	1,476.0
TOTAL ADDITIONS TO PROGRAMMES		2,975.8		3,746.0		4,731.6

ANNEX B

SECRET

SUMMARY SCORECARD

Date of last update: 09/10/87

(£millio

	1988-89 BASELINE	1988-89 DEPT POSITION	1988-89 OUTCOME	1988-89 HMT POSITION	1989-90 BASELINE	1989-90 DEPT POSITION	1989-90 OUTCOME	1989-90 HMT POSITION	1990-91 BASELINE	1990-91 DEPT POSITION	1990-91 OUTCOME	1990-9 HM POSITIO
TOTAL ALREADY AGREED		2,975.8	2,975.8	2,975.8		3,746.0	3,746.0	3,746.0		4,731.6	4,731.6	4,731.
BEING CONSIDERED BY GROUP												
FCO - Overseas Development Administration	1,399.0	76.8		16.0	1,441.0	152.1		21.3	1,477.0	232.2		28.4
Department of Education and Science	3,851.0	368.8		205.5	3,966.0	466.7		270.7	4,065.0	472.1		260.9
DHSS - Health and Personal Social Services	16,932.0	738.0		554.0	17,743.0	960.0		544.0	18,187.0	1,427.0		880.0
Territorial consequences: Scotland		125.2		85.2		154.7		104.9		205.5		143.3
: Wales		62.6		42.0		77.3		52.5		102.8		71.6
: N Ireland		34.4		23.0		42.5		28.8		56.5		39.4
TOTAL		1,405.8		925.7		1,853.3		1,022.2		2,496.1		1,423.6
STILL IN BILATERAL DISCUSSIONS												
Ministry of Defence	18,980.0	551.0		221.0	19,464.0	785.0		335.0	19,892.0	884.0		414.0
FCO - Diplomatic, Information, Culture	730.0	-12.9		-13.4	747.0	-10.8		-10.8	765.0	-9.5		-9.5
Ministry of Agriculture, Fisheries and Food	747.0	35.7		25.4	749.0	40.2		31.4	768.0	31.2		30.4
Department of Transport	2,166.0	30.0		30.0	2,214.0	35.0		25.0	2,264.0	28.0		32.0
Wales	1,933.0	64.6		38.7	1,995.0	51.5		8.5	2,045.0	45.7		-27.1
Other Departments	604.0	35.5		9.1	620.0	63.8		20.8	636.0	117.2		61.5
Chancellor's Departments (excl LAPR/MIRAS)	2,069.0	137.6		80.7	2,149.0	185.9		76.2	2,203.0	220.5		76.8
TOTAL		841.5		391.5		1,150.6		486.1		1,317.1		578.1
TOTAL ADDITIONS TO PROGRAMMES		5,223.1		4,293.0		6,749.9		5,254.3		8,544.8		6,733.3

psl/12A

SECRET AND PERSONAL

SCORECARD
NO. 9 OF 12 COPIES

FROM: A C S ALLAN
DATE: 12 October 1987

PS/CHIEF SECRETARY 1

cc Sir P Middleton 2
Mr F E R Butler 3
Mr Anson 4
Mr Monck 5
Mr Turnbull 6
Mr Gieve 7
Miss Walker 8

STAR CHAMBER REMIT

The Chancellor has seen Mr Gieve's minute to the Chief Secretary of 9 October. He had the following comments on the draft remit:

(i) the first sentence should end "... and outlines the task for the Lord President's Group in resolving the relatively few outstanding issues";

(ii) paragraph 7 should end "... and these are accordingly referred to the Group. They are:";

(iii) the heading "A possible approach" should be deleted and replaced by "The task for the Lord President's Group";

(iv) he wonders what the basis for the figure of £7.5 billion for the "existing reserves" in 1990-91 is? If we are to invent a figure, he feels it should be £9.5 billion;

(v) in paragraph 9 delete "and the exchange rate" at the end of the first sentence;

(vi) begin paragraph 10 "The Chancellor will be reviewing ...";

(vii) in paragraph 11 begin the paragraph "Against this background I must ask the Group to restrict the total additions for the three outstanding programmes ...";

(viii) in paragraph 12 at the end of the first sentence add "and a more rapid rate of real growth of public spending than we have hitherto been prepared to allow". And in the next sentence say "... the ratios of general Government expenditure (excluding privatisation proceeds) to national output ...";

(ix) delete the last five lines of paragraph 12 (from "a continuing decline") and replace by "the Cabinet remit to remain within the ratios set out in the White Paper, though the annual decline in the ratios over the Survey period could well be minimal".

2. The Chancellor would also suggest that the remit should be shown to Lord Whitelaw privately, so that he has an opportunity to comment before it is sent out.

3. If there are any problems, the Chancellor stands ready to hold a meeting.

ACSA

A C S ALLAN

4403/4

SECRET & PERSONAL

SCORECARD
Copy No 13 of 11 Copies

FROM: J GIEVE
DATE: 12 OCTOBER 1987

CHIEF SECRETARY +1

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

STAR CHAMBER REMIT

I attach a second draft of your paper for Star Chamber. Following the Chancellor's suggestion, you will wish to show it to the Lord President - as a draft - before sending it to the rest of the Group.

2. I have included this time a first version of Annex C which has been cleared with divisions.

3. I have taken on board the Chancellor's comments subject to one alteration. I have substituted "modest" for "minimal" in the last sentence of the main paper since the latest Scorecard suggests that the ratio might fall from 42¾ per cent in 1987-88 to 41¼ per cent in 1990-91. I have also deleted the figures for 1990-91 from the table in paragraph 9 to focus more clearly on changes from published plans.

4. In order to reflect the current state of play more accurately, the new version shows local authority relevant as one of the areas in which you expect to reach a bilateral settlement and defence has moved into the 'settled' category. The tables have also been altered to move the territorial consequences of agreements on health and education from the "Star Chamber" section into the "likely bilateral settlements" section in order to keep the arithmetic for Star Chamber as simple as possible. The relationship between bids and the suggested envelope are as follows:

GIEVE → CST 12/10

			£ million
	1988-89	1989-90	1990-91
Departments' Bids	1184	1579	2131
Your offers	776	836	1169
Forecast outcome	988	1162	1596
Suggested envelope	850	950	1350
Implied movement by dept/you:			
- remit	82/18	85/15	81/19
- forecast outcome	56/44	56/44	56/44

5. The paper will need updating before we send it out at the end of the week. In particular we hope to have tied up settlements on agriculture, transport and the FCO (Diplomatic Wing).

J GIEVE

P/017

SECRET & PERSONAL

CMO UNTIL 31/12/87

PUBLIC EXPENDITURE SURVEY: POSITION REACHED AFTER BILATERALS

MEMORANDUM BY THE CHIEF SECRETARY TREASURY

This paper reports the outcome of my bilateral discussions with colleagues and outlines the task for the Lord President's Group in resolving the relatively few outstanding issues.

2. I am circulating separate papers setting out the position on each of the programmes on which the Group is invited to make recommendations. I am still conducting bilateral discussions about a few other programmes and I hope it will not prove necessary to trouble the Group with these. I hope also to avoid having to put to the Group any issues concerning running costs and manpower.

Progress in the Bilaterals

3. The present state of play is set out in the attached annexes.

a. The table at **Annex A** records the settlements I have been able to reach bilaterally.

b. The table at **Annex B** sets out the departmental and Treasury positions on the remaining programmes.

c. **Annex C** gives a brief description of the settlements at Annex A.

4. In aggregate the settlements I have agreed with colleagues add £2.2/3.0/3.9 billion to programmes for the three Survey years and to these must be added the agreed increase for local authority relevant of £1 billion in 1988-89 and proposed increases of £1.3 billion and £1.5 billion in the later years.

5. Leaving aside local authority relevant spending, the largest increase is for social security, where some difficult policy measures have made only a small dent in the large estimating

increases reflecting rising take up. We have also to make room for a large increase in the estimates of our net EC Contributions. Other significant increases have been agreed for the nationalised industries in 1988-89 (but not in the later years), DTI (including launch aid for Airbus), and the Home Office (mainly for prison building). On the other side net reductions have been agreed for IBAP, Environment and Employment.

6. I hope to settle most of the remaining issues without having to trouble the Group. I am continuing discussions on FCO (Diplomatic Wing), Transport and Wales. I am waiting for confirmation from the territorial Secretaries of State that they are content with the agreement I have reached with the Minister of Agriculture and from E(LA) that my proposals on the local authority relevant provision for the later years are acceptable. I have also to settle the provision for the Revenue departments and some other small departments.

7. I have not been able to reach agreement with colleagues on three programmes and these are accordingly referred to the Group. They are:

(i) Aid
(ii) Health
(iii) Education

The task for the Lord President's Group

8. Cabinet decided in July that the public expenditure plans should be kept as close as possible to the previously published cash planning totals and, at all events, within the declining proportions of general government expenditure to national income projected in the last White Paper.

9. In my bilateral discussions it has become clear that some increase in our published planning totals will indeed be needed. The current position is:

	£ billion	
	1988-89	1989-90
Existing Reserve	5.5	7.5
Less		
Extra local authority provision*	1.0	1.3
Additions to programmes agreed in bilaterals	2.2	3.0
Remaining Reserves	2.3	3.2

*The figure for 1989-90 reflects the proposal I have put in correspondence with E(LA) and has still to be confirmed.

10. So the remaining Reserves already fall short of those published in this year's White Paper. Moreover, it is clear that we need larger Reserves than we have provided in previous years. We need to provide for the continuing growth of local authority current expenditure (for which the provision we agreed in July is well below the likely outcome), social security expenditure and other risks, for example the probability that EC contributions will increase above the 1.4 per cent VAT ceiling on which our current provision is based. The need for higher Reserves is particularly necessary to give credibility to our plans for years 2 and 3 following two Surveys in which we will have added to our plans. As a result increases in the planning totals will be required even if no further additions are made to programmes by this Group.

11. In the wake of the recent poor trade figures, markets are concerned about the possibility that the economy may be overheating with consequent risks for inflation. They will be disturbed by any signs in the Autumn Statement that we have relaxed our resolve on public expenditure and that we are allowing increases there to fuel the current expansion. It is essential, therefore, that we should keep the total additions as low as possible.

12. The Chancellor will be reviewing the likely level of privatisation proceeds in the coming three years. Some increases may be possible but we have to realise that the time has passed

when we could mask increases in spending by raising these estimates. The markets look at the totals excluding privatisation proceeds.

13. Against this background I must ask the Group to restrict the total additions for the three outstanding programmes to £850 million in 1988-89, £950 million in 1989-90 and £1,350 million in 1990-91.

14. When provision has been made for adequate Reserves, this will imply substantial increases to the existing planning totals - which are the figures at which the markets and the commentators will look first - and a more rapid rate of real growth of public spending than we have hitherto been prepared to allow. The implications for the ratios of general government expenditure (excluding privatisation proceeds) to national output will not be clear until the economic forecast which will accompany the Autumn Statement is complete. Early indications are that the increases I propose would be consistent with the Cabinet remit to remain within the ratios set out in the White Paper though the annual decline in the ratios ~~are~~ the Survey period could well be modest.

