

PO-CH/NL/0120

PART C



**SECRET**

(Circulate under cover and  
notify REGISTRY of movement)



PO -CH /NL/0120



PART C

BUDGET 1988 SCORECARD  
AND OVERVIEW

PO -CH /NL/0120

PART C

PART C

DD's 25 years NABIS 1/12/95

17-6-88

CLOSED  
CONTINUED ON -  
PART ..... **D** .....



1988 Budget scorecards.  
+ overview.

Part C.

Starts. 26/02/88



~~BUDGET SECRET: BUDGET LIST ONLY~~**BUDGET SECRET  
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Copy No. 1 of 47  
 FROM: ROBERT CULPIN  
 DATE: 26 February 1988

**CHANCELLOR**

cc Principal Private Secretary  
 Chief Secretary  
 Financial Secretary  
 Paymaster General  
 Economic Secretary  
 Sir P Middleton  
 Sir T Burns  
 Sir G Littler  
 Mr Anson  
 Sir A Wilson  
 Mr Byatt  
 Mr Scholar  
 Mr Sedgwick  
 Mr Odling-Smee

Mr RIG Allen  
 Mr Pickford  
 Miss Sinclair  
 Mr Riley  
 Mr Mowl  
 Miss Evans  
 Mr Hudson  
 Mr Cropper  
 Mr Tyrie  
 Mr Call  
 Mr Battishill)  
 Mr Isaac ) Inland  
 Mr Painter ) Revenue  
 Mr Calder )  
 Mr Unwin ) Customs & Excise  
 Mr Knox )

**SCORECARD**

I am sorry the Scorecard is late this week. As you know, the Revenue have been revising the income tax figures.

2. The main change is that the estimated cost of reducing the top rate has gone up. As I understand it, that is because the Revenue now project some widening of the pre-tax income distribution.

3. I am circulating the estimates hot off the presses. We shall all want to have another look at them next week. There will then be a further edition of the Scorecard, as usual.

4. Since we are coming to the point where we need to decide what figures to publish, it may be helpful - as a reminder - to list options on a few points of detail. This is not necessarily to advocate changes in the conventions we have followed so far - simply to draw them out explicitly.

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**Cars**

5. You are planning to say that you will increase the car scales next year by 100 per cent. Yet we are only showing the yield from 90 per cent - the other 10 per cent is in the base. You could, if you wish, show in the main published tables the yield of the 100 per cent increase you will be announcing. That would reduce the total cost shown for the package by about £30 million in 1988-89, and £30 million in 1989-90.

*Makes it  
clear from  
1989-90*

**Students and Forestry**

6. You plan to say that additional grants for students and forestry will be charged to the Reserve. That means in principle that they will not add to public expenditure: they will crowd out other claims on the Reserve. Yet we are showing the yield of the tax measures on students and forestry net of these grants, implying (in a sense) that they will add to expenditure. You could, if you wish, show in the main published tables the tax yield without the expenditure offset. That would reduce the cost shown for the package by about £25 million in 1988-89 and £65 million in 1989-90. The disadvantage is that it could imply that people will lose more from the tax measures than in fact they will - though the expenditure consequences could still be mentioned below the line in a footnote.

*pubs.  
but  
one  
A scorecard  
✓*

**Behavioural Effects**

7. We have discussed behavioural effects many times. The table immediately below this minute brings together the effects estimated so far, for Revenue measures affecting 1988-89 and 1989-90, and shows which are in the main Scorecard tables and which are not.

Robert  
ROBERT CULPIN

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Additional copies for Scorecard work to:

- Miss Hay )
- Mr Michie ) FP
- Mr Sparkes )
- Mr Sedgwick )
- Mr Scotter ) ETS
- Mr Davies )
- Mr Bredenkamp ) MP
- Miss Simpson ) EB
- Mr Beighton )
- Mr Marshall )
- Mr Ko ) IR
- Mr McManus )
- Mr Boyce )
- Mr Allen ) C&E
- Miss French )

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B.L.O.

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**BUDGET SECRET****NOT TO BE COPIED****EFFECT OF ASSUMED BEHAVIOURAL RESPONSES ON COSTINGS**Cost (-) or Yield (+) in £ million  
1988-89 1989-902yr  
27H**Capital Gains Tax****Freeze CGT exemption**

No response effect	Nil	+10
Behavioural response	Nil	Neg
Total cost *	Nil	+10

**Assimilation with income tax**

No response effect	Nil	+140
Behavioural response:		
Forestalling	+70	+20
Locking-in/unlocking	Nil	-100
Total response	+70	-80
Total cost *	+70	+60

**Rebasing to 1982**

No response effect	-15	-800
Behavioural response:		
Crystallised losses	-10	-10
Locking-in/unlocking	Nil	+500
Total response	-10	+490
Total cost *	-25	-310

**Independent taxation**

No response effect	Nil	Nil
Behavioural response:		
CGT deferral	Neg	-30
Asset transfer for CGT	Nil	Nil
Income splitting (nb)	Nil	Nil
Total response	Neg	-30
Total cost *	Neg	-30

\* Costing shown in scorecard

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Cost (-) or Yield (+) in £ million  
 1988-89                      1989-90

**Car scales**

No response effect *	+230	+280	
Behavioural response	+35	+50	+85
Total cost	+265	+330	

**Abolish tax relief on home improvement loans**

No response effect *	+80	+200	
Behavioural response	-20	-30	-50
Total cost	+60	+170	

**Total behavioural responses estimated so far**

+75                      +400

**Total behavioural responses currently in scorecard**

+60                      +380

**Estimated behavioural responses omitted**

+15                      +20

\* Costing shown in scorecard

*disrupts & includes New*

*Other  
 pass chgs: (can 720  
 Shakti's [ +25  
 total jobs +70  
 of 2 +45*

*+30*

*+65*

*+115*

*+50*



BUDGET

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Handwritten notes: "What are the dates in July 1962?"

Handwritten notes: "Capitol Building 1962" and "Thurs 23 7:19.000"

Handwritten notes: "Car Park & other - 2/22/62" and "PLD 1m.2"

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**SCORECARD OF 26 FEBRUARY 1988**

**TABLE 1: DIRECT EFFECTS OF BUDGET MEASURES**  
assuming double indexation of personal allowances

All figures are net of cost or yield of indexation or revalorisation.

Proposal Number	Proposal	Cost(-) or Yield(+) in £ million (rounded to £5 million)			
		1988-89	1989-90	1990-91	1991-92
1	Excise Duties	Nil	-40	-80	-160
2	Double indexation of main personal allowances	-690	-890	-940	-990
3	Reduce basic rate of IT to 25p	-2440	-3060	-3180	-3380
4	Increase higher rate IT threshold to £20,000	-220	-400	-440	-470
R 5	Abolish higher rates of IT above 40p <i>(previously) (-780) (hmm...)</i>	-960	-2050	-2300	-2550
R 6	Independent taxation from 1990-91	-Neg	-30	-690	-1030
R 7	Freeze £6,600 CGT exemption indefinitely Add remaining gains to income and tax at IT rates <i>(look again at (1)(1))</i>	Nil	+10	+30	+40
R 8	Rebase to 1982				
	- CGT for individuals & trusts	Nil	-75	-150	-175
	- Companies' gains	-25	-235	-490	-590
9	Restrict new MIR to residence and leave ceiling unchanged at £30,000	+5	+20	+40	+50
(R) 10	Abolish tax relief on new home improvement loans	+80	+200	+300	+400
R 11	Abolish tax relief on new covenants between individuals <i>(as change)</i>	+45	+105	+160	+175
	Change rules for new maintenance payments	-10	-5	Nil	Nil
(R) 12	Car scales package <i>{ 2 distinct times</i>	+175	+225	+245	+255
13	Reduce small companies' CT rate to 25p in 1988-89	-Neg	-50	-90	-90
14	Reduce life assurance premium relief to 12½p	Nil	+70	+60	+55
15	BES - £½ million limit per company	+Neg	+25	+25	+25
	- private rented sector	-Neg	-40	-40	-40
R 16	Raise IHT threshold to £110,000 and set single rate of 40%	-100	-200	-240	-270
17	Minor starters	+50	+5	-15	+35
<b>TOTAL TAX MEASURES</b>		<b>-4020</b>	<b>-6355</b>	<b>-7730</b>	<b>-8610</b>

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SCORECARD OF 26 FEBRUARY 1988

**TABLE 1A: DIRECT EFFECTS OF BUDGET MEASURES**  
assuming personal allowances increased by 10 per cent

All figures are net of cost or yield of indexation or revalorisation.

Proposal Number	Proposal	Cost(-) or Yield(+) in £ million (rounded to £5 million)			
		1988-89	1989-90	1990-91	1991-92
1	Excise Duties	Nil	-40	-80	-160
2	Main personal allowances increased by 10 per cent	-1120	-1440	-1520	-1620
3	Reduce basic rate of IT to 25p	-2420	-3020	-3140	-3340
4	Increase higher rate IT threshold to £20,000	-210	-400	-430	-460
5	Abolish higher rates of IT above 40p	-960	-2050	-2300	-2540
6	Independent taxation from 1990-91	-Neg	-30	-690	-1030
7	Freeze £6,600 CGT exemption indefinitely Add remaining gains to income and tax at IT rates	Nil +70	+10 +60	+30 +65	+40 +100
8	Rebase to 1982				
	- CGT for individuals & trusts	Nil	-75	-150	-175
	- Companies' gains	-25	-235	-490	-590
9	Restrict new MIR to residence and leave ceiling unchanged at £30,000	+5	+20	+40	+50
10	Abolish tax relief on new home improvement loans	+80	+200	+300	+400
11	Abolish tax relief on new covenants between individuals	+45	+105	+160	+175
	Change rules for new maintenance payments	-10	-5	Nil	Nil
12	Car scales package	+175	+225	+245	+255
13	Reduce small companies' CT rate to 25p in 1988-89	-Neg	-50	-90	-90
14	Reduce life assurance premium relief to 12½p	Nil	+70	+60	+55
15	BES - £½ million limit per company	+Neg	+25	+25	+25
	- private rented sector	-Neg	-40	-40	-40
16	Raise IHT threshold to £110,000 and set single rate of 40%	-100	-200	-240	-270
17	Minor starters	+50	+5	-15	+35
<b>TOTAL TAX MEASURES</b>		<b>-4420</b>	<b>-6865</b>	<b>-8260</b>	<b>-9180</b>
		<i>With 1½ reval</i> <b>-4135</b>	<b>-6590</b>		

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Notes to Tables 1 - 1A

All figures show cost (-) or yield (+) in £ million unless otherwise indicated.

Excise Duties

1. The base forecast assumes excise duties revalorised by 3.7 per cent (the inflation rate for the twelve months to December 1987). If the duties were not revalorised, RPI inflation would be 0.28 percentage points lower than in the base forecast.

It has been agreed not to increase duties on betting and gaming, and on matches and mechanical lighters.

Lead Option: Revalorisation

The lead option is a package which assumes overall revalorisation in revenue terms with the following departures for individual duties:

Alcoholic Drinks

Spirits and fortified wines: no change.

Beer, cider, sparkling and table wines: over-revalorised to recoup revenue lost by not revalorising spirits and fortified wines, cider being increased by the same pence per pint as beer.

Tobacco

Pipe tobacco: no change.

Cigars: revalorised.

Cigarettes and hand rolled tobacco: over-revalorised to recoup revenue lost by not revalorising pipe tobacco (negligible difference from revalorisation).

Oils and VED

VED, unleaded petrol, fuel oil and gas oil: no change.

Leaded petrol: over-revalorised to recoup revenue lost by not revalorising unleaded petrol and VED on cars and light vans.

Derv: over-revalorised to recoup revenue lost by not revalorising fuel oil, gas oil and VED on other vehicles.

The cost of this package is shown in line 1. The package has been designed to have the same cost as revalorisation in 1988-89; the additional cost in subsequent years occurs largely because of the assumed shift in consumption towards unleaded petrol. The package would have a very similar RPI effect to straight revalorisation and would imply the following percentage duty and price increases:

Product	Unit	Duty increase (per cent)	Price increase (pence)	
			Proposed	Diff. from Reval.
Beer	Pint	4.7	1.0	+0.2
Cider	Pint	9.7	1.0	+0.6
Table wine	75cl	4.7	4.0	+0.9
Sparkling wine	70cl	4.7	6.1	+1.3
Sherry	70cl	nil	nil	-5.0
Spirits	75cl	nil	nil	-20.1
Cigarettes	20KS	3.7	3.4	nil
Cigars	5 whiffs	3.7	1.9	nil
Pipe tobacco	25 grams	nil	nil	-2.7
Petrol (leaded)	Gallon	5.6	5.6	+1.9
Petrol (unleaded)	Gallon	nil	nil	-3.6
Derv	Gallon	5.7	4.9	+1.7
VED (cars)	-	nil	nil	-£3.70
VED (other)	-	nil	nil	-(various)
Gas oil	Litre	nil	nil	-0.2
Fuel oil	Litre	nil	nil	-0.1

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Option 2: Sesqui Revalorisation

A second option is for duties to be sesqui (ie 150 per cent) revalorised in revenue terms with the following departures for individual duties:

Alcoholic Drinks

Spirits and fortified wines: revalorised.

Beer, cider, sparkling and table wines: super-sesqui revalorised to recoup revenue lost by not sesqui revalorising spirits and fortified wines, cider being increased by the same pence per pint as beer.

Tobacco

Pipe tobacco: no change.

Cigars: revalorised.

Cigarettes and hand rolled tobacco: super-sesqui revalorised to recoup revenue lost by not sesqui revalorising pipe tobacco and cigars.

Oils and VED

VED, fuel oil and gas oil: no change.

Unleaded petrol: adjust duty to create 10p tax (approx 5p price) differential.

Leaded petrol: super-sesqui revalorised to recoup revenue lost by not sesqui revalorising unleaded petrol and VED on cars and light vans.

Derv: super-sesqui revalorised to recoup revenue lost by not sesqui revalorising fuel oil, gas oil and VED on other vehicles.

This would add a further 0.14 percentage points to the RPI (in addition to what is assumed in the forecast) and imply the following price increases:

Product	Unit	Duty increase (per cent)	Price increase (pence)	
			Proposed	Diff. from Reval.
Beer	Pint	6.2	1.3	+0.5
Cider	Pint	12.6	1.3	+0.9
Table wine	75cl	6.2	5.2	+2.1
Sparkling wine	70cl	6.2	8.1	+2.9
Sherry	70cl	3.7	5.0	nil
Spirits	75cl	3.7	20.1	nil
Cigarettes	20KS	5.7	5.3	+1.9
Cigars	5 whiffs	3.7	1.9	nil
Pipe tobacco	25 grams	nil	nil	-2.7
Petrol (leaded)	Gallon	8.1	8.2	+4.5
Petrol (unleaded)	Gallon	3.3	3.2	-0.4
Derv	Gallon	9.1	7.8	+4.6
VED (cars)	-	nil	nil	-£3.70
VED (other)	-	nil	nil	-(various)
Gas oil	Litre	nil	nil	-0.2
Fuel oil	Litre	nil	nil	-0.1

The yield of this package (replacing the figures in line 1) would be:

1988-89	1989-90	1990-91	1991-92
+290	+285	+275	+235



Option 3: Double Revalorisation

A third option is for duties to be double revalorised in overall revenue terms with the following departures for individual duties:

Alcoholic Drinks

Spirits and fortified wines: revalorised.

Beer, cider, sparkling and table wines: over-double revalorised to recoup revenue lost by not double revalorising spirits and fortified wines, cider being increased by the same pence per pint as beer.

Tobacco

Pipe tobacco: no change.

Cigars: revalorised.

Cigarettes and hand rolled tobacco: over-double revalorised to recoup revenue lost by not double revalorising pipe tobacco and cigars.

Oils and VED

VED, fuel oil and gas oil: no change.

Unleaded petrol: adjust duty to create 10p tax (approx 5p price) differential.

Leaded petrol: over-double revalorised to recoup revenue lost by not double revalorising unleaded petrol and VED on cars and light vans.

Derv: over-double revalorised to recoup revenue lost by not double revalorising fuel oil, gas oil and VED on other vehicles.

This would add a further 0.28 percentage points to the RPI (in addition to what is assumed in the forecast) and imply the following price increases:

Product	Unit	Duty increase (per cent)	Price increase (pence)	
			Proposed	Diff. from Reval.
Beer	Pint	8.3	1.8	+1.0
Cider	Pint	17.4	1.8	+1.4
Table wine	75cl	8.3	7.0	+3.9
Sparkling wine	70cl	8.3	10.8	+6.0
Sherry	70cl	3.7	5.0	nil
Spirits	75cl	3.7	20.1	nil
Cigarettes	20KS	7.6	7.1	+3.7
Cigars	5 whiffs	3.7	1.9	nil
Pipe tobacco	25 grams	nil	nil	-2.7
Petrol (leaded)	Gallon	10.6	10.7	+7.0
Petrol (unleaded)	Gallon	5.9	5.7	+2.1
Derv	Gallon	12.1	10.4	+7.2
VED (cars)	-	nil	nil	-£3.70
VED (other)	-	nil	nil	-(various)
Gas oil	Litre	nil	nil	-0.2
Fuel oil	Litre	nil	nil	-0.1

The yield of this package (replacing the figures in line 1) would be:

1988-89	1989-90	1990-91	1991-92
+560	+550	+560	+525



Duty Deferment

At the Overview Meeting on 8 February it was agreed that if excise duties were double revalorised, consideration should be given to extending the period of duty deferment for wines and spirits by one month. On the assumption that it would be introduced at the end of 1987-88, it would have a once-and-for-all revenue cost in that year of £250 million. There would be no effect on revenues or PSBR in 1988-89 or in subsequent years. If the same concession were extended to all alcoholic drinks, the cost in 1987-88 would be increased to £400 million.

VAT

The base forecast assumes no change in the standard rate and assumes revalorisation by 3.7 per cent of the VAT registration threshold to £22,100 (from £21,300).

In the light of the European Court's recent judgment, a clause may have to be brought forward during Committee Stage of the Finance Bill to apply VAT to spectacles, contact lenses and privately purchased hearing aids. Assuming VAT is applied from 1 July 1988, the measure would add 0.01 percentage points to RPI inflation and the yield would be:

1988-89	1989-90	1990-91	1991-92
+10	+25	+25	+25

Income Tax Personal Allowances

2. The base forecast assumes statutory indexation by 3.7 per cent of personal allowances.

The proposal costed in line 2 is for double indexation of the main allowances. Mr Eason's paper of 25 February examines other options, including a 10 per cent increase in allowances. This option is illustrated in Table 1A (the figures there supersede those in Mr Eason's paper).