ANNEX A

TOTAL AGREED PROGRAMMES

12/10/87
£million

	1988-89 BASELINE	1988-89 CHANGE	1989-90 BASELINE	1989-90 CHANGE	1990-91 BASELINE	1990-91 CHANGE
Ministry of Defence	18,980.0	221.0	19,464.0	485.0	19,892.0	664.0
European Communities	440.0	350.0	1,060.0	520.0	1,087.0	233.0
Intervention Board for Agricultural Produce	1,782.0	-159.7	1,878.0	-160.8	1,925.0	-65.3
Forestry Commission	54.0	6.1	55.0	8.7	56.0	8.6
Department of Trade and Industry	983.0	280.0	981.0	289.0	1,017.0	194.0
Export Credits Guarantee Department	111.0	-8.6	47.0	76.7	48.0	69.9
Department of Energy	286.0	34.6	282.0	38.8	289.0	1.0
Department of Employment	4,107.0	37.6	4,206.0	-6.0	4,311.0	-61.7
DOE - Housing	2,443.0	81.0	2,503.0	13.0	2,566.0	-2.0
DOE - Other Environmental Services	929.0	-141.5	913.0	0.0	936.0	0.0
DOE - Property Services Agency	-99.0	10.0	-101.0	-10.0	-104.0	-10.0
Home Office	1,237.0	80.8	1,294.0	112.2	1,326.0	102.5
Lord Chancellor's Department	726.0	17.0	781.0	22.8	801.0	57.1
Office of Arts and Libraries	367.0	35.6	377.0	46.5	386.0	52.9
DHSS - Social Security	47,258.0	907.4	49,123.0	1,331.8	50,351.0	2,797.8
Scotland: negotiable	4,687.0	35.7	4,863.0	35.9	4,984.0	27.0
Northern Ireland: negotiable	5,048.0	13.2	5,217.0	27.5	5,348.0	55.3
Inland Revenue: LAPR/MIRAS	235.0	40.0	262.0	40.0	269.0	61.0
Nationalised Industries	523.0	344.7	81.0	24.2	84.0	-330.1
Territorial consequences: Scotland		-65.6		8.4		8.5
: Wales		-4.5		-4.7		-5.9
: Northern Ireland		45.0		57.0		62.0
TOTAL ADDITIONS TO PROGRAMMES	90,097.0	2,159.8	93,286.0	2,956.0	95,572.0	3,919.6

ANNEX B

SECRET

SUMMARY SCORECARD

Date of last update: 12/10/87

(£million)

	1988-89 BASELINE	1988-89 DEPT POSITION	1988-89 OUTCOME	1988-89 HMT POSITION	1989-90 BASELINE	1989-90 DEPT POSITION	1989-90 OUTCOME	1989-90 HMT POSITION	1990-91 BASELINE	1990-91 DEPT POSITION	1990-91 OUTCOME	1990-91 HMT POSITION
TOTAL ALREADY AGREED	90,097.0	2,159.8	2,159.8	2,159.8	93,286.0	2,956.0	2,956.0	2,956.0	95,572.0	3,919.6	3,919.6	3,919.6
BEING CONSIDERED BY GROUP												
FCO - Overseas Development Administration	1,399.0	76.8		16.0	1,441.0	152.1		21.3	1,477.0	232.2		28.4
Department of Education and Science	3,851.0	368.8		205.5	3,966.0	466.7		270.7	4,065.0	472.1		260.9
DHSS - Health and Personal Social Services	16,932.0	738.0		554.0	17,743.0	960.0		544.0	18,187.0	1,427.0		880.0
TOTAL	22,182.0	1,183.6		775.5	23,150.0	1,578.8		836.0	23,729.0	2,131.3		1,169.3
STILL IN BILATERAL DISCUSSIONS												
FCO - Diplomatic, Information, Culture	730.0	-12.9		-13.4	747.0	-10.8		-10.8	765.0	-9.5		-9.5
Ministry of Agriculture, Fisheries and Food	747.0	35.7		25.4	749.0	40.2		31.4	768.0	31.2		30.4
Department of Transport	2,166.0	30.0		30.0	2,214.0	35.0		25.0	2,264.0	28.0		31.0
Wales	1,933.0	64.6		38.7	1,995.0	51.5		8.5	2,045.0	45.7		-27.1
Other Departments	1,604.0	35.5		9.1	1,691.0	63.8		20.8	1,734.0	117.2		61.5
Chancellor's Departments (excl LAPR/MIRAS)	2,069.0	137.6		80.7	2,149.0	185.9		76.2	2,203.0	220.5		76.8
Local Authority Relevant*	32,181.0	1,039.0		1,039.0	33,054.0	1,273.0		1,273.0	33,880.0	1,476.0		1,476.0
TOTAL	41,430.0	1,329.5		1,209.5	42,599.0	1,638.6		1,424.1	43,659.0	1,909.1		1,639.1
Territorial consequences: Scotland		125.2		85.2		154.7		104.9		205.5		143.3
: Wales		62.6		42.0		77.3		52.5		102.8		71.6
: N Ireland		34.4		23.0		42.5		28.8		56.5		39.4
TOTAL ADDITIONS TO PROGRAMMES	153,709.0	4,895.1		4,295.0	159,035.0	6,447.9		5,402.3	162,960.0	8,324.8		6,982.3

*Later years still subject to negotiation.

SUMMARY OF AGREED PROGRAMMES

	£ million		
	1988-89	1989-90	1990-91
EC Contributions	+350	+520	+233

In order not to prejudice our position in the negotiations on future Community financing these projections assume the continuation of the 1.4% VAT ceiling. The sharp increase in the net contributions is a result of an increase in our share of gross contributions reflecting higher customs duties and levies and the strength of sterling and of a sharp fall in our forecast share of agricultural receipts following enlargement.

2.	**IBAP**	-160	-160	-65

The main change here is to the estimated cost of CAP support in the UK. The projections make some allowance for future devaluations of the Green Pound but assume that EC support prices remain constant on average in the next three years.

[3.	**Other Agriculture**	+25	+30	+30

Increases for ALURE, a variety of minor programmes and increased estimates for demand-led schemes are offset by savings on capital grant schemes and on account of increased industry funding for R&D and ADAS.]

4.	**DTI**	+280	+289	+194

The main policy change agreed is the abolition of Regional Development Grants from April 1988 and their replacement by more selective forms of regional assistance including consultancy and small firms services which will not be demand-led. This change has an initial cost as the new schemes build up while payments of RDG are continuing but produces substantial savings by the end of the Survey period. However, the greater part of the overall increase in the programme is accounted for by launch

aid for Airbus, the transfer of functions from Department of Employment, and revised costing of demand-led schemes including the cost of existing RDG commitments.

5.	**ECGD**	-9	+77	70

These changes result from changed assumptions about interest rates in the UK and abroad.

6.	**Energy**	+35	+39	+1

There are increases for the costs of extending the draught-proofing scheme as agreed before the election, increased estimates of the cost of redundancy payments to miners in the first two years, the cost of new accommodation and increased payments to the Atomic Energy Authority for work on decommissioning and nuclear waste management.

7.	**Employment**	+38	-6	-61

In the light of the current unemployment prospect, the Secretary of State is restructuring his programme to absorb the extra costs for his department and the MSC of the January employment package and the withdrawal of income support for school leavers. Measures will include the closure of the Job Release Scheme, reduced grants to employers uner the Youth Training Scheme, and fixing the premium above benefit for participants in the restyled Community Programme at £10 per week. He is planning also to privatise Professional and Executive Recruitment and restructure the Skills Training Agency.

8.	**Environment**	-61	+13	-2

Increased projections of receipts will yield some £2 billion over the three years. That will allow substantial additions to gross capital spending on housing and for the Urban Development Corporations. It will also cover the Housing Benefit costs of projected increases in rents.

9. **PSA** +10 -10 -10

A combination of higher receipts from disposals and rents and a small addition to the net baseline in 1988-89 should enable the PSA to halt the increase in the maintenance backlog next year and to reduce it in each of the later years.

10. **Home Office** +81 +112 +103

Over 80 per cent of the net addition is accounted for by the prison building programme following H Committee's decision in July that there should be a substantial expansion and acceleration of the programme.

11. **Lord Chancellor's Department** +17 +23 +57

There are increases for court building, running the courts, and for the phasing in of the permanent scheme of payments on account for lawyers to which we are committed. Discussions are continuing on the question of tape recording of police interviews.

12. **Arts and Libraries** +36 +47 +53

Part of the increase is for new estimates of the costs of the British Library. For the main programme, the Minister and I have agreed a three-year rolling settlement under which he has undertaken not to seek to reopen the figures in future Surveys except in specified exceptional circumstances. In future Surveys, therefore, we will normally need to discuss only the new final year.

13. **Social Security** +907 +1332 +2798

In spite of the improvement in the unemployment prospect, there are very large estimating additions to this programme. The figures reflect also the agreement to raise benefits to protect householders against the cost of the 20% rates contribution. To offset part of these increases, the Secretary of State has agreed to introduce the new income-related benefits in April 1988 at 50p for single people and £1 for couples below the

illustrative rates given in the 1985 Reform White Paper uprated in line with price movements. He has agreed also to increase the housing benefit rents tapers. The figures also reflect the agreement in 1985 that child benefit should not be uprated in April 1988.

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The settlement provides for an increase to Scottish programmes of industrial assistance so as to allow for a shift in regional policy in line with the changes proposed for England. On the Block, the Secretary of State has proposed to offset against his formula consequentials on other programmes the £71 million by which the increase agreed in July for his local authority relevant provision exceeded the formula consequential of the increase for England. A similar offset will be needed for the two later years if the Secretary of State wishes to show the same rate of increase in provision for local authority relevant as has been agreed for England.

15. **Northern Ireland** [depends on formula consequentials]

Apart from the normal operations of the formula, the main increase is required to meet revised estimates of social security costs in the province.

16. **LAPR/MIRAS** 40 40 40

These are revised estimates of the public expenditure costs of life assurance premium and mortgage interest relief to those whose incomes fall below the income tax threshold.

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The settlements provide for increases to capital investment programmes particularly in the Electricity and Water industries. To help offset the cost it has been agreed that the financial targets for the electricity industries should be increased. This will involve an average price increase in England of nearly 9% next April. There are also substantial savings from a number

of other nationalised industries particularly British Coal and British Steel.

18. **Science and Technology**

During this Survey we have been monitoring the position on Science and Technology spending, following the Government's response to the House of Lord's Committee in July which said that decisions on such spending would be reported in the Public Expenditure White Paper. On the basis of the settlements already agreed, there should be a net addition to provision for Science and Technology spending of £140/190/120 million in the three Survey years - resulting mainly from the agreement to provide launch aid. My proposals on Education would add £80/100/80 million to that. Overall it is likely that civil Science and Technology spending will grow by 7/4½/0 per cent in the three Survey years. Of course the provision may be supplemented either in-year or in subsequent Surveys from the Reserves.

RA3.6

SECRET AND PERSONAL

SCORECARD
Copy No 12 of 12 Copies

FROM: A C S ALLAN
DATE: 13 October 1987

PS/CHIEF SECRETARY

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

STAR CHAMBER REMIT

The Chancellor has seen Mr Gieve's minute to you of 12 October.

2. ~~If~~ He is not convinced that substituting "modest" for "minimal" is an improvement: by "over the survey period" he meant from 1988-89 to 1990-91 - not from 1987-88.

3. He has also noted that "are" in the penultimate line of the last paragraph should be "over".

4. The draft remit will, as Mr Gieve notes, need updating before it is sent round - perhaps drastically - and the Chancellor would like to see the final version before it goes. Subject to that, he is content for it to be sent to Lord Whitelaw in time for a brief meeting between him, the Chief Secretary and the Chancellor.

ACSA

A C S ALLAN

2131/19

SECRET & PERSONAL

SCORECARD
Copy No 2 of 16 Copies

FROM: A TURNBULL
DATE: 13 OCTOBER 1987

1. MR F E R BUTLER

2. CHANCELLOR +1

Copies attached for:

Chief Secretary +1
Sir P Middleton
Sir T Burns

cc Mr Anson
Mr Monck
Mr Sedgwick
Mr Luce
Mr Gieve

ECONOMIC ASSUMPTIONS

The forecasters have put recommendations to you that the assumption for the GDP deflator in 1988-89 should be raised from 4 to 5 per cent and that the increase in the RPI to Q4 1988 (used in the April 1989 uprating) should also be raised from 4 to 5 per cent.

2. You will naturally be considering the implications of this, both for the presentation of financial policy and for the credibility of the Treasury Forecast. You may also like to consider the implications for the Survey arithmetic and for the Survey negotiations.

3. There are three effects for the Survey:

i. the increase to cash plans for social security resulting from the RPI increase, and to the cost of export credit and housing subsidies resulting from the interest rate increase;

ii. the real terms figures produced by modifying the cash figures as in (i) and then applying the revised deflator;

iii. the impact on Survey bids and settlements.

4. To some extent (i) and (ii) offset one another. The average real growth rates are lower, the higher the inflation assumption

chosen despite the cash increases in social security. But for 1989-90 the opposite is true, ie the higher the 1988 inflation assumption the higher the real growth rate in 1989-90 - see Annex A. The contrast between the growth rates in 1989-90 and the other years is also more marked. Last month you discussed the possibility of revising all the forward years but concluded that it would be wrong to revise the inflation path in isolation from the other features of the MTFS. The discontinuity between Forecast years and MTFS years, with its corresponding impact on the real terms path, is an unavoidable consequence of that.

5. But it is the impact on settlements and outstanding bids which is most troublesome. Wherever possible we are avoiding being drawn into settlements which are explicitly expressed in real terms and we are stressing, as far as possible, that settlements are in cash terms. Nevertheless, in some cases departments have framed their bids explicitly in terms of the GDP deflator. We may want to resist those bids or argue that, once settled, the deal is in cash. But if we not even allow them to reformulate their bids, when we know the inflation assumption is going to be changed we can, with some justice, be accused of negotiating in bad faith.

6. Difficulties could arise in the following areas:

i. With Defence, the position may not be too troublesome as implicit in a two-stage approach as now envisaged is an opportunity for MOD to revise their bids in the light of further information.

ii. With ODA, we are likely to offer something sufficiently in excess of flat real terms as presently measured so that it will cover any higher assumptions.

iii. There could be a reaction from colleagues on the RSG settlement where Ministers are on record as saying that provision will allow non-rate capped authorities to hold their spending totals constant in real terms.

iv. Although the running costs settlements for 1988-89 are not explicitly related to the GDP deflator, many of

the bids and settlements were conditioned by it, and departments may well argue that if they had known earlier about the revised inflation propsects they would not have settled as they did.

v. Health is the most troublesome case as Mr Moore's bid to compensate for movements in the GDP deflator over the past year (a bid he argues has always been conceded) is at the centre of the remaining dispute. Star Chamber, as well as the Treasury, could find itself in a difficult position if it urged Mr Moore to accept a recommendation on the grounds that it would provide 1 per cent real to cover demography plus a bit more, and later found that the figures to be published in the Autumn Statement did not validate that.

7. We have looked at the precedents for revisions in the inflation assumptions between the MTFS and the Autumn Statement.

i. In 1982 and 1983, there were downward revisions to the current year and year 1. The movement in the GDP deflator was not covered in the submission to Treasury Ministers and no reference to it was made in the subsequent letters to Departments.

ii. In 1984 there was an upward revision of ¼ per cent in year 1 from 4¼ per cent in the MTFS to 4½ per cent to be used in the Autumn Statement. DHSS was informed of this in October. However, the debate in Star Chamber took a different form. There the comparison was with the 4¾ per cent assumed in the previous White Paper and the issue was whether the <u>fall</u> of ¼ per cent should be clawed back.

iii. In 1985 there were no changes.

iv. In 1986 there was a ¾ per cent downward revision to the current year but no changes to year 1. DHSS were aware of this from October but no adjustments were sought, though the better inflation prospect in the current year was put

- forward as one reason for limiting the in-year addition for Review Bodies' pay.

Thus there are no exact precedents. Downward revisions have been more common and in the case of the one upward revision, it was very much smaller than the change under consideration now, and the nature of the argument was completely different.

8. Despite the problem, we think it would be a mistake to inform all departments of the forthcoming change as this would be an invitation to them to reopen settlements, particularly for running costs. There are also difficulties in informing departments selectively. However, in the case of DHSS it is virtually impossible to avoid informing them as they receive the RPI assumptions for recasting the social security programme and the GDP deflator assumptions for costing parts of the FPS programme.

9. Given these considerations, we conclude that we have no alternative but to press on with a revision of which no warning is given other than to DHSS who need the information to cost their programme and to stick to the "cash is cash is cash" principle. But the public sector side do believe there is a case for making the smallest adjustment now that can plausibly be presented, with a further adjustment in the Budget.

AT

A TURNBULL

SECRET

ANNEX A

All examples assume an undershoot of £1 billion in 1987-88 for the planning total and £700 million for programmes excluding privatisation proceeds. Other assumptions are:

£ billion

	1987-88	1988-89	1989-90	1990-91
Reserves	-	4	7	10
Privatisation	5.3	5.5	5.5	5.5
Debt Interest) Other adjustments)	25.5	26	26	26

	1988-89	1989-90	1990-91	Average
A. GDP deflator 4/3½/3 RPI 1988 Q4 4				
Increase in programes £bn	4.6	5.8	7.6	
Increase in Planning Total £bn	2.6	4.9	-	
PT real growth %	2.1	2.5	2.2	2.3
GGE ex pp real growth %	1.5	1.4	1.4	1.4
B. GDP deflator 4½/3½/3 RPI 1988 Q4 4½				
Increase in programmes £bn	4.7	6.1	7.9	
Increase in Planning Total £bn	2.7	5.2	-	
PT real growth %	1.7	2.6	2.2	2.2
GGE ex pp real growth %	1.1	1.6	1.4	1.4
C. GDP deflator 4¾/3½/3 RPI 1988 Q4 4¾				
Increase in programmes £bn	4.7	6.2	8.0	
Increase in Planning Total £bn	2.7	5.2	-	
PT real growth %	1.5	2.6	2.2	2.1
GGE ex pp real growth %	0.8	1.6	1.4	1.3
D. GDP deflator 5/3½/3 RPI 1988 Q4 5				
Increase in programmes £bn	4.7	6.3	8.1	
Increase in Planning Total £bn	2.7	5.3		
PT real growth %	1.2	2.7	2.2	2.0
GGE excl pp real growth %	0.6	1.7	1.4	1.2

EA

SECRET AND PERSONAL

SCORECARD
Copy No. 2 of 16 Copies

FROM: F. E. R. BUTLER
14th October, 1987.

CHANCELLOR OF THE EXCHEQUER + 1

c.c. Chief Secretary
Sir P. Middleton
Sir T. Burns
Mr. Anson
Mr. Monck
Mr. Sedgwick
Mr. Luce
Mr. Gieve

ECONOMIC ASSUMPTIONS

I attach a note by Mr. Turnbull about the public expenditure aspects of the economic assumptions published with the Autumn Statement. This is relevant to the discussion you are holding on 15th October.

2. Our particular problem is with the increase in the GDP deflator. In general it is in our interest to have realistic figures. But a sharp increase in the GDP deflator in the final stage of the public expenditure round causes problems which, surprisingly, we have not previously faced since adopting cash planning.

3. The Annex to Mr. Turnbull's minute shows that the effect of increasing the GDP deflator in 1988-89 but not the subsequent years produces a net reduction in average real growth over the period, but an uneven pattern - reflecting the uneven pattern of the GDP deflator itself.

4. Our main concern is with the effect of a sharp increase in the GDP deflator on the public expenditure settlements. As Mr. Turnbull's note shows, there is no precedent for an increase in the GDP deflator in the Autumn Statement of more than ¼ per cent, and that was merely a partial reversal of a larger previous reduction.

5. We have emphasised in all the public expenditure negotiations that the settlement is in cash. But there are some Ministers for whom the real terms line is important - notably health, defence and aid.

6. If there is to be a sharp increase in the GDP deflator in the Autumn Statement, we have considered three options:-

(i) Telling all departments - but this would simply invite them to re-open the settlements;

(ii) telling just those departments which have drawn attention to the real terms line in the public expenditure negotiations; but this is partly open to the objection to (i) and would also be difficult to defend to other departments;

(iii) acting as normal, ie only giving the change in assumption to those departments needing it for recalculating Survey figures (which include DHSS) and justifying not giving it to other departments, after the event, by pointing out that the Survey is conducted in cash and that there are swings as well as roundabouts on inflation assumptions.

Of these courses, I think that (iii) is the best. But it is uncomfortable, and there is the possibility of a row at the public expenditure Cabinet, with an outside risk of the public expenditure settlements becoming unstitched. From this point of view, the greater the increase in the assumption about the GDP deflator, the greater the risk - ½ per cent on inflation is worth £100 million to defence, for example. If we can establish a precedent this time for increasing the inflation assumptions <u>without</u> undoing the settlements, that would be helpful for the future; but, given that we are setting a precedent, we do not want to push our luck with the size of the increase.

F.E.R.B.

F. E. R. BUTLER

PM6

Ch

Jon Grieve rang to say that they thought they probably would need to send round Star Chamber papers on disagreed bids this week: otherwise, it will be very difficult to conceal position from Ministers concerned (& of course, we need papers circulated if we do have Star Chamber).