Indexation, double indexation and a 10 per cent increase imply the following changes to the main allowances:

	Now	Indexed	Double Indexed	Increased by 10 per cent
Single	£2425	£2515	£2605	£2675
Married Man's	£3795	£3945	£4095	£4175
Age allowance - single	£2960	£3070	£3180	£3260
- married	£4675	£4855	£5035	£5145

Changing personal allowances has no RPI effect.

Income Tax Basic Rate

3. A 2p cut in the basic rate would add 0.12 percentage points to RPI inflation.

The figures in line 3 include the effect of the consequential change in the rate of advance corporation tax, which is reduced as an automatic consequence of cutting the basic rate of income tax. With a 25p basic rate, the rate of ACT would be a third.



Independent Taxation

6. Assumes implementation from 1990-91 and:

- Disaggregation of all husband and wife's income
- Introduction of Married Couples' Allowance equal to difference between MMA and single allowance with MCA transferable to wife if husband cannot use it fully
- Husband and wife's capital gains disaggregated with separate CGT exemption of £6,600 each
- Only one CGT residence exemption per couple
- APA restricted to one per cohabiting couple (yield included in Table 4)
- Transitional protection for breadwinner wives
- Age allowance given only on basis of taxpayer's own age

Some couples will defer disposals on which they have capital gains from 1988-89 and 1989-90 to take advantage of the doubling of their CGT exemption and basic rate band from 1990-91. This will reduce accruals in the years before 1990-91 and increase them in 1990-91 when the deferred disposals are made.

Independent taxation will also directly affect CGT accruals from 1990-91 onwards. If all couples took advantage of independent taxation to reduce their CGT liabilities, the cost in 1990-91 would be about £100 million of CGT accruals (assuming standard behavioural responses to the reduction of the effective tax rate). However not all couples will choose to take advantage of the change. The costings in line 6 assume that 80 per cent of couples benefit, either because they already have assets owned by the wife or because they transfer assets before disposal in order to reduce their CGT liability.

The deferral and direct effects on CGT receipts included in line 6 are:

	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
Deferral	Neg	-30	-60	-20
Direct effect	<u>Nil</u>	<u>Nil</u>	<u>Nil</u>	<u>-40</u>
Total	<u>Neg</u>	<u>-30</u>	<u>-60</u>	<u>-60</u>

The rest of line 6 relates to income tax effects, for which no behavioural assumptions are made.

Capital Gains Tax

7. & 8. All changes (including rebasing companies' gains) would take effect from 6 April 1988. Mr Cayley's minute of 25 February discusses the possibility of reducing the £6,600 CGT exemption in the years prior to the introduction of independent taxation in 1990-91.

The costings have changed since the last Scorecard to reflect revisions to the forecast of asset turnover. Further changes are likely next week.

Costings assume that reductions in effective tax rates lead to increases in the volume of asset disposals and vice versa. The behavioural responses are assumed to be larger for shares than for land. For assets on which the effective tax rate is reduced, behavioural responses are greatest in the first year after a change.

The CGT changes will affect accruals from 1987-88 onwards, but the tax is paid with a lag. About 45 per cent of accruals for individuals and trusts come through as receipts in the subsequent financial year, about 35 per cent the next year and the remainder in later years. For corporation tax on gains, nearly 85 per cent comes through in the year after the accrual and most of the rest a year later.



The figures in the second row of line 7 include the anticipated yield from taxpayers bringing disposals forward to the last three weeks of 1987-88 to avoid paying the higher effective rate of tax in later years (forestalling). This leads to £150 million extra accruals in 1987-88, but £100 million less in later years.

The figures in the second row of line 7 can be broken down as follows:

	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
Forestalling	+70	+20	-20	-5
Direct effect	<u>Nil</u>	<u>+40</u>	<u>+85</u>	<u>+105</u>
Total	<u>+70</u>	<u>+60</u>	<u>+65</u>	<u>+100</u>

The cost of rebasing in line 8 makes an allowance for forestalling by both individuals and companies to crystallise losses at the end of 1987-88, before they are reduced by rebasing. These losses will not affect tax liabilities in 1987-88 but will gradually be used to offset gains in subsequent years. Companies might also hold back disposals of assets on which they have gains from the end of 1987-88 to take advantage of rebasing in 1988-89. The effect of these adjustments, included in line 8, is:

	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
Individuals & trusts	Nil	-5	-10	-10
Companies	<u>-10</u>	<u>-5</u>	<u>-10</u>	<u>-10</u>
Total	<u>-10</u>	<u>-10</u>	<u>-20</u>	<u>-20</u>

**Mortgage Interest Relief**

- 9. All costings ignore behavioural effects and assume change to residence basis on 1 August 1988.

**Home Improvement Loans**

- 10. Costings assume tax relief abolished on loans taken out from 6 April 1988. No allowance has been made for any forestalling that might take place or for any other behavioural effects.

**Covenants and maintenance**

- 11. Assumes abolition of relief on all new covenants between individuals on basis of option 3 in Mr Stewart's paper of 7 January. Assumes abolition of relief on all new maintenance payments other than to divorced/separated spouses, subject to a limit equivalent to the single personal allowance and with no tax on payee. These changes would take effect from Budget Day.

The figures on maintenance payments are provisional only. A further submission by the Revenue is in preparation on revised transitional arrangements, in the light of the Chancellor's meeting on 25 February.

The public expenditure cost (to the Reserve) for student grants would be:

<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
+25	+60	+95	+110



Car Scales

12. The base forecast incorporates the 10 per cent increase in car scales (yielding about £30 million) already announced for 1988-89 but assumes unchanged scales in 1989-90.

The present proposals are to increase car scales by 100 per cent in 1988-89 in place of the 10 per cent already announced, to increase the P11D limit to £10,000 in 1988-89 and then freeze it at that level in later years, and to exempt car parking from tax entirely.

The cost/yield of the individual items are:

	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
100 per cent car scales increase	+230	+280	+290	+290
P11D increase	-50	-50	-40	-30
Car parking	-5	-5	-5	-5
Total	<u>+175</u>	<u>+225</u>	<u>+245</u>	<u>+255</u>

These provisional figures taken no account of behavioural changes and assume coding adjustments are completed in 1988-89. Nevertheless, payments lags mean that the full yield of the increase in car scales does not come through until 1989-90. The figures assume that taxpayers continue to be assessed on 150 per cent of scale benefits if business use is no more than 2,500 miles a year and on 50 per cent of scale benefits if business use is 18,000 miles or more.

If car scales were increased by a further 10 per cent in 1989-90, the additional yield would be:

<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
Nil	+50	+60	+70

Life Assurance Premium Relief

14. It has been agreed that the LAPR rate should not be reduced until 6 April 1989 in order to give the insurance industry time to implement the change.

Business Expansion Scheme

15. The figures assume a ceiling of £½ million on the amount of BES finance which can be raised by a company, except for the private rented sector.

The costing for the extension of BES to the private rented sector is based on the assumptions in Mr Painter's note of 11 February. As that points out, there is no firm basis for estimating the cost of this proposal and the actual cost could turn out to be higher or lower by a wide margin.

Minor Starters

17. See Table 4. Not included in Tables 1 - 1A are starters which protect existing revenue and are thus already assumed in the base forecast.



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**TABLE 2: PSBR EFFECTS<sup>(a)</sup>**  
assuming double indexation of personal allowances

Proposal Number	Proposal	Reduction (-) or increase (+) in £ million (rounded to £5 million)			
		1988-89	1989-90	1990-91	1991-92
1	Excise Duties	Nil	+10	-40	-50
2	Double indexation of main personal allowances	+705	+895	+975	+1065
3	Reduce basic rate of IT to 25p	+2485	+3215	+3660	+4105
4	Increase higher rate IT threshold to £20,000	+230	+425	+475	+555
5	Abolish higher rates of IT above 40p	+1005	+2160	+2475	+3005
6	Independent taxation from 1990-91	+Neg	+30	+725	+1050
7	Freeze £6,600 CGT exemption indefinitely Add remaining gains to income and tax at IT rates	Nil -70	-10 -60	-35 -75	-55 -140
8	Rebase to 1982 - CGT for individuals & trusts - Companies' gains	Nil +25	+60 +220	+150 +490	+240 +735
9	Restrict new MIR to residence and leave ceiling unchanged at £30,000	-5	-20	-40	-50
10	Abolish tax relief on new home improvement loans	-50	-175	-320	-460
11	Abolish tax relief on new covenants between individuals Change rules for new maintenance payments	-45 +10	-110 +5	-185 Nil	-245 Nil
12	Car scales package	-200	-285	-335	-295
13	Reduce small companies' CT rate to 25p in 1988-89	+Neg	+50	+90	+90
14	Reduce life assurance premium relief to 12½p	Nil	-70	-70	-85
15	BES - £½ million limit per company - private rented sector	-Neg +Neg	-25 +40	-25 +40	-25 +40
16	Raise IHT threshold to £110,000 and set single rate of 40%	+100	+200	+240	+270
17	Minor starters	-45	-10	Nil	-30
<b>TOTAL</b>		<b>+4145</b>	<b>+6545</b>	<b>+8195</b>	<b>+9720</b>

(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. They show how much of any fiscal adjustment indicated by the forecasts, assuming a given PSBR, would be used up.

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**TABLE 2A: PSBR EFFECTS<sup>(a)</sup>**  
assuming personal allowances increased by 10 per cent

Proposal Number	Proposal	Reduction (-) or increase (+) in £ million (rounded to £5 million)			
		1988-89	1989-90	1990-91	1991-92
1	Excise Duties	Nil	+10	-40	-50
2	Main personal allowances increased by 10 per cent	+1145	+1445	+1575	+1745
3	Reduce basic rate of IT to 25p	+2465	+3170	+3610	+4055
4	Increase higher rate IT threshold to £20,000	+220	+425	+465	+550
5	Abolish higher rates of IT above 40p	+1005	+2160	+2475	+2985
6	Independent taxation from 1990-91	+Neg	+30	+725	+1050
7	Freeze £6,600 CGT exemption indefinitely Add remaining gains to income and tax at IT rates	Nil -70	-10 -60	-35 -75	-55 -140
8	Rebase to 1982 - CGT for individuals & trusts - Companies' gains	Nil +25	+60 +220	+150 +490	+240 +735
9	Restrict new MIR to residence and leave ceiling unchanged at £30,000	-5	-20	-40	-50
10	Abolish tax relief on new home improvement loans	-50	-175	-320	-460
11	Abolish tax relief on new covenants between individuals Change rules for new maintenance payments	-45 +10	-110 +5	-185 Nil	-245 Nil
12	Car scales package	-200	-285	-335	-295
13	Reduce small companies' CT rate to 25p in 1988-89	+Neg	+50	+90	+90
14	Reduce life assurance premium relief to 12½p	Nil	-70	-70	-85
15	BES - £½ million limit per company - private rented sector	-Neg +Neg	-25 +40	-25 +40	-25 +40
16	Raise IHT threshold to £110,000 and set single rate of 40%	+100	+200	+240	+270
17	Minor starters	-45	-10	Nil	-30
<b>TOTAL</b>		<b>+4555</b>	<b>+7050</b>	<b>+8735</b>	<b>+10325</b>

(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. They show how much of any fiscal adjustment indicated by the forecasts, assuming a given PSBR, would be used up.

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**TABLE 3: STAFFING EFFECTS<sup>(a)</sup>**

Proposal Number	Proposal	Effect on manpower numbers at			
		April 1989	April 1990	April 1991	April 1992
1	Excise Duties	Nil	Nil	Nil	Nil
2-5	Reduce basic rate of income tax to 25p, double index personal allowances, increase higher rate threshold to £20,000 and abolish higher rates of income tax above 40p <sup>(b)</sup>	-30	-95	-95	-95
6	Independent taxation from 1990-91				
	- independent taxation of husband and wife <sup>(c)</sup>	+420	+770	+1425	+2300
				to +1475	to +2450
	- changes to APA rules <sup>(d)</sup>	Nil	Nil	Nil	Nil
7	Freeze CGT exempt amount indefinitely	Nil	+10	+10	) -30
	Add remaining gains to income and tax at IT rates	Nil	+Neg	+Neg	) to +30
8	Rebase capital gains to 1982	Nil	+5	+5	)
9	Restrict new MIR to residence and leave ceiling unchanged at £30,000	+25	+25	+25	+25
10	Abolish tax relief on new home improvement loans <sup>(e)</sup>	-150	-200	-250	-300
11	Abolish tax relief on new covenants; change rules for new maintenance payments <sup>(f)</sup>	-140	-320	-400	-440
12	Car scales package <sup>(g)</sup>		not yet known		
13	Reduce small companies' CT rate	Nil	Nil	Nil	Nil
14	Reduce life assurance premium relief	Nil	Nil	Nil	Nil
15	BES - £½ million limit per company	Neg	Neg	Neg	Neg
	- private rented sector	Neg	Neg	Neg	Neg
16	Raise IHT threshold to £110,000 and set single rate of 40%	-20	-35	-50	-50
17	Minor starters <sup>(h)</sup>	-75	-100	-100	-100
	No change to stamp duty threshold	+10	+10	+10	+10
<b>TOTAL<sup>(i)</sup></b>		<b>+40</b>	<b>+70</b>	<b>+630</b>	<b>+1530</b>

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Notes to Table 3

(a) Health Warning. The conventional assumption used in costing Budget changes is that nothing else is changing at the same time. But there are, of course, other factors which will affect the Revenue's and Customs' manpower over the same period. The correct approach in principle is to take all the changes into account in the order in which they should happen but, among other things, the need to maintain Budget security makes this difficult. So there is a risk of some double counting of both savings and costs. Pluses or minuses could turn out larger or smaller and some figures could change sign. The total is (like the PSBR) the difference between large plus and minus components.

(b) If personal allowances were instead increased by 10 per cent, the staff effects would be:

April 1989	April 1990	April 1991	April 1992
-35	-60	-60	-60

(c) The April 1989 and April 1990 figures reflect setting up costs; some of the April 1990 staffing need may be covered by use of overtime and casual staff.

(d) The implementation costs will involve 85 units of overtime in 1988-89 and 20 units in 1989-90.

(e) Further staff savings in later years.

(f) Figures under review.

(g) It is expected that there will be a staff cost (overtime) for implementing a coding change for car scales in 1988-89 but the extent depends on operational decisions yet to be taken. The staff effect of increasing the P11D threshold is still being assessed.

(h) The staff savings shown are entirely accounted for by abolition of minor personal allowances.

(i) Where a range is shown for a proposal, the total assumes maximum staff additions.

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## TABLE 4: MINOR STARTERS (a) (b)

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(Principal items in Starters list which Ministers have agreed are now serious contenders, including all those with revenue effects of £5 million or more)

FB Starter Number	Proposal	Cost(-) or Yield(+) in £ million			
		1988-89	1989-90	1990-91	1991-92
4	Restructuring of duty on low strength mixed drinks	Neg	Neg	Neg	Neg
7	Abolition of minimum duty for beer (from 1.10.88)	Neg	Neg	Neg	Neg
30	Keith package (Customs & Excise)	Neg	Neg	Neg	Neg
34	Tax on supply to be liability of person completing VAT invoice	+5	+5	+5	+5
37	VAT - certain confectionery (from 1.5.88)	+5	+10	+10	+10
38	VAT - business entertainment (from 1.8.88)	+5	+5	+5	+5
60	Disclosure of importers' details	Neg	Neg	Neg	Neg
61	Search of persons	Nil	Nil	Nil	Nil
62	Penalty for customs fraud	Nil	Nil	Nil	Nil
63	Prosecution time limits	Neg	Neg	Neg	Neg
102	Restriction on APA for unmarried couples	Nil	+5	+5	+5
103	Abolition of three minor personal allowances (housekeeper, son's or daughter's services and dependent relative allowances)	+10	+10	+10	+10
111	Review of S79 unapproved employee share schemes	Neg	Neg	Neg	Neg
117	Redundancy payments: top-slicing	Neg	Neg	Neg	Neg
118	Premiums for leases: top-slicing	Neg	Neg	Neg	Neg
119	Restriction of MIR for dependent relatives	Neg	Neg	Neg	Neg
120	Reduce additional rate on trusts to 10 per cent	-5	-10	-15	-15
123	Payroll Giving: doubling limit	Neg	Neg	Neg	Neg
151	Personal pensions: minor changes	-10	-5	-5	-5
211	Abolition of business entertainment relief	Neg	+5	+5	+5
214	Lloyd's: RIC leavers	Neg	Neg	Neg	Neg
216	Lloyd's: reform of assessment system	Nil	Neg	Neg	Neg
260	CGT rollover for milk quotas	Neg	-5	-10	-10
265	CGT retirement relief	Nil	-10	-20	-25
353	North Sea farm-outs	-5	-5	-5	-5
354	Southern Basin restructuring (c)	Neg	-50	-60	Neg
452	Keith package (Inland Revenue)	+10	+20	+30	+30
453	Forestry (d)	Nil	Neg	+5	+5
601	VED: Recovery Vehicles	Nil	Nil	Nil	Nil
633	VED: Pre-1947 Vehicles	Neg	Neg	Neg	Neg
635	VED: Long, wide and heavy loads	Neg	Neg	Neg	Neg
636	VED: Rigid goods vehicles	+20	+20	+20	+20
-	Rate of tax on pension contribution refunds	+15	+15	+15	+15
-	PEPs: increase in investment limit	Neg	-5	-10	-15

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+50 +5 -15 +35



Notes to Table 4

(a) Not included in Table 4 are the following minor starters which protect existing revenue and are thus already assumed in the base forecast:

- 213 In-year assessment of Schedule D income
- 258 CGT: indexation and groups
- 259 CGT: intra-group share exchanges
- 400 S482: company residence and migration

(b) Other important minor starters still under consideration are:

- 303 Abolition of unit trust instrument duty and capital duty

(c) The uneven cost profile arises from the net effect of two changes: abolishing royalties and reducing PRT oil allowances for Southern Basin and onshore fields approved after 1 April 1982. The longer-term effect of these proposals is expected to be broadly revenue-neutral.