AA

P/022

SECRET AND PERSONAL

SCORECARD
No 3 of 12 Copies

FROM: JOHN GIEVE
DATE: 14 October 1987

CHIEF SECRETARY (+1)

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

Ch
I'll write to Lord W, stressing moving target AA

STAR CHAMBER REMIT

I attach a third draft of your paper for Star Chamber. Your office may wish to send it to the Lord President's office in advance of your meeting tomorrow. In doing so they will need to make clear that it is still very much a draft and will need to be updated.

2. The main change is that we have moved Education, local authority relevant, Transport, and FCO (diplomatic) into the list of agreed programmes to reflect recent developments.

3. Since we have now reduced the candidates for Star Chamber to one major programme (Health), one medium programme (Aid) and probably one small programme (Wales), it is difficult to set a meaningful cash envelope. Leaving Wales aside, the figures are as follows:

		£m		
		1988-89	1989-90	1990-91
1.	Bids	815	1112	1659
2.	Offers	570	565	908
3.	Gap (1-2)	245	547	751
4.	Forecast outcome	711	812	1242
5.	Implied movement department/Treasury	42/58	55/45	56/44

4. Setting an envelope for the two programmes at, say, £600/700/1100m would be rather artificial. Star Chamber would assume, rightly, that only a small part of the total was for Aid. From that, they could calculate our first fallback position on Health. This would amount to conceding half the argument before Star Chamber starts its deliberations.

5. Therefore we think it is better not to set a specific cash envelope in the paper but to reserve your position on numbers until the Group discusses possible offers following the first round meetings. At this point we think it would be better merely to note that the numbers at stake are material and to emphasis the need to keep the planning totals as low as possible. I have amended the last section of the paper accordingly. I have also amended it to reflect the Chancellor's comments on the last version.

6. I will be letting you have our latest scorecard separately.

JG. Gieve

JOHN GIEVE

P/017

SECRET & PERSONAL

CMO UNTIL 31/12/87

PUBLIC EXPENDITURE SURVEY: POSITION REACHED AFTER BILATERALS

MEMORANDUM BY THE CHIEF SECRETARY TREASURY

This paper reports the outcome of my bilateral discussions with colleagues and outlines the task for the Lord President's Group in resolving the outstanding issues.

2. I am circulating separate papers setting out the position on the two programmes on which the Group is invited to make recommendations. I am still conducting bilateral discussions about a few other programmes and I hope it will not prove necessary to trouble the Group with these. I hope also to avoid having to put to the Group any issues concerning running costs and manpower.

Progress in the Bilaterals

3. The present state of play is set out in the attached annexes.

a. The table at **Annex A** records the settlements I have been able to reach bilaterally.

b. The table at **Annex B** sets out the departmental and Treasury positions on the remaining programmes.

c. **Annex C** gives a brief description of the settlements at Annex A.

4. In aggregate the settlements I have agreed with colleagues add £3.5/4.6/5.8 billion to programmes for the three Survey years.

5. The two largest increases are for local authority relevant spending, reflecting the RSG settlement announced in July, and for social security, where some difficult policy measures have made only a small dent in the large estimating increases reflecting rising take up. We have also to make room for a large increase in the estimates of our net EC Contributions. Other significant

increases have been agreed for the nationalised industries in 1988-89 (but not in the later years), DTI (including launch aid for Airbus), Education and the Home Office (mainly for prison building). On the other side net reductions have been agreed for IBAP, Environment and Employment.

6. I hope to settle most of the remaining issues without having to trouble the Group. I am continuing discussions with the Secretary of State for Wales. I am waiting for confirmation from the territorial Secretaries of State that they are content with the agreement I have reached with the Minister of Agriculture. I have also to settle the provision for the Revenue departments and some other small departments.

7. I have not been able to reach agreement with colleagues on two programmes and these are accordingly referred to the Group. They are **Aid** and **Health.**

The task for the Lord President's Group

8. Cabinet decided in July that the public expenditure plans should be kept as close as possible to the previously published cash planning totals and, at all events, within the declining proportions of general government expenditure to national income projected in the last White Paper.

9. In my bilateral discussions it has become clear that some increase in our published planning totals will indeed be needed. The current position is:

	£ billion	
	1988-89	1989-90
Existing Reserves	5.5	7.5
Less		
Extra local authority provision	1.0	1.3
Additions to programmes agreed in bilaterals	2.5	3.3
Remaining Reserves	2.0	2.9

10. So the remaining Reserves fall short of those published in this year's White Paper. Moreover, it is clear that we need larger Reserves than we have provided in previous years. We need to provide for the continuing growth of local authority current expenditure (for which the provision we agreed in July is well below the likely outcome), social security expenditure and other risks, for example the probability that EC contributions will increase above the 1.4 per cent VAT ceiling on which our current provision is based. The need for higher Reserves is particularly necessary to give credibility to our plans for years 2 and 3 following two Surveys in which we will have added to our plans. As a result increases in the planning totals will be required even if no further additions are made to programmes by this Group.

11. Taking account of my proposals on the outstanding programmes, this will imply a more rapid rate of real growth of public spending than we have hitherto been prepared to allow. The implications for the ratios of general government expenditure (excluding privatisation proceeds) to national output will not be clear until the economic forecast which will accompany the Autumn Statement is complete. Early indications are that the increases I propose would be consistent with the Cabinet remit to remain within the ratios set out in the White Paper though the annual decline in the ratios over the Survey period could well be minimal.

12. In the wake of the recent poor trade figures, markets are concerned about the possibility that the economy may be over-heating with consequent risks for inflation. They will be disturbed by any signs in the Autumn Statement that we have relaxed our resolve on public expenditure and that we are allowing increases there to fuel the current expansion. It is essential, therefore, that we should keep the total additions as low as possible.

13. The Chancellor will be reviwing the likely level of privatisation proceeds in the coming three years. Some increases may be possible but we have to realise that the time has passed when we could mask increases in spending by raising these estimates. The markets look at the totals excluding privatisation proceeds.

14. It is against this background I have formed my proposals on health and aid. I have offered large additions but the bids remain substantially higher - by about £¼ billion in 1988-89, £½ billion in 1989-90 and £¾ billion in 1990-91. Such sums are material to the expenditure totals and I must ask the Group to take full account of the wider economic background as well as the merits of particular bids and options when considering the two programmes.

SUMMARY OF AGREED PROGRAMMES

	£ million		
	1988-89	1989-90	1990-91
Defence	+ 221	+485	+664

The additions recognise the pressures on the programme following the end of a period of substantial real growth. The new path is broadly level in real terms in the last two years. The figures incorporate the additions agreed earlier this year for Lynx helicopter orders for Westland.

2. **FCO (Diplomatic Wing)**	-13	-11	-10

Increased provision for the BBC External Services and some other minor items are offset by a reduction in the estimated cost of the FCO's overseas operations resulting from exchange rate and overseas price movements.

3. **EC Contributions**	+350	+520	+233

In order not to prejudice our position in the negotiations on future Community financing these projections assume the continuation of the 1.4% VAT ceiling. The sharp increase in the net contributions is a result of an increase in our share of gross contributions reflecting higher customs duties and levies and the strength of sterling and of a sharp fall in our forecast share of agricultural receipts following enlargement.

4. **IBAP**	-160	-161	-65

The main change here is to the estimated cost of CAP support in the UK. The projections make some allowance for future devaluations of the Green Pound but assume that EC support prices remain constant on average in the next three years.

[5. **Other Agriculture** +31 +37 +30

Increases for ALURE, a variety of minor programmes and increased estimates for demand-led schemes are offset by savings on capital grant schemes and on account of increased industry funding for R&D and ADAS.]

6. **DTI** +280 +289 +194

The main policy change agreed is the abolition of Regional Development Grants from April 1988 and their replacement by more selective forms of regional assistance including consultancy and small firms services which will not be demand-led. This change has an initial cost as the new schemes build up while payments of RDG are continuing but produces substantial savings by the end of the Survey period. However, the greater part of the overall increase in the programme is accounted for by launch aid for Airbus, the transfer of functions from Department of Employment, and revised costing of demand-led schemes including the cost of existing RDG commitments.

7. **ECGD** -9 +77 + 70

These changes result from changed assumptions about interest rates in the UK and abroad.

8. **Energy** +35 +39 +1

There are increases for the costs of extending the draught-proofing scheme as agreed before the election, increased estimates of the cost of redundancy payments to miners in the first two years, the cost of new accommodation and increased payments to the Atomic Energy Authority for work on decommissioning and nuclear waste management.

9. **Employment** +38 -6 -62

In the light of the current unemployment prospect, the Secretary of State is restructuring his programme to absorb the extra costs

for his department and the MSC of the January employment package and the withdrawal of income support for school leavers. Measures will include the closure of the Job Release Scheme, reduced grants to employers uner the Youth Training Scheme, and fixing the premium above benefit for participants in the restyled Community Programme at £10 per week. He is planning also to privatise Professional and Executive Recruitment and restructure the Skills Training Agency.

10. **Transport** +30 +25 +31

The main increase is for the national roads programme mainly for a programme of bridge renovation. The increases are partly offset by higher receipts for local authorities.

11. **Environment** -61 +13 -2

Increased projections of receipts will yield some £2 billion over the three years. That will allow substantial additions to gross capital spending on housing and for the Urban Development Corporations. It will also cover the Housing Benefit costs of projected increases in rents.

12. **PSA** +10 -10 -10

A combination of higher receipts from disposals and rents and a small addition to the net baseline in 1988-89 should enable the PSA to halt the increase in the maintenance backlog next year and to reduce it in each of the later years.

13. **Home Office** +81 +112 +103

Over 80 per cent of the net addition is accounted for by the prison building programme following H Committee's decision in July that there should be a substantial expansion and acceleration of the programme.

14. **Lord Chancellor's Department** +17 +23 +57

There are increases for court building, running the courts, and for the phasing in of the permanent scheme of payments on account for lawyers to which we are committed. Discussions are continuing on the question of tape recording of police interviews.

15. **Education** +260 +328 +327

Additions have been made for university restructuring and for the consequences of the academic pay award following last year's Survey. There are also increases for the cost of implementing the national curriculum, for science, and for capital work to schools and colleges.

16. **Arts and Libraries** +36 +47 +53

Part of the increase is for new estimates of the costs of the British Library. For the main programme, the Minister and I have agreed a three-year rolling settlement under which he has undertaken not to seek to reopen the figures in future Surveys except in specified exceptional circumstances. In future Surveys, therefore, we will normally need to discuss only the new final year.

17. **Social Security** +907 +1332 +2798

In spite of the improvement in the unemployment prospect, there are very large estimating additions to this programme. The figures reflect also the agreement to raise benefits to protect householders against the cost of the 20% rates contribution. To offset part of these increases, the Secretary of State has agreed to introduce the new income-related benefits in April 1988 at 50p for single people and £1 for couples below the illustrative rates given in the 1985 Reform White Paper uprated in line with price movements. He has agreed also to increase the housing benefit rents tapers. The figures also reflect the agreement in 1985 that child benefit should not be uprated in April 1988.

18. **Scotland** [depends on formula consequentials]

The settlement provides for an increase to Scottish programmes of industrial assistance so as to allow for a shift in regional policy in line with the changes proposed for England. On the Block, the Secretary of State has proposed to offset against his formula consequentials on other programmes the £71 million by which the increase agreed in July for his local authority relevant provision exceeded the formula consequential of the increase for England. A similar offset will be needed for the two later years if the Secretary of State wishes to show the same rate of increase in provision for local authority relevant as has been agreed for England.

19. **Northern Ireland** [depends on formula consequentials]

Apart from the normal operations of the formula, the main increase is required to meet revised estimates of social security costs in the province.

20. **LAPR/MIRAS** + 40 + 40 + 61

These are revised estimates of the public expenditure costs of life assurance premium and mortgage interest relief to those whose incomes fall below the income tax threshold.

21. **Nationalised Industries** +344 +24 -330

The settlements provide for increases to capital investment programmes particularly in the Electricity and Water industries. To help offset the cost it has been agreed that the financial targets for the electricity industries should be increased. This will involve an average price increase in England of nearly 9% next April. There are also substantial savings from a number of other nationalised industries particularly British Coal and British Steel.

22. **Science and Technology**

During this Survey we have been monitoring the position on Science and Technology spending, following the Government's response to the House of Lord's Committee in July which said that decisions on such spending would be reported in the Public Expenditure White Paper. On the basis of the settlements already agreed, there should be a net addition to provision for Science and Technology spending of £230/300/230 million in the three Survey years - resulting in large part from the agreement to provide launch aid and the additions to the Education programmes. Overall it is likely that civil Science and Technology spending will grow by 7½/4½/½ per cent in the three Survey years. Of course the provision may be supplemented either in-year or in subsequent Surveys from the Reserves.

ANNEX A

SECRET

SUMMARY OF AGREED ADDITIONS

	1988-89 BASELINE	1988-89 CHANGE	1989-90 BASELINE	1989-90 CHANGE	1990-91 BASELINE	1990-91 CHANGE
Ministry of Defence	18,980.0	221.0	19,464.0	485.0	19,892.0	664.0
European Communities	440.0	350.0	1,060.0	520.0	1,087.0	233.0
FCO - Diplomatic, Information, Culture	730.0	-12.9	747.0	-10.8	765.0	-9.5
Intervention Board for Agricultural Produce	1,782.0	-159.7	1,878.0	-160.8	1,925.0	-65.3
Forestry Commission	54.0	6.1	55.0	8.7	56.0	8.6
Department of Trade and Industry	983.0	280.0	981.0	289.0	1,017.0	194.0
Export Credits Guarantee Department	111.0	-8.6	47.0	76.7	48.0	69.9
Department of Energy	286.0	34.6	282.0	38.8	289.0	1.0
Department of Employment	4,107.0	37.6	4,206.0	-6.0	4,311.0	-61.7
Department of Transport	2,166.0	30.0	2,214.0	25.0	2,264.0	31.0
DOE - Housing	2,443.0	81.0	2,503.0	13.0	2,566.0	-2.0
DOE - Other Environmental Services	929.0	-141.5	913.0	0.0	936.0	0.0
DOE - Property Services Agency	-99.0	10.0	-101.0	-10.0	-104.0	-10.0
Home Office	1,237.0	80.8	1,294.0	112.2	1,326.0	102.5
Lord Chancellor's Department	726.0	17.0	781.0	22.8	801.0	57.1
Department of Education and Science	3,851.0	259.5	3,966.0	327.7	4,065.0	326.9
Office of Arts and Libraries	367.0	35.6	377.0	46.5	386.0	52.9
DHSS - Social Security	47,258.0	907.4	49,123.0	1,331.8	50,351.0	2,797.8
Scotland: negotiable	4,687.0	35.7	4,863.0	35.9	4,984.0	27.0
Northern Ireland: negotiable	5,048.0	13.2	5,217.0	27.5	5,348.0	55.3
Inland Revenue: LAPR/MIRAS	235.0	40.0	262.0	40.0	269.0	61.0
Nationalised Industries	347.8	344.7	-55.9	24.2	-56.1	-330.1
Territorial consequences: Scotland		-34.7		44.9		46.2
: Wales		10.9		13.5		12.9
: Northern Ireland		48.5		58.0		61.9
Local Authority Relevant	32,206.0	1,039.0	33,054.0	1,273.0	33,880.0	1,476.0
TOTAL ADDITIONS TO PROGRAMMES	128,874.8	3,525.2	133,130.1	4,626.6	136,405.9	5,800.4

ANNEX B

SECRET
SUMMARY SCORECARD

Date of last update: 14/10/87

(£million)

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

2183/034

SECRET AND PERSONAL

1 Alex
2 Pwp

FROM: N MONCK

DATE: 15 October 1987

MR GIEVE

cc PS/Chancellor
PS/Chief Secretary
Mr F E R Butler
Mr Anson
Mr Turnbull
Miss Walker

STAR CHAMBER REMIT

Here are some minor changes to Annex C to your draft paper of 14 October.
I Assume the Annex may be recycled later

IBAP and Agriculture

Para 4 Add at end of first sentence "and savings on account of CAP reform".

Insert in last sentence after "constant on average" "in cash terms".

Para 5 Insert "partly" before "offset" in line 2. Remove square brackets.

Mr Bonney will be in touch about numbers.

Nationalised Industries

Para 21 Amend two middle sentences to read "... it has been agreed that the financial targets for the electricity industries in England and Wales and in Scotland should be increased. This will involve an average price increase of about 8½ per cent next April ..."

Science and Technology

Para 22 Amend from second sentence to read:

"The net addition to provision for science and technology spending is currently of the order of £220/275/215 million in the three Survey years. This resulted in large part from the agreement to provide Launch Aid for Airbus and the additions to the Education programmes, but the figures could change as a result of the current review of DTI innovation policy. Overall it is likely that civil science and technology spending (including technology transfer) will grow by [7½/4½/1½] per cent.

N MONCK

4403/6

SECRET & PERSONAL

SCORECARD
Copy No 3 of 12 Copies

FROM: J GIEVE
DATE: 16 OCTOBER 1987

CHIEF SECRETARY +1

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

Ch
Needs to go mid tonight
Follows earlier drafts you have seen

STAR CHAMBER REMIT

I attach a revised paper for you to send this evening to the Lord President and hand round on Monday morning to the other members of Star Chamber.

2. It follows the last draft quite closely, but health has moved into the 'agreed' category and the figures have been amended to reflect our ready-reckoner estimates of the costs of the revised economic assumptions agreed this morning. We will be letting you have separately a new Scorecard for your own use; as you will see this shows rather higher total additions to programmes than last week's of 4.7/6.3/8.1. This reflects mainly the increased social security costs in the later years and the increased costs for ECGD and housing subsidies in the earlier years resulting from the change in economic assumptions.

3. We will be submitting later some draft speaking notes and background briefing for the meeting on Monday.

J. Gieve

J GIEVE

P/017

MISC 134(87)1
19 October 1987

COPY NO.

CABINET

MINISTERIAL GROUP ON PUBLIC EXPENDITURE

Public Expenditure Survey: Position Reached After Bilaterals

Memorandum by the Chief Secretary, Treasury

This paper reports the outcome of my bilateral discussions with colleagues.

2. I will circulate separately a paper setting out the position on the **aid programme** on which the Group is invited to make recommendations. I am still conducting bilateral discussions about a few other programmes but I hope it will not prove necessary to trouble the Group with these.

Progress in the Bilaterals

3. The present state of play is set out in the attached annexes.

a. The table at **Annex A** records the settlements I have been able to reach bilaterally.

b. The table at **Annex B** sets out the departmental and Treasury positions on the remaining programmes.

c. **Annex C** gives a brief description of the settlements at Annex A.

4. In aggregate the settlements I have agreed with colleagues add £4.5/6.0/7.8 billion to programmes for the three Survey years.

5. The two largest increases are for local authority relevant spending, reflecting the RSG settlement announced in July, and for social security, where some difficult policy measures have made only a small dent in the large estimating increases reflecting rising take up. We have also to make room for a large increase in the estimates of our net EC Contributions. There are increases for Health reflecting in particular the knock-on effects of this year's Review Body awards, the growing cost of AIDS, and higher demand on the family practitioner services. Other significant increases have been agreed for the nationalised industries in 1988-89 (but not in the later years), DTI (including launch aid for Airbus), Education and the Home Office (mainly for prison building). On the other side net reductions have been agreed for IBAP, Environment, Employment, the FCO (diplomatic wing), the PSA, and the nationalised industries in 1990-91.

6. I hope to settle all but one of the remaining issues without having to trouble the Group. They involve a minor outstanding question on Northern Ireland agriculture and some issues on running costs. I have also to settle the provision for the Revenue departments and some other small departments.

7. I have not been able to reach agreement with the Foreign Secretary on the Aid programme and that is accordingly referred to the Group.

The background to the remaining issue

8. Cabinet decided in July that the public expenditure plans should be kept as close as possible to the previously published cash planning totals and, at all events, within the declining proportions of general government expenditure to national income projected in the last White Paper.

9. In my bilateral discussions it has become clear that some increase in our published planning totals will indeed be needed. The current position is:

	£ billion	
	1988-89	1989-90
Existing Reserves	5.5	7.5
Less		
Extra local authority provision	1.0	1.3
Additions to programmes agreed in bilaterals	3.5	4.7
Remaining Reserves	1.0	1.5

10. So the remaining Reserves fall far short of those published in this year's White Paper. Moreover, it is clear that we need larger Reserves than we have provided in previous years. We need to provide for the continuing growth of local authority current expenditure (for which the provision we agreed in July is well below the likely outcome), social security expenditure and other risks, for example the probability that EC contributions will increase above the 1.4 per cent VAT ceiling on which our current provision is based. The need for higher Reserves is particularly necessary to give credibility to our plans for years 2 and 3 following two Surveys in which we will have added to our plans.

11. As a result substantial increases in the planning totals will be required. This will imply a more rapid rate of real growth of public spending than we have hitherto been prepared to allow. The implications for the ratios of general government expenditure (excluding privatisation proceeds) to national output will not be clear until the economic forecast which will accompany the Autumn Statement is complete. Early indications are that the increases I propose will be consistent with the Cabinet remit to remain within the ratios set out in the White Paper though the annual decline in the ratios over the Survey period could well be minimal.

12. In the wake of the recent poor trade figures, markets are concerned about the possibility that the economy may be over-heating with consequent risks for inflation. They will be disturbed by

any signs in the Autumn Statement that we have relaxed our resolve on public expenditure and that we are allowing increases there to fuel the current expansion. It is essential, therefore, that we should keep the total additions as low as possible.

13. The Chancellor will be reviewing the likely level of privatisation proceeds in the coming three years. Some increases may be possible but we have to realise that the time has passed when we could mask increases in spending by raising these estimates. The markets look at the totals excluding privatisation proceeds.

14. It is against that background and the nature of the settlements I have reached, many of which involve difficult policy changes, that the Group will wish to consider the outstanding issue on the aid programme.