(d) Forestry would be exempt from Schedule D taxation from 15 March 1988 (subject to transitional arrangements extending to 1992) and from Schedule B taxation (which would be abolished) from 6 April. The provisional public expenditure cost of the new grant regime associated with this measure would be:

<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
Neg	+5	+5	+10

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	1988 -89	1989 -90	
1. Excise duties	Nil	-40	
2. Double indexing of main personal allowances	-690	-890	
3. Reduce basic rate to 25p	-2520	-3160 (a)	
4. Double revalorise basic rate limit	-120	-220 (a)	
5. Abolish higher rates above 40p	995 <del>-1030</del>	2150 <del>-2210</del> (a)	
6. Independent taxation from 90-91	- Neg	-30	
7. CGT exemption cut to £5000 and indexed	Nil	+30 (b)	
Add remaining gains to income & tax at 18 rates	+70	+60	
8. Rebase to 1982			
- CGT for individuals & trusts	Nil	-75	
- Companies' gains	-25	-235	
9. Restrict MIR to residence	+5	+20	
10. Abolish relief on home improvement loans	+60	+170 (c)	
11. Abolish tax relief on new covenants between individuals	+45	+105	
Change rules for maintenance payments	-5	Neg (d)	
12. Car scales	+290	+355 (e)	
13. Reduce small companies CT rate to 25p	- Neg	-50	
14. Reduce LAMP to 12 1/2%.	Nil	+70	
15. BES - £1/2 m limit	+ Neg	+25	
- private renting	- Neg	-40	
16. Raise IHT to £110,000 & set single rate of 40%	-100	-200	
17. Abolish capital duty & UT ID	-100	-100 +25	
18. Minor starters	+50	+5	
<b>TOTAL</b>	<u>-407035</u>	<u>-6410</u> +6335	



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**TABLE 1: DIRECT EFFECTS OF BUDGET MEASURES**  
assuming double indexation of personal allowances

All figures are net of cost or yield of indexation or revalorisation.

Proposal Number	Proposal	Cost(-) or Yield(+) in £ million (rounded to £5 million)			
		1988-89	1989-90	1990-91	1991-92
1	Excise Duties	Nil	-40	-80	-160
2	Double indexation of main personal allowances	-690	-890	-940	-990
3	Reduce basic rate of IT to 25p	-2440	-3060	-3180	-3380
4	Increase higher rate IT threshold to £20,000	-220	-400	-440	-470
5	Abolish higher rates of IT above 40p	-960	-2050	-2300	-2550
6	Independent taxation from 1990-91	-Neg	-30	-690	-1030
7	Freeze £6,600 CGT exemption indefinitely Add remaining gains to income and tax at IT rates	Nil +70	+10 +60	+30 +65	+40 +100
8	Rebase to 1982				
	- CGT for individuals & trusts	Nil	-75	-150	-175
	- Companies' gains	-25	-235	-490	-590
9	Restrict new MIR to residence and leave ceiling unchanged at £30,000	+5	+20	+40	+50
10	Abolish tax relief on new home improvement loans	+80	+200	+300	+400
11	Abolish tax relief on new covenants between individuals	+45	+105	+160	+175
	Change rules for new maintenance payments	-10	-5	Nil	Nil
12	Car scales package	+175	+225	+245	+255
13	Reduce small companies' CT rate to 25p in 1988-89	-Neg	-50	-90	-90
14	Reduce life assurance premium relief to 12½p	Nil	+70	+60	+55
15	BES - £½ million limit per company	+Neg	+25	+25	+25
	- private rented sector	-Neg	-40	-40	-40
16	Raise IHT threshold to £110,000 and set single rate of 40%	-100	-200	-240	-270
17	Minor starters	+50	+5	-15	+35
<b>TOTAL TAX MEASURES</b>		<b>-4020</b>	<b>-6355</b>	<b>-7730</b>	<b>-8610</b>

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**TABLE 1A: DIRECT EFFECTS OF BUDGET MEASURES**  
assuming personal allowances increased by 10 per cent

All figures are net of cost or yield of indexation or revalorisation.

Proposal Number	Proposal	Cost(-) or Yield(+) in £ million (rounded to £5 million)			
		1988-89	1989-90	1990-91	1991-92
1	Excise Duties	Nil	40	80	-160
2	Main personal allowances increased by 10 per cent	-1120	-1440	-1520	-1620
3	Reduce basic rate of IT to 25p	-2420	-3020	-3140	-3340
4	Increase higher rate IT threshold to £20,000	-210	-400	-430	-460
5	Abolish higher rates of IT above 40p	-960	-2050	-2300	-2540
6	Independent taxation from 1990-91	-Neg	-30	-690	-1030
7	Freeze £6,600 CGT exemption indefinitely Add remaining gains to income and tax at IT rates	Nil +70	+10 +60	+30 +65	+40 +100
8	Rebase to 1982 - CGT for individuals & trusts - Companies' gains	Nil -25	-75 -235	-150 -490	-175 -590
9	Restrict new MIR to residence and leave ceiling unchanged at £30,000	+5	+20	+40	+50
10	Abolish tax relief on new home improvement loans	+80	+200	+300	+400
11	Abolish tax relief on new covenants between individuals Change rules for new maintenance payments	+45 -10	+105 -5	+160 Nil	+175 Nil
12	Car scales package	+175	+225	+245	+255
13	Reduce small companies' CT rate to 25p in 1988-89	-Neg	-50	-90	-90
14	Reduce life assurance premium relief to 12½p	Nil	+70	+60	+55
15	BES - £½ million limit per company - private rented sector	+Neg -Neg	+25 -40	+25 -40	+25 -40
16	Raise IHT threshold to £110,000 and set single rate of 40%	-100	-200	-240	-270
17	Minor starters	+50	+5	-15	+35
<b>TOTAL TAX MEASURES</b>		<b>-4420</b>	<b>-6865</b>	<b>-8260</b>	<b>-9180</b>

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Notes to Tables 1 - 1A

All figures show cost (-) or yield (+) in £ million unless otherwise indicated.

Excise Duties

1. The base forecast assumes excise duties revalorised by 3.7 per cent (the inflation rate for the twelve months to December 1987). If the duties were not revalorised, RPI inflation would be 0.28 percentage points lower than in the base forecast.

It has been agreed not to increase duties on betting and gaming, and on matches and mechanical lighters.

Lead Option: Revalorisation

The lead option is a package which assumes overall revalorisation in revenue terms with the following departures for individual duties:

Alcoholic Drinks

Spirits and fortified wines: no change.

Beer, cider, sparkling and table wines: over-revalorised to recoup revenue lost by not revalorising spirits and fortified wines, cider being increased by the same pence per pint as beer.

Tobacco

Pipe tobacco: no change.

Cigars: revalorised.

Cigarettes and hand rolled tobacco: over-revalorised to recoup revenue lost by not revalorising pipe tobacco (negligible difference from revalorisation).

Oils and VED

VED, unleaded petrol, fuel oil and gas oil: no change.

Leaded petrol: over-revalorised to recoup revenue lost by not revalorising unleaded petrol and VED on cars and light vans.

Derv: over-revalorised to recoup revenue lost by not revalorising fuel oil, gas oil and VED on other vehicles.

The cost of this package is shown in line 1. The package has been designed to have the same cost as revalorisation in 1988-89; the additional cost in subsequent years occurs largely because of the assumed shift in consumption towards unleaded petrol. The package would have a very similar RPI effect to straight revalorisation and would imply the following percentage duty and price increases:

Product	Unit	Duty increase (per cent)	Price increase (pence)	
			Proposed	Diff. from Reval.
Beer	Pint	4.7	1.0	+0.2
Cider	Pint	9.7	1.0	+0.6
Table wine	75cl	4.7	4.0	+0.9
Sparkling wine	70cl	4.7	6.1	+1.3
Sherry	70cl	nil	nil	-5.0
Spirits	75cl	nil	nil	-20.1
Cigarettes	20KS	3.7	3.4	nil
Cigars	5 whiffs	3.7	1.9	nil
Pipe tobacco	25 grams	nil	nil	-2.7
Petrol (leaded)	Gallon	5.6	5.6	+1.9
Petrol (unleaded)	Gallon	nil	nil	-3.6
Derv	Gallon	5.7	4.9	+1.7
VED (cars)	-	nil	nil	-£3.70
VED (other)	-	nil	nil	-(various)
Gas oil	Litre	nil	nil	-0.2
Fuel oil	Litre	nil	nil	-0.1

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Option 2: Sesqui Revalorisation

A second option is for duties to be sesqui (ie 150 per cent) revalorised in revenue terms with the following departures for individual duties:

**Alcoholic Drinks**

Spirits and fortified wines: revalorised.

Beer, cider, sparkling and table wines: super-sesqui revalorised to recoup revenue lost by not sesqui revalorising spirits and fortified wines, cider being increased by the same pence per pint as beer.

**Tobacco**

Pipe tobacco: no change.

Cigars: revalorised.

Cigarettes and hand rolled tobacco: super-sesqui revalorised to recoup revenue lost by not sesqui revalorising pipe tobacco and cigars.

**Oils and VED**

VED, fuel oil and gas oil: no change.

Unleaded petrol: adjust duty to create 10p tax (approx 5p price) differential.

Leaded petrol: super-sesqui revalorised to recoup revenue lost by not sesqui revalorising unleaded petrol and VED on cars and light vans.

Derv: super-sesqui revalorised to recoup revenue lost by not sesqui revalorising fuel oil, gas oil and VED on other vehicles.

This would add a further 0.14 percentage points to the RPI (in addition to what is assumed in the forecast) and imply the following price increases:

Product	Unit	Duty increase (per cent)	Price increase (pence)	
			Proposed	Diff. from Reval.
Beer	Pint	6.2	1.3	+0.5
Cider	Pint	12.6	1.3	+0.9
Table wine	75cl	6.2	5.2	+2.1
Sparkling wine	70cl	6.2	8.1	+2.9
Sherry	70cl	3.7	5.0	nil
Spirits	75cl	3.7	20.1	nil
Cigarettes	20KS	5.7	5.3	+1.9
Cigars	5 whiffs	3.7	1.9	nil
Pipe tobacco	25 grams	nil	nil	-2.7
Petrol (leaded)	Gallon	8.1	8.2	+4.5
Petrol (unleaded)	Gallon	3.3	3.2	-0.4
Derv	Gallon	9.1	7.8	+4.6
VED (cars)	-	nil	nil	-£3.70
VED (other)	-	nil	nil	-(various)
Gas oil	Litre	nil	nil	-0.2
Fuel oil	Litre	nil	nil	-0.1

The yield of this package (replacing the figures in line 1) would be:

<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
+290	+285	+275	+235



Option 3: Double Revalorisation

A third option is for duties to be double revalorised in overall revenue terms with the following departures for individual duties:

**Alcoholic Drinks**

Spirits and fortified wines: revalorised.

Beer, cider, sparkling and table wines: over-double revalorised to recoup revenue lost by not double revalorising spirits and fortified wines, cider being increased by the same pence per pint as beer.

**Tobacco**

Pipe tobacco: no change.

Cigars: revalorised.

Cigarettes and hand rolled tobacco: over-double revalorised to recoup revenue lost by not double revalorising pipe tobacco and cigars.

**Oils and VED**

VED, fuel oil and gas oil: no change.

Unleaded petrol: adjust duty to create 10p tax (approx 5p price) differential.

Leaded petrol: over-double revalorised to recoup revenue lost by not double revalorising unleaded petrol and VED on cars and light vans.

Derv: over-double revalorised to recoup revenue lost by not double revalorising fuel oil, gas oil and VED on other vehicles.

This would add a further 0.28 percentage points to the RPI (in addition to what is assumed in the forecast) and imply the following price increases:

Product	Unit	Duty increase (per cent)	Price increase (pence)	
			Proposed	Diff. from Reval.
Beer	Pint	8.3	1.8	+1.0
Cider	Pint	17.4	1.8	+1.4
Table wine	75cl	8.3	7.0	+3.9
Sparkling wine	70cl	8.3	10.8	+6.0
Sherry	70cl	3.7	5.0	nil
Spirits	75cl	3.7	20.1	nil
Cigarettes	20KS	7.6	7.1	+3.7
Cigars	5 whiffs	3.7	1.9	nil
Pipe tobacco	25 grams	nil	nil	-2.7
Petrol (leaded)	Gallon	10.6	10.7	+7.0
Petrol (unleaded)	Gallon	5.9	5.7	+2.1
Derv	Gallon	12.1	10.4	+7.2
VED (cars)	-	nil	nil	-£3.70
VED (other)	-	nil	nil	-(various)
Gas oil	Litre	nil	nil	-0.2
Fuel oil	Litre	nil	nil	-0.1

The yield of this package (replacing the figures in line 1) would be:

<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
+560	+550	+560	+525



Duty Deferment

At the Overview Meeting on 8 February it was agreed that if excise duties were double revalorised, consideration should be given to extending the period of duty deferment for wines and spirits by one month. On the assumption that it would be introduced at the end of 1987-88, it would have a once-and-for-all revenue cost in that year of £250 million. There would be no effect on revenues or PSBR in 1988-89 or in subsequent years. If the same concession were extended to all alcoholic drinks, the cost in 1987-88 would be increased to £400 million.

VAT

The base forecast assumes no change in the standard rate and assumes revalorisation by 3.7 per cent of the VAT registration threshold to £22,100 (from £21,300).

In the light of the European Court's recent judgment, a clause may have to be brought forward during Committee Stage of the Finance Bill to apply VAT to spectacles, contact lenses and privately purchased hearing aids. Assuming VAT is applied from 1 July 1988, the measure would add 0.01 percentage points to RPI inflation and the yield would be:

<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
+10	+25	+25	+25

Income Tax Personal Allowances

2. The base forecast assumes statutory indexation by 3.7 per cent of personal allowances.

The proposal costed in line 2 is for double indexation of the main allowances. Mr Eason's paper of 25 February examines other options, including a 10 per cent increase in allowances. This option is illustrated in Table 1A (the figures there supersede those in Mr Eason's paper).

Indexation, double indexation and a 10 per cent increase imply the following changes to the main allowances:

	<u>Now</u>	<u>Indexed</u>	<u>Double Indexed</u>	<u>Increased by 10 per cent</u>
Single	£2425	£2515	£2605	£2675
Married Man's	£3795	£3945	£4095	£4175
Age allowance - single	£2960	£3070	£3180	£3260
- married	£4675	£4855	£5035	£5145

Changing personal allowances has no RPI effect.

Income Tax Basic Rate

3. A 2p cut in the basic rate would add 0.12 percentage points to RPI inflation.

The figures in line 3 include the effect of the consequential change in the rate of advance corporation tax, which is reduced as an automatic consequence of cutting the basic rate of income tax. With a 25p basic rate, the rate of ACT would be a third.



**Independent Taxation**

6. Assumes implementation from 1990-91 and:

- Disaggregation of all husband and wife's income
- Introduction of Married Couples' Allowance equal to difference between MMA and single allowance with MCA transferable to wife if husband cannot use it fully
- Husband and wife's capital gains disaggregated with separate CGT exemption of £6,600 each
- Only one CGT residence exemption per couple
- APA restricted to one per cohabiting couple (yield included in Table 4)
- Transitional protection for breadwinner wives
- Age allowance given only on basis of taxpayer's own age

Some couples will defer disposals on which they have capital gains from 1988-89 and 1989-90 to take advantage of the doubling of their CGT exemption and basic rate band from 1990-91. This will reduce accruals in the years before 1990-91 and increase them in 1990-91 when the deferred disposals are made.

Independent taxation will also directly affect CGT accruals from 1990-91 onwards. If all couples took advantage of independent taxation to reduce their CGT liabilities, the cost in 1990-91 would be about £100 million of CGT accruals (assuming standard behavioural responses to the reduction of the effective tax rate). However not all couples will choose to take advantage of the change. The costings in line 6 assume that 80 per cent of couples benefit, either because they already have assets owned by the wife or because they transfer assets before disposal in order to reduce their CGT liability.

The deferral and direct effects on CGT receipts included in line 6 are:

	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
Deferral	Neg	-30	-60	-20
Direct effect	<u>Nil</u>	<u>Nil</u>	<u>Nil</u>	<u>-40</u>
Total	<u>Neg</u>	<u>-30</u>	<u>-60</u>	<u>-60</u>

The rest of line 6 relates to income tax effects, for which no behavioural assumptions are made.

**Capital Gains Tax**

7. & 8. All changes (including rebasing companies' gains) would take effect from 6 April 1988. Mr Cayley's minute of 25 February discusses the possibility of reducing the £6,600 CGT exemption in the years prior to the introduction of independent taxation in 1990-91.

The costings have changed since the last Scorecard to reflect revisions to the forecast of asset turnover. Further changes are likely next week.

Costings assume that reductions in effective tax rates lead to increases in the volume of asset disposals and vice versa. The behavioural responses are assumed to be larger for shares than for land. For assets on which the effective tax rate is reduced, behavioural responses are greatest in the first year after a change.

The CGT changes will affect accruals from 1987-88 onwards, but the tax is paid with a lag. About 45 per cent of accruals for individuals and trusts come through as receipts in the subsequent financial year, about 35 per cent the next year and the remainder in later years. For corporation tax on gains, nearly 85 per cent comes through in the year after the accrual and most of the rest a year later.



The figures in the second row of line 7 include the anticipated yield from taxpayers bringing disposals forward to the last three weeks of 1987-88 to avoid paying the higher effective rate of tax in later years (forestalling). This leads to £150 million extra accruals in 1987-88, but £100 million less in later years.

The figures in the second row of line 7 can be broken down as follows:

	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
Forestalling	+70	+20	-20	-5
Direct effect	<u>Nil</u>	<u>+40</u>	<u>+85</u>	<u>+105</u>
Total	<u>+70</u>	<u>+60</u>	<u>+65</u>	<u>+100</u>

The cost of rebasing in line 8 makes an allowance for forestalling by both individuals and companies to crystallise losses at the end of 1987-88, before they are reduced by rebasing. These losses will not affect tax liabilities in 1987-88 but will gradually be used to offset gains in subsequent years. Companies might also hold back disposals of assets on which they have gains from the end of 1987-88 to take advantage of rebasing in 1988-89. The effect of these adjustments, included in line 8, is:

	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
Individuals & trusts	Nil	-5	-10	-10
Companies	<u>-10</u>	<u>-5</u>	<u>-10</u>	<u>-10</u>
Total	<u>-10</u>	<u>-10</u>	<u>-20</u>	<u>-20</u>

#### Mortgage Interest Relief

9. All costings ignore behavioural effects and assume change to residence basis on 1 August 1988.

#### Home Improvement Loans

10. Costings assume tax relief abolished on loans taken out from 6 April 1988. No allowance has been made for any forestalling that might take place or for any other behavioural effects.

#### Covenants and maintenance

11. Assumes abolition of relief on all new covenants between individuals on basis of option 3 in Mr Stewart's paper of 7 January. Assumes abolition of relief on all new maintenance payments other than to divorced/separated spouses, subject to a limit equivalent to the single personal allowance and with no tax on payee. These changes would take effect from Budget Day.