ANNEX A

SECRET

SUMMARY OF AGREED ADDITIONS

	1988-89 BASELINE	1988-89 CHANGE	1989-90 BASELINE	1989-90 CHANGE	1990-91 BASELINE	1990-91 CHANGE
Ministry of Defence	18,980.0	221.0	19,464.0	485.0	19,892.0	664.0
European Communities	440.0	350.0	1,060.0	520.0	1,087.0	233.0
FCO - Diplomatic, Information, Culture	730.0	-12.9	747.0	-10.8	765.0	-9.5
Intervention Board for Agricultural Produce	1,782.0	-159.7	1,878.0	-160.8	1,925.0	-65.3
Forestry Commission	54.0	6.1	55.0	8.7	56.0	8.6
Department of Trade and Industry	983.0	280.0	981.0	289.0	1,017.0	194.0
Export Credits Guarantee Department	111.0	51.4	47.0	66.7	48.0	84.9
Department of Energy	286.0	34.6	282.0	38.8	289.0	1.0
Department of Employment	4,107.0	37.6	4,206.0	-6.0	4,311.0	-61.7
Department of Transport	2,166.0	30.0	2,214.0	25.0	2,264.0	31.0
DOE - Housing	2,443.0	81.0	2,503.0	13.0	2,566.0	-2.0
DOE - Other Environmental Services	929.0	-141.5	913.0	0.0	936.0	0.0
DOE - Property Services Agency	-99.0	10.0	-101.0	-10.0	-104.0	-10.0
Home Office	1,237.0	80.8	1,294.0	112.2	1,326.0	102.5
Lord Chancellor's Department	726.0	17.0	781.0	22.8	801.0	57.1
Department of Education and Science	3,851.0	259.5	3,966.0	327.7	4,065.0	326.9
Office of Arts and Libraries	367.0	35.6	377.0	46.5	386.0	52.9
DHSS - Health and Personal Social Services	16,932.0	710.0	17,743.0	800.0	18,187.0	1,220.0
DHSS - Social Security	47,258.0	907.4	49,123.0	1,736.8	50,351.0	3,222.8
Scotland	4,687.0	84.5	4,863.0	174.9	4,984.0	216.7
Wales	1,933.0	110.7	1,995.0	101.6	2,045.0	118.6
Northern Ireland	5,048.0	82.7	5,217.0	111.3	5,348.0	156.7
Inland Revenue: LAPR/MIRAS	235.0	50.0	262.0	60.0	269.0	91.0
Nationalised Industries	347.8	344.7	-55.9	24.2	-56.1	-330.1
Local Authority Relevant	32,206.0	1,039.0	33,054.0	1,273.0	33,880.0	1,476.0
TOTAL ADDITIONS TO PROGRAMMES	147,739.8	4,509.5	152,868.1	6,049.6	156,637.9	7,779.1

ANNEX B

SECRET

SUMMARY SCORECARD

Date of last update: 16/10/87

(£million)

	1988-89 BASELINE	1988-89 DEPT POSITION	1988-89 OUTCOME	1988-89 HMT POSITION	1989-90 BASELINE	1989-90 DEPT POSITION	1989-90 OUTCOME	1989-90 HMT POSITION	1990-91 BASELINE	1990-91 DEPT POSITION	1990-91 OUTCOME	1990-91 HMT POSITION
TOTAL ALREADY AGREED	147,739.8	4,509.5	4,509.5	4,509.5	152,868.1	6,049.6	6,049.6	6,049.6	156,637.9	7,779.1	7,779.1	7,779.1
BEING CONSIDERED BY GROUP												
FCO - Overseas Development Administration	1,399.0	76.8		16.0	1,441.0	152.1		21.3	1,477.0	232.2		28.4
STILL IN BILATERAL DISCUSSIONS												
Ministry of Agriculture, Fisheries and Food	747.0	34.2		28.3	749.0	38.7		33.5	768.0	30.1		30.1
Other Departments	604.0	35.5		9.1	620.0	63.8		20.8	636.0	117.2		61.5
Chancellor's Departments (excl LAPR/MIRAS)	2,069.0	137.6		80.7	2,149.0	185.9		76.2	2,203.0	220.5		76.8
TOTAL ADDITIONS TO PROGRAMMES	152,558.8	4,793.6		4,643.6	157,827.1	6,490.1		6,201.4	161,721.9	8,379.1		7,975.9

SUMMARY OF AGREED PROGRAMMES

	£ million		
	1988-89	1989-90	1990-91
Defence	+ 221	+485	+664

The additions recognise the pressures on the programme following the end of a period of substantial real growth. The new path is broadly level in real terms in the last two years. The figures incorporate the additions agreed earlier this year for Lynx helicopter orders for Westland.

2. **FCO (Diplomatic Wing)**	-13	-11	-10

Increased provision for the BBC External Services and some other minor items are offset by a reduction in the estimated cost of the FCO's overseas operations.

3. **EC Contributions**	+350	+520	+233

In order not to prejudice our position in the negotiations on future Community financing these projections assume the continuation of the 1.4% VAT ceiling. The sharp increase in the net contributions is a result of an increase in our share of gross contributions reflecting higher customs duties and levies and the strength of sterling and of a sharp fall in our forecast share of agricultural receipts following enlargement.

4. **IBAP**	-160	-161	-65

The main change here is to the estimated cost of CAP support in the UK and savings on account of CAP reform. The projections make some allowance for future devaluations of the Green Pound but assume that EC support prices remain constant on average in the next three years in cash terms.

5. **Other Agriculture** +28 +33 +30

Increases for ALURE, a variety of minor programmes and increased estimates for demand-led schemes are offset in part by savings on capital grant schemes and on account of increased industry funding for R&D and ADAS.

6. **DTI** +280 +289 +194

[The greater part of the overall increase in the programme is accounted for by launch aid for Airbus, the transfer of functions from Department of Employment, and revised costing of demand-led schemes. On policy the Secretary of State is proposing a restructuring of regional assistance. This will have an initial cost but will produce increasing savings by the end of the Survey period.

7. **ECGD** +51 +67 +85

These changes result from changed assumptions about interest rates in the UK and abroad.

8. **Energy** +35 +39 +1

There are increases for the costs of extending the draught-proofing scheme as agreed before the election, increased estimates of the cost of redundancy payments to miners in the first two years, the cost of new accommodation and increased payments to the Atomic Energy Authority for work on decommissioning and nuclear waste management.

9. **Employment** +38 -6 -62

As part of the January employment package and the withdrawal of income support from school leavers, DE Group provision was increased by the pre-Survey agreed figures of £208/235/234 million. The net reductions from this starting point are thus £170/241/296 million. The measures the Secretary of State is taking to achieve these reductions include the closure of the Job Release Scheme and the New Workers Scheme, savings on the Youth Training Scheme,

the Community Programme and adult training. He is planning also to privatise Professional and Executive Recruitment and to restructure the Skills Training Agency.

10. **Transport** +30 +25 +31

The main increase is for the national roads programme mainly for a programme of bridge renovation. The increases are partly offset by higher receipts for local authorities.

11. **Environment** -61 +13 -2

Increased projections of receipts will yield some £2 billion over the three years. That will allow substantial additions to gross capital spending on housing and for the Urban Development Corporations. It will also cover the Housing Benefit costs of projected increases in rents.

12. **PSA** +10 -10 -10

A combination of higher receipts from disposals and rents and a small addition to the net baseline in 1988-89 should enable the PSA to halt the increase in the maintenance backlog next year and to reduce it in each of the later years.

13. **Home Office** +81 +112 +103

Over 80 per cent of the net addition is accounted for by the prison building programme following H Committee's decision in July that there should be a substantial expansion and acceleration of the programme.

14. **Lord Chancellor's Department** +17 +23 +57

There are increases for court building, running the courts, and for the phasing in of the permanent scheme of payments on account for lawyers to which we are committed. Discussions are continuing on the question of tape recording of police interviews.

15. **Education** +260 +328 +327

Additions have been made for university restructuring and for the consequences of the academic pay award following last year's Survey. There are also increases for the cost of implementing the national curriculum, for science, and for capital work to schools and colleges.

16. **Arts and Libraries** +36 +47 +53

Part of the increase is for new estimates of the costs of the British Library. For the main programme, the Minister and I have agreed a three-year rolling settlement under which he has undertaken not to seek to reopen the figures in future Surveys except in specified exceptional circumstances. In future Surveys, therefore, we will normally need to discuss only the new final year.

17. **Health and Personal Social Services** +710 +800 +1220

The increases reflect principally increased demand on the Family Practitioner Services, the growing cost of AIDS, and the knock-on costs of this year's Review Body awards. The increase for hospitals' current expenditure, leaving aside the additions for AIDS, will be just over 1% a year in real terms. In addition the health service will benefit from service improvements financed by the higher dental and sight test charges agreed in September and by a new programme for generating income from better use of hospital facilities including franchising. Part of the overall increase is reserved for the financing of future Review Body and negotiated pay awards.

18. **Social Security** +907 +1737 +3223

In spite of the improvement in the unemployment prospect, there are very large estimating additions to this programme. The figures reflect also the agreement to raise benefits to protect householders against the cost of the 20% rates contribution. To offset part of these increases, the Secretary of State has agreed to introduce the new income-related benefits in April 1988 at 50p for single people and £1 for couples below the

illustrative rates given in the 1985 Reform White Paper uprated in line with price movements. He has agreed also to increase the housing benefit rents tapers. The figures also reflect the agreement in 1985 that child benefit should not be uprated in April 1988.

19. **Scotland** +85 +175 +217

The settlement provides for an increase to Scottish programmes of industrial assistance so as to allow for a shift in regional policy in line with the changes proposed for England. On the Block, the Secretary of State has agreed to offset against his formula consequentials on other programmes the £71 million by which the increase agreed in July for his local authority relevant provision exceeded the formula consequential of the increase for England. A similar offset will be needed for the two later years if the Secretary of State wishes to show the same rate of increase in provision for local authority relevant as has been agreed for England.

20. **Wales** +111 +102 +119

The settlement on the Block reflects the formula consequentials of the agreements on English programmes. There is increased provision for industrial assistance both to meet estimating increases in demand-led programmes and to permit a restructuring of regional policy in line with changes proposed for England.

21. **Northern Ireland** +83 +111 +161

Apart from the normal operations of the formula, the main increase is required to meet revised estimates of social security costs in the province.

22. **LAPR/MIRAS** +50 +60 +91

These are revised estimates of the public expenditure costs of life assurance premium and mortgage interest relief to those whose incomes fall below the income tax threshold.

23. **Nationalised Industries** +344 +24 -330

The settlements provide for increases to capital investment programmes particularly in the Electricity and Water industries. To help offset the cost it has been agreed that the financial targets for the electricity industries in England and Wales and in Scotland should be increased. This will involve an average price increase of about 8½% next April. There are also substantial savings from a number of other nationalised industries particularly British Coal and British Steel.