The figures on maintenance payments are provisional only. A further submission by the Revenue is in preparation on revised transitional arrangements, in the light of the Chancellor's meeting on 25 February.

The public expenditure cost (to the Reserve) for student grants would be:

<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
+25	+60	+95	+110



**Car Scales**

12. The base forecast incorporates the 10 per cent increase in car scales (yielding about £30 million) already announced for 1988-89 but assumes unchanged scales in 1989-90.

The present proposals are to increase car scales by 100 per cent in 1988-89 in place of the 10 per cent already announced, to increase the P11D limit to £10,000 in 1988-89 and then freeze it at that level in later years, and to exempt car parking from tax entirely.

The cost/yield of the individual items are:

	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
100 per cent car scales increase	+230	+280	+290	+290
P11D increase	-50	-50	-40	-30
Car parking	-5	-5	-5	-5
Total	<u>+175</u>	<u>+225</u>	<u>+245</u>	<u>+255</u>

These provisional figures taken no account of behavioural changes and assume coding adjustments are completed in 1988-89. Nevertheless, payments lags mean that the full yield of the increase in car scales does not come through until 1989-90. The figures assume that taxpayers continue to be assessed on 150 per cent of scale benefits if business use is no more than 2,500 miles a year and on 50 per cent of scale benefits if business use is 18,000 miles or more.

If car scales were increased by a further 10 per cent in 1989-90, the additional yield would be:

<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
Nil	+50	+60	+70

**Life Assurance Premium Relief**

14. It has been agreed that the LAPR rate should not be reduced until 6 April 1989 in order to give the insurance industry time to implement the change.

**Business Expansion Scheme**

15. The figures assume a ceiling of £½ million on the amount of BES finance which can be raised by a company, except for the private rented sector.

The costing for the extension of BES to the private rented sector is based on the assumptions in Mr Painter's note of 11 February. As that points out, there is no firm basis for estimating the cost of this proposal and the actual cost could turn out to be higher or lower by a wide margin.

**Minor Starters**

17. See Table 4. Not included in Tables 1 - 1A are starters which protect existing revenue and are thus already assumed in the base forecast.



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**SCORECARD OF 26 FEBRUARY 1988**

**TABLE 2: PSBR EFFECTS<sup>(a)</sup>**  
assuming double indexation of personal allowances

Proposal Number	Proposal	Reduction (-) or increase (+) in £ million (rounded to £5 million)			
		1988-89	1989-90	1990-91	1991-92
1	Excise Duties	Nil	+10	-40	-50
2	Double indexation of main personal allowances	+705	+895	+975	+1065
3	Reduce basic rate of IT to 25p	+2485	+3215	+3660	+4105
4	Increase higher rate IT threshold to £20,000	+230	+425	+475	+555
5	Abolish higher rates of IT above 40p	+1005	+2160	+2475	+3005
6	Independent taxation from 1990-91	+Neg	+30	+725	+1050
7	Freeze £6,600 CGT exemption indefinitely Add remaining gains to income and tax at IT rates	Nil -70	-10 -60	-35 -75	-55 -140
8	Rebase to 1982 - CGT for individuals & trusts - Companies' gains	Nil +25	+60 +220	+150 +490	+240 +735
9	Restrict new MIR to residence and leave ceiling unchanged at £30,000	-5	-20	-40	-50
10	Abolish tax relief on new home improvement loans	-50	-175	-320	-460
11	Abolish tax relief on new covenants between individuals Change rules for new maintenance payments	-45 +10	-110 +5	-185 Nil	-245 Nil
12	Car scales package	-200	-285	-335	-295
13	Reduce small companies' CT rate to 25p in 1988-89	+Neg	+50	+90	+90
14	Reduce life assurance premium relief to 12½p	Nil	-70	-70	-85
15	BES - £½ million limit per company - private rented sector	-Neg +Neg	-25 +40	-25 +40	-25 +40
16	Raise IHT threshold to £110,000 and set single rate of 40%	+100	+200	+240	+270
17	Minor starters	-45	-10	Nil	-30
<b>TOTAL</b>		<b>+4145</b>	<b>+6545</b>	<b>+8195</b>	<b>+9720</b>

(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. They show how much of any fiscal adjustment indicated by the forecasts, assuming a given PSBR, would be used up.

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SCORECARD OF 26 FEBRUARY 1988

**TABLE 2A: PSBR EFFECTS<sup>(a)</sup>**  
assuming personal allowances increased by 10 per cent

Proposal Number	Proposal	Reduction (-) or increase (+) in £ million (rounded to £5 million)			
		1988-89	1989-90	1990-91	1991-92
1	Excise Duties	Nil	+10	-40	-50
2	Main personal allowances increased by 10 per cent	+1145	+1445	+1575	+1745
3	Reduce basic rate of IT to 25p	+2465	+3170	+3610	+4055
4	Increase higher rate IT threshold to £20,000	+220	+425	+465	+550
5	Abolish higher rates of IT above 40p	+1005	+2160	+2475	+2985
6	Independent taxation from 1990-91	+Neg	+30	+725	+1050
7	Freeze £6,600 CGT exemption indefinitely Add remaining gains to income and tax at IT rates	Nil -70	-10 -60	-35 -75	-55 -140
8	Rebase to 1982				
	- CGT for individuals & trusts	Nil	+60	+150	+240
	- Companies' gains	+25	+220	+490	+735
9	Restrict new MIR to residence and leave ceiling unchanged at £30,000	-5	-20	-40	-50
10	Abolish tax relief on new home improvement loans	-50	-175	-320	-460
11	Abolish tax relief on new covenants between individuals	-45	-110	-185	-245
	Change rules for new maintenance payments	+10	+5	Nil	Nil
12	Car scales package	-200	-285	-335	-295
13	Reduce small companies' CT rate to 25p in 1988-89	+Neg	+50	+90	+90
14	Reduce life assurance premium relief to 12½p	Nil	-70	-70	-85
15	BES - £½ million limit per company	-Neg	-25	-25	-25
	- private rented sector	+Neg	+40	+40	+40
16	Raise IHT threshold to £110,000 and set single rate of 40%	+100	+200	+240	+270
17	Minor starters	-45	-10	Nil	-30
<b>TOTAL</b>		<b>+4555</b>	<b>+7050</b>	<b>+8735</b>	<b>+10325</b>

(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. They show how much of any fiscal adjustment indicated by the forecasts, assuming a given PSBR, would be used up.

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**SCORECARD OF 26 FEBRUARY 1988**

**TABLE 3: STAFFING EFFECTS<sup>(a)</sup>**

Proposal Number	Proposal	Effect on manpower numbers at			
		April 1989	April 1990	April 1991	April 1992
1	Excise Duties	Nil	Nil	Nil	Nil
2-5	Reduce basic rate of income tax to 25p, double index personal allowances, increase higher rate threshold to £20,000 and abolish higher rates of income tax above 40p <sup>(b)</sup>	-30	-95	-95	-95
6	Independent taxation from 1990-91				
	- independent taxation of husband and wife <sup>(c)</sup>	+420	+770	+1425 to +1475	+2300 to +2450
	- changes to APA rules <sup>(d)</sup>	Nil	Nil	Nil	Nil
7	Freeze CGT exempt amount indefinitely	Nil	+10	+10	) -30
	Add remaining gains to income and tax at IT rates	Nil	+Neg	+Neg	) to +30
8	Rebase capital gains to 1982	Nil	+5	+5	)
9	Restrict new MIR to residence and leave ceiling unchanged at £30,000	+25	+25	+25	+25
10	Abolish tax relief on new home improvement loans <sup>(e)</sup>	-150	-200	-250	-300
11	Abolish tax relief on new covenants; change rules for new maintenance payments <sup>(f)</sup>	-140	-320	-400	-440
12	Car scales package <sup>(g)</sup>		not yet known		
13	Reduce small companies' CT rate	Nil	Nil	Nil	Nil
14	Reduce life assurance premium relief	Nil	Nil	Nil	Nil
15	BES - £½ million limit per company	Neg	Neg	Neg	Neg
	- private rented sector	Neg	Neg	Neg	Neg
16	Raise IHT threshold to £110,000 and set single rate of 40%	-20	-35	-50	-50
17	Minor starters <sup>(h)</sup>	-75	-100	-100	-100
	No change to stamp duty threshold	+10	+10	+10	+10
<b>TOTAL<sup>(i)</sup></b>		<b>+40</b>	<b>+70</b>	<b>+630</b>	<b>+1530</b>

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**NOT TO BE COPIED**Notes to Table 3

(a) Health Warning. The conventional assumption used in costing Budget changes is that nothing else is changing at the same time. But there are, of course, other factors which will affect the Revenue's and Customs' manpower over the same period. The correct approach in principle is to take all the changes into account in the order in which they should happen but, among other things, the need to maintain Budget security makes this difficult. So there is a risk of some double counting of both savings and costs. Pluses or minuses could turn out larger or smaller and some figures could change sign. The total is (like the PSBR) the difference between large plus and minus components.

(b) If personal allowances were instead increased by 10 per cent, the staff effects would be:

<u>April 1989</u>	<u>April 1990</u>	<u>April 1991</u>	<u>April 1992</u>
-35	-60	-60	-60

(c) The April 1989 and April 1990 figures reflect setting up costs; some of the April 1990 staffing need may be covered by use of overtime and casual staff.

(d) The implementation costs will involve 85 units of overtime in 1988-89 and 20 units in 1989-90.

(e) Further staff savings in later years.

(f) Figures under review.

(g) It is expected that there will be a staff cost (overtime) for implementing a coding change for car scales in 1988-89 but the extent depends on operational decisions yet to be taken. The staff effect of increasing the P11D threshold is still being assessed.

(h) The staff savings shown are entirely accounted for by abolition of minor personal allowances.

(i) Where a range is shown for a proposal, the total assumes maximum staff additions.

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## SCORECARD OF 26 FEBRUARY 1988

BUDGET SECRET (a) (b)  
TABLE 4: MINOR STARTERS  
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(Principal items in Starters list which Ministers have agreed are now serious contenders, including all those with revenue effects of £5 million or more)

FE Starter Number	Proposal	Cost(-) or Yield(+) in £ million				
		1988-89	1989-90	1990-91	1991-92	
4	Restructuring of duty on low strength mixed drinks	Neg	Neg	Neg	Neg	
7	Abolition of minimum duty for beer (from 1.10.88)	Neg	Neg	Neg	Neg	
30	Keith package (Customs & Excise)	Neg	Neg	Neg	Neg	
34	Tax on supply to be liability of person completing VAT invoice	+5	+5	+5	+5	
37	VAT - certain confectionery (from 1.5.88)	+5	+10	+10	+10	
38	VAT - business entertainment (from 1.8.88)	+5	+5	+5	+5	
60	Disclosure of importers' details	Neg	Neg	Neg	Neg	
61	Search of persons	Nil	Nil	Nil	Nil	
62	Penalty for customs fraud	Nil	Nil	Nil	Nil	
63	Prosecution time limits	Neg	Neg	Neg	Neg	
102	Restriction on APA for unmarried couples	Nil	+5	+5	+5	
103	Abolition of three minor personal allowances (housekeeper, son's or daughter's services and dependent relative allowances)	+10	+10	+10	+10	
111	Review of S79 unapproved employee share schemes	Neg	Neg	Neg	Neg	
117	Redundancy payments: top-slicing	Neg	Neg	Neg	Neg	
118	Premiums for leases: top-slicing	Neg	Neg	Neg	Neg	
119	Restriction of MIR for dependent relatives	Neg	Neg	Neg	Neg	
120	Reduce additional rate on trusts to 10 per cent	-5	-10	-15	-15	
123	Payroll Giving: doubling limit	Neg	Neg	Neg	Neg	
151	Personal pensions: minor changes	-10	-5	-5	-5	
211	Abolition of business entertainment relief	Neg	+5	+5	+5	
214	Lloyd's: RIC leavers	Neg	Neg	Neg	Neg	
216	Lloyd's: reform of assessment system	Nil	Neg	Neg	Neg	
260	CGT rollover for milk quotas	Neg	-5	-10	-10	
265	CGT retirement relief	Nil	-10	-20	-25	
353	North Sea farm-outs	-5	-5	-5	-5	
354	Southern Basin restructuring <sup>(c)</sup>	Neg	-50	-60	Neg	
452	Keith package (Inland Revenue)	+10	+20	+30	+30	
453	Forestry <sup>(d)</sup>	Nil	Neg	+5	+5	
601	VED: Recovery Vehicles	Nil	Nil	Nil	Nil	
633	VED: Pre-1947 Vehicles	Neg	Neg	Neg	Neg	
635	VED: Long, wide and heavy loads	Neg	Neg	Neg	Neg	
636	VED: Rigid goods vehicles	+20	+20	+20	+20	
-	Rate of tax on pension contribution refunds	+15	+15	+15	+15	
-	PEPs: increase in investment limit	Neg	-5	-10	-15	
<b>TOTAL</b>			+50	+5	-15	+35

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Notes to Table 4

(a) Not included in Table 4 are the following minor starters which protect existing revenue and are thus already assumed in the base forecast:

213 In-year assessment of Schedule D income

258 CGT: indexation and groups

259 CGT: intra-group share exchanges

400 S482: company residence and migration

(b) Other important minor starters still under consideration are:

303 Abolition of unit trust instrument duty and capital duty

(c) The uneven cost profile arises from the net effect of two changes: abolishing royalties and reducing PRT oil allowances for Southern Basin and onshore fields approved after 1 April 1982. The longer-term effect of these proposals is expected to be broadly revenue-neutral.

(d) Forestry would be exempt from Schedule D taxation from 15 March 1988 (subject to transitional arrangements extending to 1992) and from Schedule B taxation (which would be abolished) from 6 April. The provisional public expenditure cost of the new grant regime associated with this measure would be:

<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
Neg	+5	+5	+10



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CHANCELLOR

FROM: ROBERT CULPIN  
DATE: 9 March 1988

cc: Mr Scholar  
Mr Riley  
Miss Sinclair  
Miss Evans

*Thanks.  
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*No Budget speech, in a minute Mr Pij...*

**FINAL SCORECARD**

I have deliberately held up the Scorecard until we can settle the numbers, and send round something with reasonable confidence that it will be final.

2. I attach the latest version. It has thrown up two questions on which I want to consult you.

3. First, oil royalties. The cost of abolishing them for post-82 Southern Basin fields is:

30 80

We have always had this in the Scorecard, under minor starters; and it has been in Table 1.1 of the FSBR until now.

4. However, the Revenue have taken it out of Table 1.1 and Table 4, on the ground that royalties are not a tax. This has the effect of reducing the cost of the package below £4 billion and £6½ billion. It is reflected in the Scorecard as it now stands; and that is the main reason the totals have changed since you sent your note to the Prime Minister at the end of last week.

5. I think the change may well be sensible, but I find it a bit odd that the Revenue haven't (so far as I know) given notice of it, or drawn attention to it.

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**BUDGET SECRET**



6. I think they have precedent on their side. So far as I can see, the 1983 FSBR excluded from the Budget package the cost of ending the royalties which were abolished then.

7. On the other hand:

(a) Table 1.1 is called "The Budget Measures". Abolishing royalties looks like a Budget measure. And we don't want to be accused of fiddling the figures.

(b) Royalties are a tax so far as Colin Mowl is concerned: they are in his tax burden (and in Table 1.2).

8. I can see why royalties should not be in Table 4, because that is about "taxation", and should be in Table 1.2, because that is about public sector "receipts". Do you want the cost of abolishing royalties to be in the Table 1.1 package or not?

9. The second question is more trivial. Despite the doctrine I have just described that Table 4 is about tax, you will find that it includes bus fuel grants at the very end. It always has. They go up every time the tax on derv goes up. So the cost of raising them is netted off the extra derv yield, and this treatment is carried forward into Table 1.1 as well.

10. The sum at stake is only £5 million in the second year, and the existing treatment is hallowed by tradition. But:

(a) if we are to exclude royalties on the ground that Table 4 only covers tax, we should surely exclude bus grants too; and

(b) grants for buses seem to me like grants for trees and students.

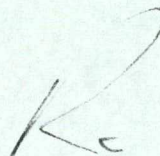
Should we stop netting them off the tax yield of derv in Table 4? (I think we could relegate them to a mention in the note on the derv line.)



11. Finally, details.

(a) The Scorecard below lists the CGT measures in the order you laid down yesterday, but the costings have not yet been revised to bring them into line. The differences are small, and don't affect the totals.

(b) Since you sent your minute to the Prime Minister, there have been trivial changes to several items. For the record, they affect the results of freezing the income distribution, the residence basis for mortgage relief, the BES ceiling, and excise duties.



**ROBERT CULPIN**



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SCORECARD OF 9 MARCH 1988

**TABLE 1: DIRECT EFFECTS OF BUDGET MEASURES**

All figures are net of cost or yield of indexation or revalorisation.

Proposal Number	Proposal	Cost(-) or Yield(+) in £ million (rounded to £5 million)			
		1988-89	1989-90	1990-91	1991-92
1	Excise Duties	Nil	-60	-75	-165
2	Double index main personal allowances	-690	-895	-945	-995
3	Double index basic rate limit	-75	-125	-135	-145
4	Reduce basic rate of IT to 25p	-2570	-3200	-3330	-3570
5	Abolish higher rates of IT above 40p	-965	-2070	-2395	-2615
6	Independent taxation from 1990-91	-Neg	-20	-550	-1045
7	Rebase CGT for individuals & trusts	-Neg	-55	-150	-200
	Reduce CGT exempt amount to £5,000	+Neg	+15	+35	+50
	Add gains to income and tax at IT rates	+70	+65	+75	+120
	Rebase companies' gains	-25	-235	-490	-590
8	Restrict new MIR to residence and leave ceiling unchanged at £30,000	+Neg	+25	+50	+70
9	Abolish tax relief on new home improvement loans	+80	+200	+300	+400
10	Abolish tax relief on new covenants between individuals	+45	+105	+160	+175
	Change rules for maintenance payments	-10	-5	+5	+15
11	Double car scales	+260	+310	+320	+330
12	Reduce small companies' CT rate to 25p	-Neg	-50	-90	-90
13	Reduce life assurance premium relief to 12½p	Nil	+70	+60	+55
14	BES - £½ million ceiling per company	+5	+25	+25	+25
	- private rented sector	-Neg	-40	-40	-40
15	Raise IHT threshold to £110,000 and set single rate of 40%	-100	-200	-240	-270
16	Abolish capital duty and unit trust instrument duty	-90	-100	-110	-115
17	Minor starters	+80	+80	+80	+100
<b>TOTAL TAX MEASURES</b>		<b>-3985</b>	<b>-6160</b>	<b>-7440</b>	<b>-8500</b>

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**NOT TO BE COPIED**Notes to Table 1

All figures show cost (-) or yield (+) in £ million unless otherwise indicated.