24. **Science and Technology**

During this Survey we have been monitoring the position on Science and Technology spending, following the Government's response to the House of Lord's Committee in July which said that decisions on such spending would be reported in the Public Expenditure White Paper. The net addition to provision for science and technology spending is currently of the order of £220/280/215 million in the three survey years. This results in large part from the agreement to provide Launch Aid for Airbus and the additions to Education programmes. Overall it is likely that civil science and technology spending (including technology transfer) will grow by 7%, 4% and 1% in the three years. But the figures could change as a result of the current review of DTI's innovation policy.

2130/12

SECRET

SCORECARD
Copy No 1 of 20 Copies

FROM: A TURNBULL
DATE: 21 OCTOBER 1987

CHANCELLOR OF THE EXCHEQUER +1

cc Chief Secretary +1
Sir P Middleton
Sir T Burns
Mr F E R Butler
Mr Anson
Mr Monck
Mr Luce
Mr Scholar
Mr Gieve
Mr Pratt
Mrs R Butler
Mr R I G Allen
Miss O'Mara
Miss Walker
Miss Evans

FORMAT OF AUTUMN STATEMENT

I understand that no final decision has yet been taken on whether, if Cabinet takes public expenditure on 29 October, there is to be a skeleton announcement of the planning totals via a PQ, or whether there is simply an announcement from No 10 to the effect that

> "Cabinet has successfully completed its consideration of the 1987 Public Expenditure Survey. The Chancellor of the Exchequer will give details of the outcome in the Autumn Statement which he will present to the House next Tuesday."

2. I attach draft answers to the PQs for answer on 29 October should you choose that option. These include answers to the PQs put down by a group of Labour Members, and a fuller Written Answer which is intended to be the definitive text. The figures are provisional at this stage pending final decisions on the level of Reserves. They assume 4/7/10. I have followed last year's practice of giving figures rounded to the nearest £½ billion. You will want to consider whether to express the outcome to the nearest £0.1 billion.

3. If you do choose to announce the planning totals that afternoon, it is important that the Treasury and No 10 stick rigidly to the line that all other details will appear the

following Tuesday. Once we move off the planning totals it is difficult to stop short of a full announcement like last year. First, there is the propriety argument. To give noticeably more information to the Press than to Parliament allows the Opposition to exploit a procedural grievance. Secondly, there is the interlocking nature of the elements for the Autumn Statement. GDP ratios imply money GDP figures, which imply deflators, which imply inflation forecasts - probably the most sensitive element of the whole Statement.

4. Holding the line is not without pitfalls. Commentators may well take the run of figures from the planning totals and deflate them by the latest deflators they have available, ie the FSBR figures, and produce growth rates of over 2 per cent a year. One of the consequences of our self-denying ordinance will be that we will not be able to rebut these figures, offer ones for GGE which give a better presentation, or point to the better PSBR outturn as an assurance on the fiscal prospect. But I see no way of avoiding this.

5. There is no need to decide immediately on whether to use the PQ route so we would welcome comments on the drafts. If everything is held over until the Tuesday, the PQs to Labour MPs will need to be redrafted to give holding replies.

6. With Aid seemingly settled, there seems no reasons why colleagues should not be told that the Survey will be on the agenda of 29 October. Departments have been given warning that 29 October is a possibility so there could be questions about this. In any case it will be helpful to confirm 29 October so that the arrangements for commissioning Press Notices and clearing them with the Treasury can be put in hand. Mr Norgrove will be briefing the Prime Minister to inform colleagues of this, while warning them not to say anything publicly and urging them to ensure that the Government's presentation is properly coordinated.

AT

A TURNBULL

2130/6

SECRET

FOR WRITTEN ANSWER

To ask Mr Chancellor of the Exchequer when he expects to announce the outcome of the 1987 Public Expenditure Survey.

DRAFT REPLY

The Cabinet today considered the 1987 Public Expenditure Survey. It agreed to set planning totals at £[157½] billion for 1988-89 and £[167½] billion for 1989-90, increases of £[3¾] billion and £[5¾] billion over the totals previously agreed. For 1990-91 the planning total has been set at £[176] billion. The estimated outturn for the planning total in 1987-88 is £147½ billion. The underspend of £[1] billion on the planning totals reflects mainly higher capital receipts of local authorities and New Towns; in other respects, spending is expected to be broadly in line with plans.

The planning totals incorporate estimates for the proceeds of privatisation of £5 billion in each year, as in the last White Paper. They also contain substantial reserves rising from £[4] billion in 1988-89 to £[10] billion in 1990-91.

[With or without privatisation proceeds,] these totals ensure that public expenditure will continue to decline in relation to national income and will be below the proportions of GDP envisaged in the last Public Expenditure White Paper.

I propose to make an Oral Statement to the House and to present the printed Autumn Statement to Parliament next Tuesday. The printed statement will contain, as usual, the Government's outline public expenditure plans for the main programmes for each of the next three years; the expected outturns for this year;

proposals for next year's National Insurance Contributions; and the forecast of the economic prospects for 1988 required by the Industry Act Forecast.

2131/27

[redacted] Terry Patchett	La - Barnsley East
Mrs Joan Ruddock	La - Lewisham, Deptford
Mr John McAllion	La - Dundee East
Mr Thomas Graham	La - Renfrew West and Inverclyde
Mr Henry McLeish	La - Fife Central

To ask Mr Chancellor of the Exchequer: If he will estimate the public spending planning total for 1987-88 and 1988-89.

DRAFT REPLY

The estimated outturn for the public expenditure planning total in 1987-88 is £a billion. At its meeting today the Cabinet agreed a planning total for 1988-89 of £b billion. Further details will be given in the Autumn Statement which I propose to make to the House next Tuesday

Mr Ken Livingstone

To ask Mr Chancellor of the Exchequer: If he will estimate the public spending planning total for 1986-87 and 1987-88.

DRAFT REPLY

The outturn for the public expenditure planning total in 1986-87 was £h billion and the estimated outturn for 1987-88 is £j billion.

0/009

SECRET AND PERSONAL

SCORECARD

No 1 of 15 Copies

FROM: JOHN GIEVE

DATE: 21 October 1987

CHANCELLOR

cc Chief Secretary
Sir P Middleton
Sir T Burns
Mr F E R Butler
Mr Anson
Mr Monck
Mr Turnbull
Mr Scholar
Mr Sedgwick
Mr Luce
Mr Mowl
Miss Walker

BALANCING THE BOOKS

We will put a submission to you next week on the fine-tuning of the expenditure figures for the Autumn Statement when we have settled all outstanding issues and confirmed the impact of the new economic assumptions. However uncertainties now are at the margin and it would be helpful to settle three outstanding large issues so that we can get ahead with drafting briefing and the Statement itself. The three issues are:

a. the Reserves

b. the EC contribution in 1989-90, and

c. debt interest and other accounts adjustments.

2. In terms of the published growth rates and ratios these figures all interact. As a basis for decision, therefore, I have set out the implications of a "base case" and have then discussed the reasons for departing from it.

The base case

3. If we publish Reserves of 4/7/10, publish a smoothed path for EC Contributions as recommended by EC division (but without making a further adjustment of £100m in

1989-9[redacted], and use our current forecasts for debt interest and other accounts adjustments (as revised to reflect the assumptions on borrowing and inflation that have now been agreed), the headline figures would be as follows:

	1987-88	1988-89	1989-90	1990-91	Average 1986-87 - 1990-91	Average 1987-88 - 1990-91
Increase in Planning Totals £billion	-	3.2	5.8	-		
Real terms growth in Planning Total	1.6	2.0	2.7	2.2	2.1	2.3
Real terms growth in GGE (excluding privatisation)	0.6	1.5	1.8	1.4	1.26	1.48
Ratio to GDP	42½	41¾	41½	41		
[White Paper ratios	44	42¾	42¼	-]		

4. If this is what you opt for, you will be able to say that the ratio is well within the White Paper path and that GGE excluding privatisation proceeds is set to rise by 1¼% in the four years to 1990-91 compared to 1¾% in the last Parliament and 2¼% in the Parliament before that.

5. The presentational difficulties will lie in the absolute size of the increases in the Planning Totals (although the market seems well prepared for £3-4 billion in 1988-89), and the real growth rates for the Planning Total particularly in 1989-90. An alert observer might calculate that the average growth in the Planning Total (including or excluding privatisation proceeds) is projected to be higher in the current four years than in either of the previous Parliaments. They might also point out that the growth rate taken from 1987-88 to 1990-91 is over 1½% for GGE and barely under 1½% for GGE excluding privatisation proceeds. Such an analysis might be the base for arguing either that spending is out of control or that inflation is expected to be higher than the FSBR projections in the later years.

EC Contributions

6. Officials have already smoothed the path of our projected contributions to the EC. The Paymaster General has suggested that, if it would be of real presentational benefit, it would be possible to reduce the 1989-90 figure by a further £100m. The Chief Secretary has asked us to explore this further.

7. Making the further £100m reduction would not effect the average real growth rates to 1990-91 or the ratios to GDP. It would reduce the cash increase to plans in 1989-90 from £5.8 billion to £5.7 billion (compared to £5.5 billion increase in the 1988-89 Planning Total in last year's Autumn Statement - £5.75 billion leaving aside the increase of privatisation proceeds). It would also marginally reduce the real growth rates in 1989-90 from 2.7 to 2.6% for the Planning Total.

8. In practice we expect to make a substantially larger net contribution in all years than the path published in the Autumn Statement so any further reduction of the number for 1989-90 will be reflected simply in an increased call on the Reserve for that year. In presentational terms, it is quite helpful to have a marked discontinuity in EC Contributions to point to when explaining the growth rate for the year.

9. On balance, we do not think that the presentational advantages from shaving a further £100m off the 1989-90 figure are sufficiently clear cut to justify departing from the profile recommended by EC division ie 790/1580/1320 (increases of 350/520/233).

Debt Interest and Other Accounts Adjustments

10. PSF have reworked their forecasts of debt interest on the basis of the agreed assumption on inflation, interest rates, and borrowing. We have also reworked our projections of other accounts adjustments. The latest figures are the following.

	1986-87	1987-88	1988-89	1989-90	£billion 1990-91
Debt Interest	17.4	17.8	18.2	17.9	17.5
Accounts Adjustments	8.3	7.4	8.0	8.3	8.4
TOTAL	25.7	25.2	26.2	26.2	25.9

11. We do not propose to include figures for debt interest or other adjustments in our public expenditure table in the Autumn Statement but we plan to do so, as usual, in the White Paper in January. For that purpose we would round the numbers for the future years to £18 billion in each year for debt interest and to 8.0/8.5/8.5 for the other accounts adjustments. (It is proposed, however, that Chapter 1 of the Autumn Statement should give the figures for 1986-87 and 1987-88 to the nearest £100m). Since both the planning totals and GGE are quoted to the nearest £100m we plan, as in the past, to use the unrounded figures for computing GGE.