Excise Duties

1. The base forecast assumes excise duties revalorised by 3.7 per cent (the inflation rate for the twelve months to December 1987). If the duties were not revalorised, RPI inflation would be 0.28 percentage points lower than in the base forecast.

It has been agreed not to increase duties on betting and gaming, and on matches and mechanical lighters.

It has been agreed that excise duties should be revalorised in overall revenue terms with the following departures for individual duties:

Alcoholic Drinks

Spirits: no change.

Beer, cider and wines: over-revalorised to recoup revenue lost by not revalorising spirits, cider being increased by the same pence per pint as beer.

Tobacco

Pipe tobacco: no change.

Cigars: revalorised.

Cigarettes and hand rolled tobacco: over-revalorised to recoup revenue lost by not revalorising pipe tobacco (negligible difference from revalorisation).

Oils and VED

VED, unleaded petrol, fuel oil and gas oil: no change.

Leaded petrol: over-revalorised to recoup revenue lost by not revalorising unleaded petrol and VED on cars and light vans.

Derv: over-revalorised to recoup revenue lost by not revalorising fuel oil, gas oil and VED on other vehicles.

This package has been designed to have the same yield as revalorisation in 1988-89; the cost in subsequent years occurs largely because of the assumed shift in consumption towards unleaded petrol. The package would have a very similar RPI effect to straight revalorisation and would imply the following percentage duty and price increases:

Product	Unit	Duty increase (per cent)	Price increase (pence)	
			Proposed	Diff. from Reval.
Beer	Pint	4.7	1.0	+0.2
Cider	Pint	9.7	1.0	+0.6
Table wine	75cl	4.5	3.8	+0.7
Sparkling wine	70cl	4.5	5.9	+1.1
Sherry	70cl	4.5	6.1	+1.1
Spirits	75cl	nil	nil	-20.1
Cigarettes	20KS	3.7	3.4	nil
Cigars	5 whiffs	3.7	1.9	nil
Pipe tobacco	25 grams	nil	nil	-2.7
Petrol (leaded)	Gallon	5.5	5.5	+1.8
Petrol (unleaded)	Gallon	nil	nil	-3.6
Derv	Gallon	5.5	4.7	+1.5
VED (cars)	-	nil	nil	-£3.70
VED (other)	-	nil	nil	-(various)
Gas oil	Litre	nil	nil	-0.2
Fuel oil	Litre	nil	nil	-0.1

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**VAT**

The base forecast assumes no change in the standard rate and assumes revalorisation by 3.7 per cent of the VAT registration threshold to £22,100 (from £21,300).

In the light of the European Court's recent judgment, a clause may have to be brought forward during Committee Stage of the Finance Bill to apply VAT to spectacles, contact lenses and privately purchased hearing aids. Assuming VAT is applied from 1 July 1988, the measure would add 0.01 percentage points to RPI inflation and the yield would be:

<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
+10	+25	+25	+25

**Income Tax Personal Allowances**

2. The base forecast assumes statutory indexation by 3.7 per cent of personal allowances.

It has been agreed that personal allowances should be double indexed. This implies the following changes to allowances:

	<u>Now</u>	<u>Proposed</u>
Single allowance/wife's earned income allowance	£2425	£ 2605
Married man's allowance	£3795	£ 4095
Additional personal allowance/widow's bereavement allowance	£1370	£ 1490
Age allowance - single	£2960	£ 3180
- - married	£4675	£ 5035
- single, over 80	£3070	£ 3310
- married, over 80	£4845	£ 5205
Age allowance income limit	£9800	£10600

Changing personal allowances has no RPI effect.

**Basic Rate Limit**

3. Double indexation ~~would~~ increase the basic rate limit from £17,900 to £19,300.

**Basic Rate of Income Tax**

4. A 2p cut in the basic rate ~~would~~ add 0.12 percentage points to RPI inflation.

The figures in line 4 include the effect of the consequential change in the rate of advance corporation tax, which is reduced as an automatic consequence of cutting the basic rate of income tax. With a 25p basic rate, the rate of ACT ~~would be~~ a third.

**Higher Rates of Income Tax**

5. The figures are based on Table 2 of Mr Eason's note of 4 March, ~~ie they make no~~ projections of differential earnings growth beyond 1987-88. The figures ~~make no~~ allowance for any behavioural response to a cut in the higher rates.



Independent Taxation

6. Assumes implementation from 1990-91 and:
- Disaggregation of all husband and wife's income
  - Introduction of Married Couples' Allowance equal to difference between MMA and single allowance with MCA transferable to wife if husband cannot use it fully
  - Husband and wife's capital gains disaggregated with separate CGT exemption per spouse
  - Only one CGT residence exemption per couple
  - APA restricted to one per cohabiting couple from 1989-90 (yield included in Table 4)
  - Transitional protection for breadwinner wives
  - Age allowance given only on basis of taxpayer's own age

Some couples will defer disposals on which they have capital gains from 1988-89 and 1989-90 to take advantage of the doubling of their CGT exemption and basic rate band from 1990-91. This will reduce accruals in the years before 1990-91 and increase them in 1990-91 when the deferred disposals are made.

Independent taxation will also directly affect CGT accruals from 1990-91 onwards. If all couples took advantage of independent taxation to reduce their CGT liabilities, the cost in 1990-91 would be about £100 million of CGT accruals (assuming standard behavioural responses to the reduction of the effective tax rate). However not all couples will choose to take advantage of the change. The costings in line 6 assume that 80 per cent of couples benefit, either because they already have assets owned by the wife or because they transfer assets before disposal in order to reduce their CGT liability.

The deferral and direct effects on CGT receipts included in line 6 are:

	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
Deferral	Neg	-20	-50	-15
Direct effect	<u>Nil</u>	<u>Nil</u>	<u>Nil</u>	<u>-30</u>
Total	<u>Neg</u>	<u>-20</u>	<u>-50</u>	<u>-45</u>

The rest of line 6 relates to income tax effects, for which no behavioural assumptions are made.

Capital Gains Tax

7. All changes (including rebasing companies' gains) would take effect from 6 April 1988.

The order of the components in line 7 has been altered since the last Scorecard.

The cost of rebasing in the first and last rows of line 7 makes an allowance for forestalling by both individuals and companies to crystallise losses at the end of 1987-88, before they are reduced by rebasing. These losses will not affect tax liabilities in 1987-88 but will gradually be used to offset gains in subsequent years. Companies might also hold back disposals of assets on which they have gains from the end of 1987-88 to take advantage of rebasing in 1988-89. The effect of these adjustments, included in line 7, is:

	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
Individuals & trusts	Nil	-5	-10	-10
Companies	<u>-10</u>	<u>-5</u>	<u>-10</u>	<u>-10</u>
Total	<u>-10</u>	<u>-10</u>	<u>-20</u>	<u>-20</u>



The second row of line 7 reflects the decision to reduce the CGT exempt amount to £5,000 in 1988-89. The figures assume that it is increased in line with inflation in subsequent years.

Costings in the third row of line 7 assume that reductions in effective tax rates lead to increases in the volume of asset disposals and vice versa. The behavioural responses are assumed to be larger for shares than for land. For assets on which the effective tax rate is reduced, behavioural responses are greatest in the first year after a change.

The CGT changes will affect accruals from 1987-88 onwards, but the tax is paid with a lag. About 45 per cent of accruals for individuals and trusts come through as receipts in the subsequent financial year, about 35 per cent the next year and the remainder in later years. For corporation tax on gains, nearly 85 per cent comes through in the year after the accrual and most of the rest a year later.

The figures in the third row of line 7 include the anticipated yield from taxpayers bringing disposals forward to the last three weeks of 1987-88 to avoid paying the higher effective rate of tax in later years (forestalling). This leads to £150 million extra accruals in 1987-88, but £100 million less in later years.

The figures in the third row of line 7 can be broken down as follows:

	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
Forestalling	+70	+20	-20	-5
Direct effect	Nil	+45	+95	+125
Total	<u>+70</u>	<u>+65</u>	<u>+75</u>	<u>+120</u>

**Mortgage Interest Relief**

8. All costings ignore behavioural effects and assume change to residence basis on 1 August 1988.

**Home Improvement Loans**

9. Costings assume tax relief abolished on loans taken out from 6 April 1988. No allowance has been made for any forestalling before that date or for other behavioural effects.

**Covenants and maintenance**

10. Costings assume abolition of relief on all new covenants between individuals on the basis of option 3 in Mr Stewart's paper of 7 January, and abolition of relief on all new maintenance payments other than to divorced/separated spouses, subject to a limit equivalent to the difference between the single and married man's allowance per ex-spouse and with no tax on payee. These changes would take effect from Budget day. Transitional arrangements for existing orders were set out in Mr Corlett's note of 29 February.

The public expenditure cost (to the Reserve) for student grants would be:

<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
+25	+60	+95	+110

**Car Scales**

11. It has been agreed that car scales should be doubled in 1988-89. The figures in line 11 include the yield of about £30 million, incorporated in the base forecast, of the 10 per cent increase in car scales already announced for 1988-89.



The figures take no account of any behavioural changes and assume coding adjustments are completed in 1988-89. Nevertheless, payments lags mean that the full yield does not come through until 1989-90. The figures also assume that taxpayers continue to be assessed on 150 per cent of scale benefits if business use is no more than 2,500 miles a year and on 50 per cent of scale benefits if business use is 18,000 miles or more.

If car scales were increased by a further 10 per cent in 1989-90, the additional yield would be:

<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
Nil	+50	+60	+70

**Life Assurance Premium Relief**

13. It has been agreed that the LAPR rate should not be reduced until 6 April 1989 in order to give the insurance industry time to implement the change.

**Business Expansion Scheme**

14. It has been agreed to introduce a ceiling of £½ million on the amount of BES finance which can be raised by a company, except for ship chartering and the private rented sector for which a £5 million ceiling would apply.

The costing for the extension of BES to the private rented sector is based on the assumptions in Mr Painter's note of 11 February. As that points out, there is no firm basis for estimating the cost of this proposal and the actual cost could turn out to be higher or lower by a wide margin.

**Minor Starters**

17. See Table 4. Not included in Table 1 are starters which protect existing revenue and are thus already assumed in the base forecast.

**Total**

The total in the second (1989-90) column differs by £5 million from that in the FSBR because the latter includes, by convention, the increased cost of bus fuel grants which occurs as a consequence of higher duty on derv.



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**SCORECARD OF 9 MARCH 1988**

**TABLE 2: PSBR EFFECTS<sup>(a)</sup>**

Proposal Number	Proposal	Reduction (-) or increase (+) in £ million (rounded to £5 million)			
		1988-89	1989-90	1990-91	1991-92
1	Excise Duties	Nil	+20	-35	-35
2	Double index main personal allowances	+705	+900	+980	+1070
3	Double index basic rate limit	+80	+125	+145	+175
4	Reduce basic rate of IT to 25p	+2620	+3360	+3830	+4335
5	Abolish higher rates of IT above 40p	+1010	+2110	+2580	+3080
6	Independent taxation from 1990-91	+Neg	+20	+575	+1065
7	Rebase CGT for individuals & trusts	+Neg	+50	+140	+235
	Reduce CGT exempt amount to £5,000	-Nil	-15	-35	-60
	Add gains to income and tax at IT rates	-70	-55	-70	-140
	Rebase companies' gains	+25	+200	+465	+690
8	Restrict new MIR to residence and leave ceiling unchanged at £30,000	-Neg	-25	-50	-70
9	Abolish tax relief on new home improvement loans	-50	-175	-320	-460
10	Abolish tax relief on new covenants between individuals	-45	-110	-185	-245
	Change rules for maintenance payments	+10	+5	-5	-25
11	Double car scales	-280	-390	-470	-480
12	Reduce small companies' CT rate to 25p	+Neg	+50	+90	+90
13	Reduce life assurance premium relief to 12½p	Nil	-70	-70	-85
14	BES - £½ million ceiling per company	-5	-25	-25	-25
	- private rented sector	+Neg	+40	+40	+40
15	Raise IHT threshold to £110,000 and set single rate of 40%	+100	+200	+240	+270
16	Abolish capital duty and unit trust instrument duty	+90	+100	+125	+155
17	Minor starters	-75	-90	-125	-180
<b>TOTAL</b>		<b>-4115</b>	<b>-6225</b>	<b>-7820</b>	<b>-9400</b>

(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. They show how much of any fiscal adjustment indicated by the forecasts, assuming a given PSBR, would be used up.

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**SCORECARD OF 9 MARCH 1988**

**TABLE 3: STAFFING EFFECTS<sup>(a)</sup>**

Proposal Number	Proposal	Effect on manpower numbers at			
		April 1989	April 1990	April 1991	April 1992
1	Excise Duties	Nil	Nil	Nil	Nil
2-5	Double index personal allowances and basic rate limit, reduce basic rate of income tax to 25p and abolish higher rates of income tax above 40p	-50	-70	-70	-70
6	Independent taxation from 1990-91				
	- independent taxation of husband and wife <sup>(b)</sup>	+420	+770	+1425 to +1475	+2300 to +2450
	- changes to APA rules <sup>(c)</sup>	Nil	Nil	Nil	Nil
7	Rebase gains to 1982, reduce CGT exempt amount to £5,000 and tax gains at IT rates	Nil	+40	+65	+40 to +90
8	Restrict new MIR to residence and leave ceiling unchanged at £30,000	+25	+25	+25	+25
9	Abolish tax relief on new home improvement loans <sup>(d)</sup>	-150	-200	-250	-300
10	Abolish tax relief on new covenants; change rules for maintenance payments	-40	-325	-460	-510
11	Double car scales <sup>(e)</sup>	Nil	+15	+45	+70
12	Reduce small companies' CT rate	Nil	Nil	Nil	Nil
13	Reduce life assurance premium relief	Nil	Nil	Nil	Nil
14	BES - £½ million ceiling per company - private rented sector	Neg Neg	Neg Neg	Neg Neg	Neg Neg
15	Raise IHT threshold to £110,000 and set single rate of 40%	-20	-35	-50	-50
16	Abolish capital duty and unit trust instrument duty	-25	-25	-25	-25
17	Minor starters <sup>(f)</sup>	-75	-100	-100	-100
	No change to stamp duty threshold	+5	+5	+5	+5
<b>TOTAL<sup>(g)</sup></b>		<b>+90</b>	<b>+100</b>	<b>+660</b>	<b>+1585</b>

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**Notes to Table 3**

- (a) Health Warning. The conventional assumption used in costing Budget changes is that nothing else is changing at the same time. But there are, of course, other factors which will affect the Revenue's and Customs' manpower over the same period. The correct approach in principle is to take all the changes into account in the order in which they should happen but, among other things, the need to maintain Budget security makes this difficult. So there is a risk of some double counting of both savings and costs. Pluses or minuses could turn out larger or smaller and some figures could change sign. The total is (like the PSBR) the difference between large plus and minus components.
- (b) The April 1989 and April 1990 figures reflect setting up costs; some of the April 1990 staffing need may be covered by use of overtime and casual staff.
- (c) The implementation costs will involve 85 units of overtime in 1988-89 and 20 units in 1989-90.
- (d) Further staff savings in later years.
- (e) It is expected that there will be a staff cost (overtime) for implementing a coding change for car scales in 1988-89. Inland Revenue will be bidding for staff in PES 88 to cover growth in P11D work over and above that reflected in line 12.
- (f) The staff savings shown are entirely accounted for by abolition of minor personal allowances.
- (g) Where a range is shown for a proposal, the total assumes maximum staff additions.

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## SCORECARD OF 9 MARCH 1988

TABLE 4: MINOR STARTERS (a)

(Principal minor starters including all those with revenue effects of £5 million or more)

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FB Starter Number	Proposal	Cost(-) or Yield(+) in £ million			
		1988-89	1989-90	1990-91	1991-92
4	Restructuring of duty on low strength mixed drinks	Neg	Neg	Neg	Neg
7	Abolition of minimum duty for beer (from 1.10.88)	Neg	Neg	Neg	Neg
30	Keith package (Customs & Excise)	Neg	Neg	Neg	Neg
34	Tax on supply to be liability of person completing VAT invoice	+5	+5	+5	+5
37	VAT - certain confectionery (from 1.5.88)	+5	+10	+10	+10
38	VAT - business entertainment (from 1.8.88)	Neg	Neg	Neg	Neg
60	Disclosure of importers' details	Neg	Neg	Neg	Neg
61	Search of persons	Nil	Nil	Nil	Nil
62	Penalty for customs fraud	Nil	Nil	Nil	Nil
63	Prosecution time limits	Neg	Neg	Neg	Neg
102	Restriction on APA for unmarried couples	Nil	+5	+5	+5
103	Abolition of three minor personal allowances (housekeeper, son's or daughter's services and dependent relative allowances)	+10	+10	+10	+10
108	Exempt provision of car parking from tax	-5	-5	-5	-5
111	Review of S79 unapproved employee share schemes	Neg	Neg	Neg	Neg
117	Redundancy payments: top-slicing	Neg	Neg	Neg	Neg
118	Premiums for leases: top-slicing	Neg	Neg	Neg	Neg
119	Restriction of MIR for dependent relatives	Neg	Neg	Neg	Neg
120	Reduce additional rate on trusts to 10 per cent	-5	-10	-15	-15
123	Payroll Giving: doubling limit	Neg	Neg	Neg	Neg
211	Abolition of business entertainment relief	Neg	+5	+5	+5
214	Lloyd's: RIC leavers	Neg	Neg	Neg	Neg
216	Lloyd's: reform of assessment system	Nil	Neg	Neg	Neg
260	CGT rollover for milk quotas etc	Neg	-5	-10	-10
265	CGT retirement relief	Nil	-10	-20	-25
353	North Sea farm-outs	-5	-5	-5	-5
354	Southern Basin restructuring (b)	+30	+30	+40	+70
452	Keith package (Inland Revenue)	+10	+20	+30	+30
453	Forestry (c)	Nil	Neg	+5	+5
601	VED: Recovery Vehicles	Nil	Nil	Nil	Nil
633	VED: Pre-1947 Vehicles	Neg	Neg	Neg	Neg
635	VED: Long, wide and heavy loads	Neg	Neg	Neg	Neg
636	VED: Rigid goods vehicles	+20	+20	+20	+20
-	Rate of tax on pension contribution refunds	+15	+15	+15	+15
-	PEPs: increase in investment limit	Neg	-5	-10	-15
<b>TOTAL</b>		<b>+80</b>	<b>+80</b>	<b>+80</b>	<b>+100</b>

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**NOT TO BE COPIED**Notes to Table 4

- (a) Not included in Table 4 are the following minor starters which protect existing revenue and are thus already assumed in the base forecast:

213	In-year assessment of Schedule D income
258	CGT: indexation and groups
259	CGT: intra-group share exchanges
400	S482: company residence and migration

- (b) Figures show only the yield from reducing PRT oil allowances for Southern Basin and onshore fields approved on or after 1 April 1982. For consistency with the FSBR, the effect of the associated measure of abolishing royalties on these fields has not been shown. The cost of this would be:

<u>1988-89</u>	<u>1989-90</u>	<u>1991-91</u>	<u>1991-92</u>
-30	-80	-100	-70

In the longer-term, the combined effect of the two proposals is expected to be broadly revenue-neutral.

- (c) Forestry would be exempt from Schedule D taxation from 15 March 1988 (subject to transitional arrangements extending to 1993) and from Schedule B taxation (which would be abolished) from 6 April. The provisional public expenditure cost of the new grant regime associated with this measure would be:

<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
Neg	+5	+5	+10

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FROM: A C S ALLAN

DATE: 10 March 1988

MR CULPIN

cc Mr Scholar  
Mr Riley  
Miss Sinclair  
Miss C Evans**FINAL SCORECARD**

The Chancellor was grateful for your minute of 9 March.

2. He thinks the bus fuel grant point is easy: the old convention needs burying (as with trees and students) and we should proceed as you suggest in paragraph 10.

3. Royalties are much harder: on balance, he would stick to tradition here (you will note that, although it is in the Budget Speech, the Chancellor has not referred to it as a measure he is taking but one Mr Parkinson is).

A handwritten signature in black ink, appearing to read 'ACSA' with a stylized flourish underneath.

A C S ALLAN



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FROM: ROBERT CULPIN  
DATE: 10 MARCH 1988

**CHANCELLOR OF THE EXCHEQUER**

- cc Principal Private Secretary
- Chief Secretary
- Financial Secretary
- Paymaster General
- Economic Secretary
- Sir Peter Middleton
- Sir Terence Burns
- Sir Geoffrey Littler
- Mr Anson
- Mr Byatt
- Sir Anthony Wilson
- Mr Scholar
- Mr Sedgwick
- Mr Odling-Smee
- Mr R I G Allen
- Mr Pickford
- Miss Sinclair
- Mr Riley
- Mr Mowl
- Miss Evans
- Mr A Hudson
- Mr Cropper
- Mr Tyrie
- Mr Call
- Mr Battishill - IR
- Mr Isaac - IR
- Mr Painter - IR
- Mr Unwin - C&E
- Mr Knox - C&E

**BUDGET SCORECARD**

... I attach, for the record, the final Scorecard.

ROBERT CULPIN

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- Mr Sparkes )
- Mr Sedgwick )
  
- Mr Scotter ) ETS
  
- Mr Davies )
- Mr Bredenkamp ) MP
  
- Miss Simpson ) EB
  
- Mr Beighton )
- Mr Calder )
- Mr Marshall )
- Mr Ko ) IR
- Mr McManus )
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- Mr Allen )
- Miss French ) C&E

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**NOT TO BE COPIED**SCORECARD OF 10 MARCH 1988**TABLE 1: DIRECT EFFECTS OF BUDGET MEASURES**

All figures are net of cost or yield of indexation or revalorisation.

Proposal Number	Proposal	Cost(-) or Yield(+) in £ million (rounded to £5 million)			
		1988-89	1989-90	1990-91	1991-92
1	Excise Duties	Nil	-60	-75	-165
2	Double index main personal allowances	-690	-895	-945	-995
3	Double index basic rate limit	-75	-125	-135	-145
4	Reduce basic rate of IT to 25p	-2570	-3200	-3330	-3570
5	Abolish higher rates of IT above 40p	-965	-2070	-2395	-2615
6	Independent taxation from 1990-91	-Neg	-20	-550	-1045
7	Rebase CGT for individuals & trusts	-Neg	-55	-150	-200
	Reduce CGT exempt amount to £5,000	+Neg	+15	+35	+50
	Add gains to income and tax at IT rates	+70	+65	+75	+120
	Rebase companies' gains	-25	-235	-490	-590
8	Restrict new MIR to residence and leave ceiling unchanged at £30,000	+Neg	+25	+50	+70
9	Abolish tax relief on new home improvement loans	+80	+200	+300	+400
10	Abolish tax relief on new covenants between individuals	+45	+105	+160	+175
	Change rules for maintenance payments	-10	-5	+5	+15
11	Double car scales	+260	+310	+320	+330
12	Reduce small companies' CT rate to 25p	-Neg	-50	-90	-90
13	Reduce life assurance premium relief to 12½p	Nil	+70	+60	+55
14	BES - £½ million ceiling per company	+5	+25	+25	+25
	- private rented sector	-Neg	-40	-40	-40
15	Raise IHT threshold to £110,000 and set single rate of 40%	-100	-200	-240	-270
16	Abolish capital duty and unit trust instrument duty	-90	-100	-110	-115
17	Minor starters	+80	+75	+75	+60
<b>TOTAL TAX MEASURES</b>		<b>-3985</b>	<b>-6165</b>	<b>-7445</b>	<b>-8540</b>

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**NOT TO BE COPIED**Notes to Table 1

All figures show cost (-) or yield (+) in £ million unless otherwise indicated.

Excise Duties

1. The base forecast assumes excise duties revalorised by 3.7 per cent (the inflation rate for the twelve months to December 1987). If the duties were not revalorised, RPI inflation would be 0.28 percentage points lower than in the base forecast.

It has been agreed not to increase duties on betting and gaming, and on matches and mechanical lighters.

It has been agreed that excise duties should be revalorised in overall revenue terms with the following departures for individual duties:

Alcoholic Drinks

Spirits: no change.

Beer, cider and wines: over-revalorised to recoup revenue lost by not revalorising spirits, cider being increased by the same pence per pint as beer.

Tobacco

Pipe tobacco: no change.

Cigars: revalorised.

Cigarettes and hand rolled tobacco: over-revalorised to recoup revenue lost by not revalorising pipe tobacco (negligible difference from revalorisation).

Oils and VED

VED, unleaded petrol, fuel oil and gas oil: no change.

Leaded petrol: over-revalorised to recoup revenue lost by not revalorising unleaded petrol and VED on cars and light vans.

Derv: over-revalorised to recoup revenue lost by not revalorising fuel oil, gas oil and VED on other vehicles.

This package has been designed to have the same yield as revalorisation in 1988-89; the cost in subsequent years occurs largely because of the assumed shift in consumption towards unleaded petrol. The package has a very similar RPI effect to straight revalorisation and implies the following percentage duty and price increases:

Product	Unit	Duty increase (per cent)	Price increase (pence)	
			◇ Proposed	Diff. from Reval.
Beer	Pint	4.7	1.0	+0.2
Cider	Pint	9.7	1.0	+0.6
Table wine	75cl	4.5	3.8	+0.7
Sparkling wine	70cl	4.5	5.9	+1.1
Sherry	70cl	4.5	6.1	+1.1
Spirits	75cl	nil	nil	-20.1
Cigarettes	20KS	3.7	3.4	nil
Cigars	5 whiffs	3.7	1.9	nil
Pipe tobacco	25 grams	nil	nil	-2.7
Petrol (leaded)	Gallon	5.5	5.5	+1.8
Petrol (unleaded)	Gallon	nil	nil	-3.6
Derv	Gallon	5.5	4.7	+1.5
VED (cars)	-	nil	nil	-£3.70
VED (other)	-	nil	nil	-(various)
Gas oil	Litre	nil	nil	-0.2
Fuel oil	Litre	nil	nil	-0.1

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**VAT**

The base forecast assumes no change in the standard rate and assumes revalorisation by 3.7 per cent of the VAT registration threshold to £22,100 (from £21,300).

In the light of the European Court's recent judgment, a clause may have to be brought forward during Committee Stage of the Finance Bill to apply VAT to spectacles, contact lenses and privately purchased hearing aids. Assuming VAT is applied from 1 July 1988, the measure would add 0.01 percentage points to RPI inflation and the yield would be:

<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
+10	+25	+25	+25

**Income Tax Personal Allowances**

2. The base forecast assumes statutory indexation by 3.7 per cent of personal allowances.

It has been agreed that personal allowances should be double indexed. This implies the following changes to allowances:

	<u>Now</u>	<u>Proposed</u>
Single allowance/wife's earned income allowance	£2425	£ 2605
Married man's allowance	£3795	£ 4095
Additional personal allowance/widow's bereavement allowance	£1370	£ 1490
Age allowance - single	£2960	£ 3180
- married	£4675	£ 5035
- single, over 80	£3070	£ 3310
- married, over 80	£4845	£ 5205
Age allowance income limit	£9800	£10600

Changing personal allowances has no RPI effect.

**Basic Rate Limit**

3. Double indexation increases the basic rate limit from £17,900 to £19,300.

**Basic Rate of Income Tax**

4. A 2p cut in the basic rate adds 0.12 percentage points to RPI inflation.

The figures in line 4 include the effect of the consequential change in the rate of advance corporation tax, which is reduced as an automatic consequence of cutting the basic rate of income tax. With a 25p basic rate, the rate of ACT is a third.

**Higher Rates of Income Tax**

5. The figures are based on Table 2 of Mr Eason's note of 4 March, ie they make no projections of differential earnings growth beyond 1987-88. The figures make no allowance for any behavioural response to a cut in the higher rates.



**Independent Taxation**

6. Assumes implementation from 1990-91 and:

- Disaggregation of all husband and wife's income
- Introduction of Married Couples' Allowance equal to difference between MMA and single allowance with MCA transferable to wife if husband cannot use it fully
- Husband and wife's capital gains disaggregated with separate CGT exemption per spouse
- Only one CGT residence exemption per couple
- APA restricted to one per cohabiting couple from 1989-90 (yield included in Table 4)
- Transitional protection for breadwinner wives
- Age allowance given only on basis of taxpayer's own age

Some couples will defer disposals on which they have capital gains from 1988-89 and 1989-90 to take advantage of the doubling of their CGT exemption and basic rate band from 1990-91. This will reduce accruals in the years before 1990-91 and increase them in 1990-91 when the deferred disposals are made.

Independent taxation will also directly affect CGT accruals from 1990-91 onwards. If all couples took advantage of independent taxation to reduce their CGT liabilities, the cost in 1990-91 would be about £100 million of CGT accruals (assuming standard behavioural responses to the reduction of the effective tax rate). However not all couples will choose to take advantage of the change. The costings in line 6 assume that 80 per cent of couples benefit, either because they already have assets owned by the wife or because they transfer assets before disposal in order to reduce their CGT liability.

The deferral and direct effects on CGT receipts included in line 6 are:

	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
Deferral	Neg	-20	-50	-15
Direct effect	<u>Nil</u>	<u>Nil</u>	<u>Nil</u>	<u>-30</u>
Total	<u>Neg</u>	<u>-20</u>	<u>-50</u>	<u>-45</u>

The rest of line 6 relates to income tax effects, for which no behavioural assumptions are made.

**Capital Gains Tax**

7. All changes (including rebasing companies' gains) take effect from 6 April 1988.

The order of the components in line 7 has been altered since the last Scorecard to be consistent with the order agreed for Table 4.1 of the FSBR.

The cost of rebasing in the first and last rows of line 7 makes an allowance for forestalling by both individuals and companies to crystallise losses at the end of 1987-88, before they are reduced by rebasing. These losses will not affect tax liabilities in 1987-88 but will gradually be used to offset gains in subsequent years. Companies might also hold back disposals of assets on which they have gains from the end of 1987-88 to take advantage of rebasing in 1988-89. The effect of these adjustments, included in line 7, is:

	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
Individuals & trusts	Nil	-5	-10	-10
Companies	<u>-10</u>	<u>-5</u>	<u>-10</u>	<u>-10</u>
Total	<u>-10</u>	<u>-10</u>	<u>-20</u>	<u>-20</u>



The second row of line 7 reflects the decision to reduce the CGT exempt amount to £5,000 in 1988-89. The figures assume that it is increased in line with inflation in subsequent years.

Costings in the third row of line 7 assume that reductions in effective tax rates lead to increases in the volume of asset disposals and vice versa. The behavioural responses are assumed to be larger for shares than for land. For assets on which the effective tax rate is reduced, behavioural responses are greatest in the first year after a change.

The CGT changes will affect accruals from 1987-88 onwards, but the tax is paid with a lag. About 45 per cent of accruals for individuals and trusts come through as receipts in the subsequent financial year, about 35 per cent the next year and the remainder in later years. For corporation tax on gains, nearly 85 per cent comes through in the year after the accrual and most of the rest a year later.

The figures in the third row of line 7 include the anticipated yield from taxpayers bringing disposals forward to the last three weeks of 1987-88 to avoid paying the higher effective rate of tax in later years (forestalling). This leads to £150 million extra accruals in 1987-88, but £100 million less in later years.

The figures in the third row of line 7 can be broken down as follows:

	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
Forestalling	+70	+20	-20	-5
Direct effect	Nil	+45	+95	+125
Total	<u>+70</u>	<u>+65</u>	<u>+75</u>	<u>+120</u>

**Mortgage Interest Relief**

8. All costings ignore behavioural effects and assume change to residence basis on 1 August 1988.

**Home Improvement Loans**

9. Costings assume tax relief abolished on loans taken out from 6 April 1988. No allowance has been made for any forestalling before that date or for other behavioural effects.

**Covenants and maintenance**

10. Costings assume abolition of relief on all new covenants between individuals on the basis of option 3 in Mr Stewart's paper of 7 January, and abolition of relief on all new maintenance payments other than to divorced/separated spouses, subject to a limit equivalent to the difference between the single and married man's allowance per ex-spouse and with no tax on payee. These changes take effect from Budget day. Transitional arrangements for existing orders were set out in Mr Corlett's note of 29 February.

The public expenditure cost (to the Reserve) for student grants will be:

<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
+15	+30	+50	+60

**Car Scales**

11. It has been agreed that car scales will be doubled in 1988-89. The figures in line 11 include the yield of about £30 million, incorporated in the base forecast, of the 10 per cent increase in car scales already announced for 1988-89.



The figures take no account of any behavioural changes and assume coding adjustments are completed in 1988-89. Nevertheless, payments lags mean that the full yield does not come through until 1989-90. The figures also assume that taxpayers continue to be assessed on 150 per cent of scale benefits if business use is no more than 2,500 miles a year and on 50 per cent of scale benefits if business use is 18,000 miles or more.

If car scales were increased by a further 10 per cent in 1989-90, the additional yield would be:

<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
Nil	+50	+60	+70

**Life Assurance Premium Relief**

13. It has been agreed that the LAPR rate should not be reduced until 6 April 1989 in order to give the insurance industry time to implement the change.

**Business Expansion Scheme**

14. It has been agreed to introduce a ceiling of £½ million on the amount of BES finance which can be raised by a company, except for ship chartering and the private rented sector for which a £5 million ceiling would apply.

The costing for the extension of BES to the private rented sector is based on the assumptions in Mr Painter's note of 11 February. As that points out, there is no firm basis for estimating the cost of this proposal and the actual cost could turn out to be higher or lower by a wide margin.

**Minor Starters**

17. See Table 4. Not included in Table 1 are starters which protect existing revenue and are thus already assumed in the base forecast.



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**SCORECARD OF 10 MARCH 1988**

**TABLE 2: PSBR EFFECTS<sup>(a)</sup>**

Proposal Number	Proposal	Reduction (-) or increase (+) in £ million (rounded to £5 million)			
		1988-89	1989-90	1990-91	1991-92
1	Excise Duties	Nil	+20	-35	-35
2	Double index main personal allowances	+705	+900	+980	+1070
3	Double index basic rate limit	+80	+125	+145	+175
4	Reduce basic rate of IT to 25p	+2620	+3360	+3830	+4335
5	Abolish higher rates of IT above 40p	+1010	+2110	+2580	+3080
6	Independent taxation from 1990-91	+Neg	+20	+575	+1065
7	Rebase CGT for individuals & trusts	+Neg	+50	+140	+235
	Reduce CGT exempt amount to £5,000	-Neg	-15	-35	-60
	Add gains to income and tax at IT rates	-70	-55	-70	-140
	Rebase companies' gains	+25	+200	+465	+690
8	Restrict new MIR to residence and leave ceiling unchanged at £30,000	-Neg	-25	-50	-70
9	Abolish tax relief on new home improvement loans	-50	-175	-320	-460
10	Abolish tax relief on new covenants between individuals	-45	-110	-185	-245
	Change rules for maintenance payments	+10	+5	-5	-25
11	Double car scales	-280	-390	-470	-480
12	Reduce small companies' CT rate to 25p	+Neg	+50	+90	+90
13	Reduce life assurance premium relief to 12½p	Nil	-70	-70	-85
14	BES - £½ million ceiling per company	-5	-25	-25	-25
	- private rented sector	+Neg	+40	+40	+40
15	Raise IHT threshold to £110,000 and set single rate of 40%	+100	+200	+240	+270
16	Abolish capital duty and unit trust instrument duty	+90	+100	+125	+155
17	Minor starters	-75	-70	-90	-100
<b>TOTAL</b>		<b>+4115</b>	<b>+6245</b>	<b>+7855</b>	<b>-9480</b>

(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. They show how much of any fiscal adjustment indicated by the forecasts, assuming a given PSBR, would be used up.