12. In the past we have sometimes made presentational adjustments to these lines. We have considered whether that should be done this year. The latest forecasts are much in line with the figures we have assumed in our weekly scorecards. It would be very difficult to justify any substantial change for the current year since much the information is already available. It would be difficult to publish a lower line for debt interest in future years without departing from the working assumption on borrowing that has already been agreed. We do not see any compelling cass for reducing the other accounts adjustments either. These projections are built-up from detailed examination of each component. Most major components - eg capital consumption, VAT refunds, pension increase payments, statutory sick and maternity pay - rise in line with earnings and inflation. The other main component, public corporations' net repayment of market and overseas borrowing is less consistent. There is a marked fall in 1987-88 following the privatisation of British Gas and British Airways. The level of net repayments is expected to grow again in 1988-89 as a result of changes to the exchange cover scheme.

13. Adjusting these lines could change the growth rates for GGE and the ratios to GDP, they would not alter the planning totals and it is the latter on which the main presentational difficulties arise. We recommend, therefore, that the Autumn Statement and White Paper should be based on the current forecasts as set out above.

The Reserves

14. We have considered three variants: 4/7/10, 4/8/12, and 3.5/7/10.5. Annex A sets out the implications of each of these paths for the cash increases in the planning totals, the real growth rates and the ratios to GDP.

15. Comparing the **October forecast** with the current projected outcome on programme gives the following figures:

	1988-89	£billion 1989-90
October Forecast increases in programmes	9.9	17.3
Survey increases in programmes	4.7	6.3
Gap	5.2	11.0

16. Projection of the forecast into 1990-91 suggests a gap of over £15 billion in that year. Approaching the matter at a programme level, we can foresee claims of 4/6/11 from the likely overspends on local authority relevant, social security, EC Contributions, and running costs, a draw-down by the Ministry of Defence of its end-year flexibility, the loss of negative EFLs in the last year resulting from electricity privatisation, and the cost to British Coal from renegotiating its contract with the electricity industry.

17. Against that background, there is a strong case for setting the Reserves as high as possible. Even 4/8/12 would leave us well under the forecast figures and make it probable that further increases in the planning totals will be required in next year's Survey.

18. However, increasing the Reserves to 4/8/12 would increase both growth rates and ratios. The real growth rate in the planning total would be over 3% in 1989-90; it would also raise the growth rate for GGE (including or excluding privatisation proceeds) above 1½% on average for 1986-87 to 1990-91 and for 1987-88 to 1990-91. The ratios to GDP would rise by ¼% in 1989-90 (thus leaving it unaltered between 1988-89 and 1989-90) and ½% in 1990-91 compared with the base case but would remain well within the White Paper path. In the light of the presentational difficulties, we do not recommend 4/8/12.

19. The case for **3.5/7/10.5** is that it has a logical 1:2:3 progression; it lowers the cash increase in 1988-89 below £3 billion (without appearing low given this year's experience), and it marginally increases the Reserve in 1990-91. Also w.s. privatisation proceeds

20. This would involve a slight presentational disadvantage because it would produce a higher increase in the planning total in 1989-90 (3%). It would also raise the average growth rates marginally but we would still be able to round the figures for GGE to 1¼% for 1986-87 to 1990-91 and 1½% for 1987-88 to 1990-91.

21. The key issue, therefore, is whether the advantages are outweighted by the increased risk of missing the 1988 planning total. While we would hope that the impact of cash limits will hold spending some way below the figures projected in the October forecast, a gap of £1.7 billion is very large. For example, we expect local authorities to overspend by about £2 billion in 1988-89; that would leave only £1.5 billion for all other claims on the Reserve. The claims we can foresee at this point add up to more than that and other contingencies are likely to arise.

Presentation

(neat)

22. In presenting the figures for real growth we plan this year to focus on the four year period 1986-87 to 1990-91 rather than the "Survey period" ie 1987-88 to 1990-91. This is a change since last year. We think it can be justified because it allows comparisons between three periods of four years; 1978-79 to 1982-83, the first Parliament, 1982-83 to 1986-87, the second Parliament, and 1986-87 to 1990-91. It is convenient in terms of percentages to do that this year because of the underspend in 1987-88. We may need, however to switch back to looking at the Survey period again at the end of next year's Survey.

Summary

23. Our conclusions are:

CST

a. we should not make the reduction of £100m to EC Contributions in 1989-90;

✓

b. we should adopt the latest projections of debt interest and other accounts adjustments as set out in paragraph 10 for the purposes of the Autumn Statement and White Paper;

c. we should publish Reserves of either 4/7/10 or 3.5/7/10.5, and

✓

d. we should focus our presentation of real growth rates on the four year period 1986-87 to 1990-91.

24. We would be grateful for your views, in particular on the size of the Reserves.

Jn. Grieve

JOHN GIEVE

ANNEX A

	1987-88	1988-89	1989-90	1990-91	Average 1986-87 to 1990-91	Average 1987-87 to 1990-91
Increase in programmes £billion	-	4.7	6.3	8.1	-	-
Increase in Planning Total £billion						
Reserves 4/7/10	-	3.2	5.8	-	-	-
4/8/12	-	3.2	6.8	-	-	-
3.5/7/10.5	-	2.7	5.8	-	-	-
Real terms increase in Planning Total %						
Reserves 4/7/10	1.6	2.0	2.7	2.2	2.1	2.3
4/8/12	1.6	2.0	3.3	2.7	2.4	2.7
3.5/7/10.5	1.6	1.7	3.0	2.5	2.2	2.4
Real terms increase to GGE (excluding pp) %						
Reserves 4/7/10	0.6	1.5	1.8	1.4	1.26	1.48
4/8/12	0.6	1.5	2.2	1.7	1.51	1.80
3.5/7/10.5	0.6	1.2	2.0	1.5	1.32	1.56
GGE (excluding pp) as ratio of GDP %	(1986-87)					
Reserves 4/7/10	44	42¼	41¾	41½	41	
4/8/12	44	42½	41¾	41¾	41½	
3.5/7/10.5	44	42½	41¾	41½	41	

2130/11

SECRET AND PERSONAL

SCORECARD
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FROM: A TURNBULL
DATE: 22 OCTOBER 1987

CHANCELLOR OF THE EXCHEQUER +1

cc Chief Secretary +1
Sir P Middleton
Sir T Burns
Mr F E R Butler
Mr Anson
Mr Monck
Mr Scholar
Mr Luce
Mr Gieve
Mr R I G Allen
Miss O'Mara
Miss Walker
Miss Evans

PAPERS FOR CABINET

We need to consider the structure of the papers for Cabinet on 29 October. I envisage the Treasury presentation being in two parts. First, with all the programmes now apparently settled it seems more appropriate for the Chief Secretary there to be a paper by the Chief Secretary in place of the one circulated in recent years by the Lord President. We need to have this paper ready for circulation by Tuesday morning.

2. A draft of such a paper is attached. It:

- sets out the aggregate position reached on programmes and relates them to the size of the initial Reserves;

- sets out in an annex the policy changes involved. It is essential that this covers anything controversial and if any Secretary of State wishes references to policy changes to be omitted or severely watered down he should undertake to raise the matter orally;

- reports the outcome on running costs;

- reports the expected outturn for 1987-88.

3. I envisage that you would wrap up the Survey very much as you did last year. You could take along with you to the meeting tables (for distribution beforehand and collection

afterwards) which show how additions to programmes carry through into increases in the planning total. I attach a draft of a speaking note which:

- picks up the story from the Chief Secretary's paper at the point where the additions to programmes are related to the size of the initial Reserves;

- sets out the desired level of Reserves for future years;

- gives your projections for privatisation proceeds;

- derives the planning total increases;

- sets out the implied ratios and real terms growth rates;

- suggests the way in which the outcome can best be presented;

- puts forward proposals for procedural handling.

4. The second half of the note, prepared by FP, covers:

- economic prospects. This could provide an opportunity to inform colleagues in a low-key way of the ¼ per cent increase/½ per cent decrease in the GDP deflator. If markets are still in disarray an extra passage may be needed to cover the implications for the world and UK economies. This can be drafted nearer the time.

- PSBR.

- NICs.

5. I would welcome comments by Monday morning on:

- the coverage of the two papers and on the way the material is distributed between them;

- on the way the arguments are put.

AT

A TURNBULL

003/2981

SECRET AND PERSONAL

SCORECARD

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NOTE OF A MEETING ON THURSDAY, 22 OCTOBER 1987 AT 2.00PM AT NOL 11 DOWNING STREET

Those present:

Chancellor
Chief Secretary
Sir Peter Middleton
Sir Terence Burns
Mr F E R Butler
Mr Turnbull
Mr Gieve

BALANCING THE BOOKS

Papers: Mr Gieve of 21 October

Discussion focussed on the questions raised in paragraph 23 of Mr Gieve's minute.

2 On (b) it was agreed that the projections for debt interest and other accounts adjustments set out in paragraph 10 should be used in the Autumn Statement and White Paper. The Chancellor thought it would be helpful to disaggregate the two components in the Autumn Statement. This treatment was agreed.

3 There was some discussion of the alternative reserves suggested in (c). The following points were made in discussion:

- the figure of £10½ billion in the last year on the 3½/7/10½ option produced a growth rate of slightly in excess of 1.5 per cent over the period. There might be advantage in reducing the figure to £10 billion, which was more obviously a round number. Conversely it was pointed out that there was merit in establishing the ratio of 1 : 2 : 3 for the Reserves over the Survey period. There was some margin of error around the 1½ per cent average growth rate.

- The reduction in privatisation proceeds over the period created a "hidden reserve" which should be taken into account. In effective terms a reserve of £3½ billion combined with privatisation proceeds of £5 billion was no different from a reserve of £4 billion combined with privatisation proceeds 5½ billion.

- Claims on the Reserve of £3½ billion in 1988-89 had already been identified: that left no room for genuine contingencies. On the other hand the shortfalls that always tended to arise had not been identified.

- The profile of growth between the years looked better with reserves of 4/7/10. In particular it reduced the growth in the second year.

- A reserve of £4 billion in the first year would mean an increase in the planning total of over £3 billion - while current expectation was for an increase in the range of £2 to £3 billion. A reserve of £3½ billion would contain the increase to £2¾ billion.

- It would be possible to reduce the growth rate between 1988-89 and 1989-90, on the assumption of £3½ billion reserve in year 1, to below 3 per cent for the planning total and below 2 per cent for GGE by the further £100 million smoothing of EC receipts.

4 On the basis of this discussion it was agreed that:

(a) the Reserves should be set at 3½/7/10½ and

(b) the reduction of £100 million in EC contributions in 1989-90 should be made.

5 It was agreed that the presentation should focus on real growth rates in the 4 year period 1986-87 to 1990-91. The Chancellor noted that we might wish to change presentation next year. But this should not inhibit the presentation now.

JILL RUTTER
Private Secretary

Distribution

Those present
Mr Anson
Mr Monck
Mr Scholar
Mr Sedgwick
Mr Luce
Mr Mowl
Miss Walker

2130/11

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