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**NOT TO BE COPIED****SCORECARD OF 10 MARCH 1988****TABLE 3: STAFFING EFFECTS<sup>(a)</sup>**

Proposal Number	Proposal	Effect on manpower numbers at			
		April 1989	April 1990	April 1991	April 1992
1	Excise Duties	Nil	Nil	Nil	Nil
2-5	Double index personal allowances and basic rate limit, reduce basic rate of income tax to 25p and abolish higher rates of income tax above 40p	-50	-70	-70	-70
6	Independent taxation from 1990-91				
	- independent taxation of husband and wife <sup>(b)</sup>	+420	+770	+1425	+2300
				to +1475	to +2450
	- changes to APA rules <sup>(c)</sup>	Nil	Nil	Nil	Nil
7	Rebase gains to 1982, reduce CGT exempt amount to £5,000 and tax gains at IT rates	Nil	+40	+65	+40 to +90
8	Restrict new MIR to residence and leave ceiling unchanged at £30,000	+25	+25	+25	+25
9	Abolish tax relief on new home improvement loans <sup>(d)</sup>	-150	-200	-250	-300
10	Abolish tax relief on new covenants; change rules for maintenance payments	-40	-325	-460	-510
11	Double car scales <sup>(e)</sup>	Nil	+15	+45	+70
12	Reduce small companies' CT rate	Nil	Nil	Nil	Nil
13	Reduce life assurance premium relief	Nil	Nil	Nil	Nil
14	BES - £½ million ceiling per company - private rented sector	Neg Neg	Neg Neg	Neg Neg	Neg Neg
15	Raise IHT threshold to £110,000 and set single rate of 40%	-20	-35	-50	-50
16	Abolish capital duty and unit trust instrument duty	-25	-25	-25	-25
17	Minor starters <sup>(f)</sup>	-75	-100	-100	-100
	No change to stamp duty threshold	+5	+5	+5	+5
<b>TOTAL<sup>(g)</sup></b>		<b>+90</b>	<b>+100</b>	<b>+660</b>	<b>+1585</b>

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Notes to Table 3

- (a) Health Warning. The conventional assumption used in costing Budget changes is that nothing else is changing at the same time. But there are, of course, other factors which will affect the Revenue's and Customs' manpower over the same period. The correct approach in principle is to take all the changes into account in the order in which they should happen but, among other things, the need to maintain Budget security makes this difficult. So there is a risk of some double counting of both savings and costs. Pluses or minuses could turn out larger or smaller and some figures could change sign. The total is (like the PSBR) the difference between large plus and minus components.
- (b) The April 1989 and April 1990 figures reflect setting up costs; some of the April 1990 staffing need may be covered by use of overtime and casual staff.
- (c) The implementation costs will involve 85 units of overtime in 1988-89 and 20 units in 1989-90.
- (d) Further staff savings in later years.
- (e) It is expected that there will be a staff cost (overtime) for implementing a coding change for car scales in 1988-89. Inland Revenue will be bidding for staff in PES 88 to cover growth in P11D work over and above that reflected in line 12.
- (f) The staff savings shown are entirely accounted for by abolition of minor personal allowances.
- (g) Where a range is shown for a proposal, the total assumes maximum staff additions.

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## SCORECARD OF 10 MARCH 1988

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TABLE 4: MINOR STARTERS (a)  
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Principal minor starters including all those with revenue effects of £5 million or more)

FB Starter Number	Proposal	Cost(-) or Yield(+) in £ million			
		1988-89	1989-90	1990-91	1991-92
4	Restructuring of duty on low strength mixed drinks	Neg	Neg	Neg	Neg
7	Abolition of minimum duty for beer (from 1.10.88)	Neg	Neg	Neg	Neg
30	Keith package (Customs & Excise)	Neg	Neg	Neg	Neg
34	Tax on supply to be liability of person completing VAT invoice	+5	+5	+5	+5
37	VAT - certain confectionery (from 1.5.88)	+5	+10	+10	+10
38	VAT - business entertainment (from 1.8.88)	Neg	Neg	Neg	Neg
60	Disclosure of importers' details	Neg	Neg	Neg	Neg
61	Search of persons	Nil	Nil	Nil	Nil
62	Penalty for customs fraud	Nil	Nil	Nil	Nil
63	Prosecution time limits	Neg	Neg	Neg	Neg
102	Restriction on APA for unmarried couples	Nil	+5	+5	+5
103	Abolition of three minor personal allowances (housekeeper, son's or daughter's services and dependent relative allowances)	+10	+10	+10	+10
108	Exempt provision of car parking from tax	-5	-5	-5	-5
111	Review of S79 unapproved employee share schemes	Neg	Neg	Neg	Neg
117	Redundancy payments: top-slicing	Neg	Neg	Neg	Neg
118	Premiums for leases: top-slicing	Neg	Neg	Neg	Neg
119	Restriction of MIR for dependent relatives	Neg	Neg	Neg	Neg
120	Reduce additional rate on trusts to 10 per cent	-5	-10	-15	-15
123	Payroll Giving: doubling limit	Neg	Neg	Neg	Neg
211	Abolition of business entertainment relief	Neg	+5	+5	+5
214	Lloyd's: RIC leavers	Neg	Neg	Neg	Neg
216	Lloyd's: reform of assessment system	Nil	Neg	Neg	Neg
260	CGT rollover for milk quotas etc	Neg	-5	-10	-10
265	CGT retirement relief	Neg	-10	-20	-25
353	North Sea farm-outs	-5	-5	-5	-5
354	Southern Basin restructuring (b)	+30	+25	+35	+30
452	Keith package (Inland Revenue)	+10	+20	+30	+30
453	Forestry (c)	Nil	Neg	+5	+5
601	VED: Recovery Vehicles	Nil	Nil	Nil	Nil
633	VED: Pre-1947 Vehicles	Neg	Neg	Neg	Neg
635	VED: Long, wide and heavy loads	Neg	Neg	Neg	Neg
636	VED: Rigid goods vehicles	+20	+20	+20	+20
-	Rate of tax on pension contribution refunds	+15	+15	+15	+15
-	PEPs: increase in investment limit	Neg	-5	-10	-15

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Notes to Table 4

- (a) Not included in Table 4 are the following minor starters which protect existing revenue and are thus already assumed in the base forecast:

- 213 In-year assessment of Schedule D income  
 258 CGT: indexation and groups  
 259 CGT: intra-group share exchanges  
 400 S482: company residence and migration

- (b) Figures show only the yield from reducing PRT oil allowances for Southern Basin and onshore fields approved on or after 1 April 1982. For consistency with the FSBR, the effect of the associated measure of abolishing royalties on these fields has not been shown. The cost of this will be:

<u>1988-89</u>	<u>1989-90</u>	<u>1991-91</u>	<u>1991-92</u>
+30	+80	+95	+45

In the longer-term, the combined effect of the two proposals is expected to be broadly revenue-neutral.

- (c) Forestry would be exempt from Schedule D taxation from 15 March 1988 (subject to transitional arrangements extending to 1993) and from Schedule B taxation (which would be abolished) from 6 April. The provisional public expenditure cost of the new grant regime associated with this measure would be:

<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
+Neg	+5	+5	+10

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COPY NO. 4 OF 7.

10 March 1988

Paul Gray Esq  
10 Downing Street  
LONDON SW1

Dear Paul,

**BUDGET SPEECH**

... I attach a copy of the Chancellor's latest draft of the Budget Speech. He would be grateful for any comments the Prime Minister may have, if possible by close of play tomorrow (Friday).

He has asked me to say that he attaches great importance to the new target of a 20 per cent basic rate. He feels this is necessary for three reasons. First, to avoid an air of complacent finality, as if we had achieved all we want to achieve on the tax front. Second, to provide an important balance in a year when the higher rates are being cut dramatically but the basic rate only by a widely expected 2p. Third - a point strongly held by the Chief Secretary - that the absence of a new tax reduction target would, given the very strong fiscal position, make the task of containing public expenditure very much more difficult.

Yours  
A C S

A C S ALLAN  
Principal Private Secretary

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Draft of 10 March (2nd)

**CHANCELLOR OF THE EXCHEQUER'S BUDGET STATEMENT**

**15 MARCH 1988**

**INDEX**

SECTION	PAGE	TITLE
A		INTRODUCTION
B		THE ECONOMIC BACKGROUND
C		MONETARY POLICY
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M		DEPORTATION

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**A INTRODUCTION**

A1. I am reliably informed that my Budget speech last year was the shortest this century. My Budget speech this year is likely to have a different claim to a place in the history books. Not, the House will be glad to learn, as the longest Budget speech this century, but as the last untelevised Budget speech.

A2. As I once again present the first Budget of a new Parliament, I find the British economy stronger than at any time since the War. As the British people recognised last June, this has not happened by chance. It has happened because, for almost nine years now, we have followed the right policies and stuck to them. I reaffirm those policies today. In particular, there will be no letting up in our determination to defeat inflation.

A3. I shall begin, as usual, with the economic background to the Budget. I shall then deal with monetary policy, and with the public finances this year and next, and indeed for the remainder of this Parliament. Finally, I shall propose a number of measures designed to improve the performance of the economy still further, by changing the structure of taxation. For this will be a tax reform Budget.

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A4. As usual, the Financial Statement and Budget Report, together with a number of press releases filling out the details of my tax proposals, will be available from the Vote Office as soon as I have sat down.

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**B. THE ECONOMIC BACKGROUND**

B1. I start with the economic background.

B2. The strength and durability of the economic upswing has now exceeded all post-War records. We are about to enter our eighth successive year of sustained growth, and the sixth in which this has been combined with low inflation. And even without looking to 1988, the six years to 1987 have been the longest period of steady growth, at a rate averaging 3 per cent a year, for half a century.

B3. This performance compares favourably not only with our own past, but also with the economic performance of other countries. During the 1960s and the 1970s, Britain's growth rate was the lowest of all the major European economies. During the 1980s, our growth rate has been the highest of all the major European economies.

B4. In 1987 as a whole, output grew by  $4\frac{1}{2}$  per cent, while inflation averaged  $4\frac{1}{4}$  per cent. Thus last year, for the first time for a generation, the rate of growth exceeded the rate of inflation. At the same time unemployment fell more than in any other year since the War, in every region of the country, and faster than in any other major nation.

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B5. The plain fact is that the British economy has been transformed. Prudent financial policies have given business and industry the confidence to expand, while supply side reforms have progressively removed the barriers to enterprise.

B6. Nowhere has this transformation been more marked than in manufacturing, where output rose last year by 5½ per cent. This outstanding performance was founded on a further big improvement in manufacturing productivity. In the 1980s, output per head in manufacturing has gone up faster in Britain than in any other major industrial country, and we led the way once again last year. This is in stark contrast to the 1960s and 1970s, when in manufacturing productivity growth, as in so much else, we were bottom of the league.

B7. The current account of the balance of payments is now estimated to have been in deficit last year, after seven successive years of surplus, by a little over £1½ billion. This is well below the deficit I forecast at the time of last year's Budget, despite growth turning out stronger than forecast. The reason for this was the better than expected performance of visible trade, with exports of manufactures up by 8½ per cent. This continues the pattern of the 1980s, with British manufacturers maintaining their share of an expanding world trade, after decades during which Britain's share was steadily declining.



B8. Looking ahead, I expect 1988 to be yet another year of healthy growth with low inflation; and there is every prospect that unemployment will continue to fall, although probably not as rapidly as last year.

B9. The pace of non-oil growth is likely to ease from now on, returning to the underlying trend of the past few years. But output for 1988 as a whole is forecast to be 3 per cent higher than in 1987, with the non-oil economy up by  $3\frac{1}{2}$  per cent. Business investment is forecast to grow particularly strongly, with a rise of  $8\frac{1}{2}$  per cent.

B10. As last year, inflation is forecast to end the year at 4 per cent. While this is still too high, it is a testimony to the soundness of our policies that the present strong and sustained upswing, <sup>unlike almost all</sup> ~~is the first for more than a generation~~ <sup>its predecessors,</sup> that has not led to a resurgence of inflation.

B11. With growth in the UK economy likely to continue to outpace that of most other major countries, particularly in continental Europe, and with our oil surplus falling as North Sea oil production declines, the current account of the balance of payments is forecast to remain in deficit this year, by some £4 billion, equivalent to less than one per cent of GDP. Given the strength of the economy in general, and of our public finances in particular, not to mention our massive net overseas asset



position, I foresee no difficulty in financing a temporary current account deficit of this magnitude.

B12. But the outlook both for exports and for jobs will depend critically on employers keeping their costs firmly under control. Unit labour costs in manufacturing scarcely rose at all in 1987. It is vital that employers do not let this slip, and keep a tight grip on all their costs, not least pay.

B13. In my Budget speech last year, I warned that:

"Given the continuation of present policies in this country, the biggest risk to the excellent prospect I have outlined is that of a downturn in the world economy as a whole."

That remains the case. The dramatic collapse in the world's equity markets last October was not the second coming of 1929 and the harbinger of a 1930s-style world slump, as so many feared at the time - although it could have been a great deal nastier had the authorities in the major nations not responded in a prompt and appropriate way. It was essentially an overdue market correction which did little more than reverse the rapid rise in share prices of the previous year. Certainly, business confidence does not seem to have been greatly affected, and growth in the seven major industrial countries as a whole this year is likely to be only slightly lower than last year.



B14. But Black Monday was also a warning. The world's three largest economies - the United States, Japan and Germany - have made a number of the policy adjustments necessary to reduce the imbalances which have for so long afflicted them, and there is evidence that the measures they have taken are starting to bear fruit. But there is still a long way to go; and meanwhile there is the constant danger that the process of adjustment, and with it the world economy as a whole, could be gravely damaged either by further wild gyrations in the dollar exchange rate or by a lurch into protectionism.

B15. There are some who continue to insist that the simple and only solution to these imbalances lies in a further substantial fall in the dollar, even though the source of the problem lies elsewhere. They see exchange rate changes as a miracle cure, whatever the illness. They wholly ignore the damage that exchange rate volatility does to economic health, and distract attention from the fundamental causes of the imbalances.

B16. Success in reducing these imbalances depends on countries putting the right fiscal and monetary policies in place, and keeping them there. But the necessary adjustments are much more likely to be achieved if the objective of greater exchange rate stability is given an explicit role in the process of international co-operation, as has been the case for well over



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two years now. I can assure the House that we shall play our full part.

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**C. MONETARY POLICY**

C1. Meanwhile, the maintenance of sound money and prudent public finances will keep us in the best possible position to weather any shocks we may face, whether at home or abroad.

C2. The Medium-Term Financial Strategy, now entering its ninth year, will continue to provide the framework for reducing the growth of money GDP, and hence inflation, over the medium term. These will be achieved by maintaining firm monetary discipline, buttressed by a prudent fiscal stance.

C3. Short term interest rates remain the essential instrument of monetary policy. Within a continuous and comprehensive assessment of monetary conditions, I will continue to set interest rates at the level necessary to ensure that inflationary pressures are not accommodated.

C4. I believe that most businessmen have welcomed the greater stability between sterling and the Deutschmark that has persisted over the past year. It is important that they also accept the financial discipline inherent in this policy.

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C5. Achieving the gradual eradication of inflation also requires a steady reduction in monetary growth in the medium term. While I shall continue to take account of broad money, or liquidity, as last year there will be no explicit target. For narrow money, MO, the target range for 1988-89 will be 1-5 per cent, as foreshadowed in last year's MTFS.

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**D. PUBLIC SECTOR FINANCES**

D1. As I pointed out a moment ago, a sound monetary policy needs to be buttressed by a prudent fiscal stance.

D2. At one time, it was regarded as the hallmark of good government to maintain a balanced budget; to ensure that, in time of peace, government spending was fully financed by revenues from taxation, with no need for government borrowing. Over the years, this simple and beneficent rule was increasingly disregarded, culminating in the catastrophe of 1975-76, when the last Labour Government had a budget deficit, or Public Sector Borrowing Requirement, equivalent in today's terms to some £40 billion.

D3. This profligacy not only brought economic disaster and the national humiliation of a bail-out by the IMF. It also added massively to the burden of debt interest, not merely now but for generations to come.

D4. Thus one of our main objectives, when we first took office in 1979, was to bring down government borrowing. We steadily reduced the Public Sector Borrowing Requirement from the 5½ per cent of GDP we inherited to only three quarters of one per cent in 1986-87. Today I

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am able to tell the House that in 1987-88, the year now ending, we are set to secure something previously achieved only on one isolated occasion since the early 1950s: a balanced budget.

D5. Indeed, we have gone even further. It looks as if the final outturn for 1987-88 will be a budget surplus of £3 billion. Instead of a PSBR, a PSDR: not a Public Sector Borrowing Requirement, but a public sector debt repayment.

D6. And, incidentally, even if there had been no privatisation proceeds at all, the resulting PSBR, at a half of one per cent of GDP, would still have been the lowest in all but one year since the early 'fifties.

D7. A balanced budget is a valuable discipline for the medium term. It represents security for the present and an investment for the future. Having achieved it, I intend to stick to it. In other words, henceforth a zero PSBR will be the norm.

D8. In the very nature of things, there are bound to be fluctuations on either side from year to year. It is in this context that I have to set the precise fiscal stance for the year ahead, 1988-89.

D9. I have already announced, in the Autumn Statement last November, a substantial increase in public expenditure plans for 1988-89, with spending on



programmes up by over £4½ billion. In particular, we have increased our plans for spending on health and personal social services by £1 billion, on education and science by £900 million, and on law and order by £500 million.

D10. These large increases in public expenditure for the coming year will be financed partly from the saving in debt interest resulting from the reduction in Government borrowing. Debt interest now accounts for more than half a percentage point less of GDP than it did only three years ago. This may not sound very much, but it implies a saving of almost £3 billion a year.

*And the balanced budget path I have set out in this year's MTPS will help to reduce debt interest payable still further.*

D11. But even so, the increased public spending now planned for 1988-89 inevitably ~~means~~ <sup>implies</sup> less scope for reducing taxation. Moreover, I have decided that for the year immediately ahead, the path of prudence and caution is to budget for a further surplus of the same size as this year's expected outturn - that is to say, a further public sector debt repayment of some £3 billion.

D12. What this means is that it will not be possible in this Budget to reduce the burden of taxation; that is to say, to reduce taxation as a share of GDP.

D13. However, the House may be pleased to know that, with a strong and healthy economy, a constant burden of taxation implies a reduction in tax rates.

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**E. TAX REFORM**

E1. I indicated at the outset that this will be a radical, tax-reforming Budget.

E2. Over the past few years there has been increasing recognition, throughout the industrialised world, of the importance of tax reform in improving economic performance. And for us in this country, the lesson is underlined by the success of the reform of business taxation I announced in my first Budget, at the start of the last Parliament.

E3. But while tax reform is a simple matter for the armchair critic, it is very much more difficult in practice. It is difficult technically and difficult politically - since any tax system, however it arose, creates powerful vested interests in favour of the status quo. Nor, indeed, is it right that change should be too violent. People have a right to expect a reasonable degree of stability in the framework within which they order their affairs. But stability should not mean immobility. That way lies national decline.

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E4. The tax-reforming Chancellor thus has to tread a careful path. That I have sought to do in this Budget. The proposals I shall be making today amount to a substantial and coherent package which will be of increasing benefit to the taxpayer and the economy as a whole in the years to come.

E5. I have been guided by four basic principles. First, the need to reduce tax rates where they are clearly too high. Second, the need to reduce or abolish unwarranted tax breaks. Third, the need to make life a little simpler for the taxpayer. And, fourth, the need to remove some manifest injustices from the system.

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**F. INDEPENDENT TAXATION AND TAX PENALTIES ON MARRIAGE**

F1. My first reform concerns the taxation of marriage.

F2. The present system for the taxation of married couples goes back 180 years. It taxes the income of a married woman as if it belonged to her husband. Quite simply, that is no longer acceptable.

F3. This is a matter on which there has already been extensive consultation. The time has come to take action.

F4. I therefore propose a major reform of personal taxation, with two objectives. First, to give married women the same privacy and independence in their tax affairs as everyone else. And second, to end ways in which the tax system can penalise marriage.

F5. I have decided to introduce, at the earliest practicable date, April 1990, a completely new system of independent taxation.

F6. Under this new system, a husband and wife will be taxed independently, on income of all kinds. All taxpayers, male or female, married or single, will be entitled to the same personal allowance, which will be

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available against income of all kinds, whether from earnings, pensions or savings.

F7. In addition, there will be a married couple's allowance, equivalent in value to the difference under the old system between the married man's allowance and the single allowance. This new allowance will go in the first instance to the husband, so that his tax threshold does not fall. But if he does not have enough income to use it in full, he will be able to transfer any unused portion to his wife, to set against her income.

F8. This ensures that the tax system will continue to recognise marriage, as it should do. At the same time, from 1990 married women will pay their own tax, on the basis of their own income, and have their own tax return, when one is necessary. There will, of course, be nothing to stop married women from asking their husbands to handle their tax affairs, as before; and many will no doubt do so. But what matters is that, for the first time ever, married women will have the right to complete independence and privacy so far as tax is concerned.

F9. In the same way, a husband and wife will be taxed independently on any capital gains they may have, with an annual exemption each, instead of one between them, as now. But transfers of capital between husband and wife



will continue to be entirely free of any liability to tax.

F10. As I have said, the new system will come into force in 1990. This is much sooner than would have been possible for most of the alternatives that have been canvassed. The necessary legislation will be contained in this year's Finance Bill. The cost of this historic reform, which for the first time ever gives a fair deal to married women, will be £550 million in 1990-91.

F11. I mentioned a few moments ago the tax penalties on marriage. It is clearly wrong that some couples should find themselves paying more tax, simply because they are married. I propose to put that right.

F12. Independent taxation by itself will remove the most common penalty - the taxation of a married woman's income at her husband's marginal rate. But there are other tax penalties on marriage, and I propose to abolish all of them. These changes need not await the introduction of Independent Taxation.

F13. Under the present system an unmarried couple can get twice as much mortgage interest relief as a married couple. This has attracted increasing - and justified - criticism. I propose to put a stop to it as from August this year. Thereafter, the £30,000 limit on mortgage



interest relief will be related to the house or flat, irrespective of the number of borrowers. This was the solution put forward in the 1986 Green Paper on Personal Taxation, and it was widely welcomed. Existing mortgages will be unaffected.

F14. Another anomaly is that an unmarried couple with children can each claim the Additional Personal Allowance intended for single parents, and thus get more tax relief than a married couple in the same position. I propose to confine them to a single Additional Personal Allowance, with effect from April 1989.

F15. Thus this Budget will not only, for the first time ever, give married women a fair deal from the tax system. It will also eliminate, for all practical purposes, all the other tax penalties which, under the present system, can arise on marriage.



**G. BUSINESS TAXATION**

G1. I turn now to business taxation.

G2. The major reform of business taxation, which I introduced in 1984, and which was completed in 1986, has given us one of the lowest Corporation Tax rates in the world. This has encouraged overseas companies to invest in Britain and, most important of all, has greatly improved the quality of investment by British firms. It is a crucial part of an environment in which company profitability has recovered to its highest level for some twenty years. It has succeeded in its objectives.

G3. I do not therefore propose any further changes to the structure of Corporation Tax. And the main Corporation Tax rate for 1988-89 will be unchanged at 35 per cent.

G4. But I do have some changes to propose to specific aspects of business taxation.

G5. British exporters have done extremely well in recent years, thanks to major improvements in efficiency and quality. But no exporter could honestly claim that his success hinges on the fact that the cost of entertaining



overseas customers is tax deductible, whereas business entertainment generally is not. I therefore propose to simplify the system by making all business entertainment non-deductible for tax purposes, including for VAT.

G6. In conjunction with my rt. hon. Friend the Secretary of State for Energy, I propose to restructure the tax regime for the new generation of Southern basin and onshore fields, so as to relate tax liability more closely to profitability. Accordingly, my rt hon Friend will shortly be bringing forward legislation to abolish royalties, from 1 July, for all such fields. At the same time, I propose to reduce the Petroleum Revenue Tax oil allowance for these fields. This will mean the end of royalties for all future fields.

G7. The 1986 Building Societies Act gives Building Societies the power, to convert themselves into companies, if they so wish. At present, however, they would face a heavy, and unintended, tax charge if they did so. I propose to rectify this.

G8. I have two changes to propose to the tax arrangements for Lloyd's. The first meets the only point Lloyd's have raised on last year's legislation on reinsurance to close. The second will benefit both Lloyd's and the Inland Revenue by simplifying the administrative arrangements for taxing Lloyd's members.



G9. I also propose to simplify the Section 482 rules for companies who wish to migrate overseas, so as to bring them broadly into line with most of our major competitors. Instead of having to ask for Treasury consent, companies will be free to migrate, provided only that they pay their tax first.

G10. I now turn to a number of proposals to give further help to small businesses and new businesses, whose encouragement is a central theme of Government policy. The rate of new business formation, net of failures, has averaged 500 a week, week in, week out, since 1979. This shows beyond any doubt the continuing vigour of this sector, which is such an important source of enterprise, innovation, and new jobs.

G11. Many new businesses have been greatly assisted by the Business Expansion Scheme, which has now been running for nearly five years. During that time it has enabled new and expanding companies to raise equity finance amounting to some £150 million a year.

G12. However, the rapid growth of the venture capital market since 1983 has meant that companies seeking relatively large amounts of equity investment can now raise these readily, while smaller companies looking for more modest amounts can still find it difficult to do so.



G13. To improve the targeting of BES, I therefore propose to introduce a limit of half a million pounds on the amount any company can raise under the scheme in any one year. Investment should thus be better directed at the smaller, newer and riskier businesses, particularly those outside the South-East of England, which can still find it hard to raise equity finance in other ways. In the special circumstances of the ship chartering industry, however, the limit will be £5 million.

G14. I have one further proposal affecting the Business Expansion Scheme.

G15. One of the key reasons for our economic transformation has been the reform of the supply side of the economy.

G16. The tax relief I introduced last year for profit-related pay will, in time, help to increase pay flexibility and improve the working of the labour market. But if successful firms are to expand further, and create still more jobs, we also have to make it easier for people to move to where the new jobs are.

G17. For years, the shortage of private rented accommodation has been an obstacle to labour mobility. The Government's proposals to deregulate new rents are already going through the House. Deregulation will, over



time, substantially increase the supply of housing for rent. But this will not happen overnight, and there is a case for a special incentive to speed up the process in the early years.

G18. I therefore propose to extend the Business Expansion Scheme to include companies specialising in the letting of residential property on the new assured tenancy basis.

G19. The BES is well suited to this task. Since full tax relief is given immediately, it should bring forward new investment straight away. And we will be building on success.

G20. The limit for this type of investment will be £5 million a year for any one company. But since the relief is specifically designed to provide an extra stimulus in the early years of deregulation, it will run only for investments made before the end of 1993.

G21. This change will powerfully reinforce the impact of decontrol in reviving the private rented sector of housing in Britain.

G22. In last year's Budget I raised the ceiling for capital gains tax retirement relief from £100,000 of gain to £125,000. But I believe it is necessary to do more to help the small businessman whose entire wealth is tied up



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in his business and who is faced with the disincentive of a heavy capital gains tax bill when he sells up on retirement. I therefore propose to extend capital gains tax retirement relief so that, on top of the exemption, half of any gain between £125,000 and £500,000 will also be completely free of tax.

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G23. Lastly, on the small business front, I propose to increase the VAT threshold to £22,100, the maximum permitted under existing European Community Law.

G24. Throughout my time as Chancellor, I have been on the look-out for taxes to abolish. Abolition is clearly the simplest variety of reform. I have already abolished the National Insurance surcharge, the Investment Income surcharge, Development Land Tax, and the tax on lifetime gifts. Today I propose to abolish a further tax: Capital Duty.

G25 At present, companies have to pay a 1 per cent duty whenever they raise new capital - whenever, for example, a new company is formed or an existing company sells new shares to the public. This is undesirable on two counts. It is a burden on companies who need to secure external finance for expansion. And it discriminates against equity capital as compared with debt finance and bank borrowing.



G26. Capital Duty is a relatively recent impost which had to be introduced in 1973 in compliance with our obligations under European Community Law. But the relevant Community Directive has now been amended. Accordingly, I propose to abolish Capital Duty with effect from midnight tonight.

G27 At the same time, I propose to get rid of the Unit Trust Instrument Duty, a similar though much less substantial tax, which is levied at the rate of  $\frac{1}{4}$  per cent on all property put into a unit trust. I know the unit trust movement will welcome this minor relief, and I trust the benefit will be fully passed on to investors.

G28. The cost of abolishing these two taxes will be of the order of £100 million in 1988-89. Not counting minor imposts, the demise of Capital Duty brings the number of taxes I have abolished up to five: an average of one a Budget.



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**H. COVENANTS AND MAINTENANCE**

H1. I now turn to an important area of personal taxation which is ripe for reform and simplification: the taxation of payments made under deeds of covenant and maintenance arrangements.

H2. Covenants to charity will be wholly unaffected by the changes I am about to propose.

H3. Other covenants, and maintenance arrangements, are essentially ways of transferring income from one individual to another, usually from one member of a family to another, whether it is a parent or grandparent covenanting to a child, or a husband paying maintenance to an ex-wife. Most financial transfers that take place within families are rightly and properly outside the scope of the tax system altogether. I propose, as far as is practicable, to take covenants and maintenance out as well. This will greatly simplify an unnecessarily complex part of the tax system.

H4. First, covenants. Charitable covenants apart, I propose to take all new covenants made by individuals on or after today out of the tax system altogether. In other words, people receiving payments under covenants

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will not be liable to tax on them, and those making the payments will not be able to claim tax relief on them. The tax treatment of existing covenants will continue unchanged.

H5. The largest single group of people affected by this change will be students, together with their parents, many of whom nowadays choose to make their contributions to the student maintenance grant by covenant. This has arisen as an unintended by-product of the reduction in 1970 of the legal age of majority from 21 to 18.

H6. As I have already indicated, those who have already made such covenants will continue to benefit from them. For new students, the parental contribution to the maintenance grant will be assessed on a new and more generous scale, to reflect the withdrawal of tax relief on new covenants. My rt hon Friend the Secretary of State for Education and Science will be publishing the new scale tomorrow.

H7. One desirable side-effect of this reform is that students will no longer be deterred from taking vacation jobs because their covenant income has already absorbed their personal allowance.

H8. Student covenants apart, there will be no compensation for the loss of tax advantage arising from these proposals. But once rates of income tax are set at



reasonable levels, this is precisely the sort of tax shelter it is right to dispense with.

H9. Next, maintenance. Here, we tax the recipient only to give tax relief to the payer. The present rules can be complex and confusing for people going through separation and divorce. The tax system ought to intrude as little as possible, though it is reasonable that there should be some recognition of the fact that an ex-husband is continuing to support his ex-wife.

H10. Accordingly, I propose that, for new arrangements, recipients will not be liable to any tax whatever on maintenance payments. Relief to the payer will be restricted to payments to a separated or divorced spouse, up to a limit equal to the difference between the married and single allowances. But there will no longer be any tax relief either for payments above this limit, or for maintenance payments to anyone other than a separated or divorced spouse.

H11. For existing arrangements, the present rules will continue to apply in 1988-89, except that a separated or divorced spouse will be exempt from tax on receipts up to the difference between the married and single allowances. Full relief will continue for all those who are making payments under existing Court Orders or agreements. The same protection will also apply to those who have already applied for Court Orders, provided these are made by



30 June. From April 1989 there will be special transitional rules to continue protection for pre-existing arrangements.

H12. While the transitional provisions are inevitably somewhat complex, the new system will be very much simpler than the old, for all concerned. At the same time, while it will reduce the tax relief that can be obtained by the better-off payers of large amounts of maintenance, for most couples the ex-husband will continue to enjoy full tax relief while the ex-wife will no longer be taxed.

H13. The reform of the tax treatment of maintenance I am proposing today will also remove one of the lesser known tax penalties on marriage. Tax relief greatly in excess of that which is available to a married couple will no longer be available to an unmarried couple who make large income transfers either between themselves or to their young children.

H14. As I have already indicated, the reform and simplification of the taxation of covenants and maintenance, which I have proposed today, in no way affects covenants to charity. Indeed, I have a proposal to help charities further.

H15. The payroll giving scheme has now been running for nearly a year. I am glad that so many employers have



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already set up schemes, and I hope as many employees as possible will take advantage of them. In order to give further encouragement to charitable giving, and to assist the growth of the payroll giving scheme, I propose to double the annual limit on tax-allowable donations under the scheme to £240 or £20 a month.

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**J. TAXES ON SPENDING**

J1. I now turn to the taxation of spending.

J2. I have one change to propose today affecting the coverage of Value Added Tax, which will remain at 15 per cent. Confectionery was brought in to VAT by the RHM for Leeds East in 1974, and the legal definition of confectionery goes back further still to the days of purchase tax. The emergence of new products has rendered this definition, ~~like the RHM,~~ somewhat obsolete. In particular, recent legal decisions mean that some cereal bars are subject to VAT, while others are not. I propose to clarify the law so that all cereal bars are taxed.

J3. I propose to raise the excise duties as a whole in line with inflation, but to make some modest adjustments within the total. The duty on cigarettes and hand-rolling tobacco will be increased, by the equivalent, including VAT, of between threepence and fourpence for a packet of 20 cigarettes. This will take effect from midnight on Thursday. The duty on a packet of five small cigars will rise by twopence, but that on pipe tobacco will remain unchanged.

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J4. As to the alcohol duties, I propose increases which, including VAT, will put about a penny on the price of a pint of average-strength beer and cider, fourpence on a bottle of table wine, and sixpence on a bottle of sparkling or fortified wine. There will once again be no increase in the duty on spirits. These changes will take effect from 6 o'clock tonight.

J5. I propose to reduce the duty on drinks known as 'coolers', which are mixtures of an alcoholic drink and a soft drink, so as to encourage the young in particular to move to drinks with a lower alcohol content. For the same reason, I propose from 1 October to abolish the minimum duty charge on beer, which will encourage the promotion of low-alcohol beers.

J6. I propose once again to leave the main rates of Vehicle Excise Duty unchanged. To recover the revenue forgone, I propose increases in petrol and derv duty over and above the rate of inflation, which, including VAT, will raise the price of petrol by between fivepence and sixpence a gallon, and that of derv by less than fivepence a gallon. These changes will take effect from 6 o'clock tonight.

J7. In my Budget last year, I sought to promote the use of lead-free petrol, with all the environmental benefits it brings, by introducing a duty differential in its



favour. As a result, the number of garages selling lead-free petrol has more than trebled. But consumption remains disappointingly low.

18. Accordingly, I propose to double the duty differential in its favour by exempting it altogether from the duty increase I have just announced for leaded petrol. This means that, despite the higher production costs, the pump price of unleaded petrol should in future be below that of ordinary 2-star petrol. I very much hope the petrol companies will now reinforce this concession by vigorously promoting the use of lead-free petrol.

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**K. TAXES ON CAPITAL**

K1. I now turn to taxes on capital.

K2. The emergence of the capital-owning democracy has been one of the most remarkable features of the 1980s. Encouraged by Government policy, almost three million families have bought their homes, bringing the total to nearly two households in three. And our proposals for personal pensions, which come in to effect in July, will give a new dimension to pension ownership.

K3. But the most dramatic change has been in share ownership. In last year's Budget, I announced the results of a joint Treasury/Stock Exchange survey of the number of shareholders in this country. This revealed that some 8½ million people - one adult in five - owned shares, about three times the number in 1979.

K4. A similar survey has been carried out this year. Despite all the stories of people taking quick profits on privatisation shares, and despite the stock market collapse, the results show that the number of individual shareholders has if anything risen further over the past 12 months, to very nearly 9 million. This illustrates in

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a quite remarkable fashion how the habit of share ownership is now taking root.

K5. I have two proposals to encourage share ownership still further to announce today.

K6. First, Personal Equity Plans are off to a successful start. Over a quarter of a million people took out PEPs in 1987, and subscribed nearly £½ billion between them. To give further encouragement to this form of investment, I propose to increase the annual limit from £2,400 to £3,000. The new higher limit will apply to all plans taken out this year.

K7. Second, measures to encourage employee share ownership have featured in seven out of the last eight Budgets. As a result, the number of approved all-employee share schemes has risen from 30 in 1979 to over 1400 today, involving well over 10,000 companies, and providing shares and options for well over 1½ million employees.

K8. Following extensive consultation, including the publication of draft clauses, I propose to relax the provisions of Section 79 of the 1972 Finance Act. This will make it easier for companies to provide shares to their employees outside the approved schemes without giving rise to an undue charge to tax. This will be of



particular benefit to subsidiary companies and their employees.

K9. In previous Budgets I have already substantially reformed the taxation of capital, with the replacement of Capital Transfer Tax by Inheritance Tax. But I believe this process can and should be taken further. Last year, I reduced the number of inheritance tax rates from seven to four. This year, I propose to simplify the tax still further by levying it at a flat rate of 40 per cent.

K10. At the same time I propose to raise the threshold from £90,000 to £110,000.

K11. The increase in the threshold will reduce the number of estates liable to tax by a quarter allowing many more people to inherit the family home free of tax. And the flat rate of 40 per cent means that for the family business, enjoying 50 per cent business relief, the effective rate of tax can never exceed 20 per cent, one of the lowest inheritance tax rates in the industrialised world.

K12. The cost of these changes will be £100 million in 1988-89.

K13. Lastly, Capital Gains Tax. Strictly speaking, this should not be a tax on the original capital at all. Nor



is it, so far as gains which have arisen since 1982 are concerned, thanks to the indexation provisions introduced by my predecessor in 1982, and extended in my 1985 Budget.

K14. But for gains that arose before 1982, the tax falls largely on purely paper profits resulting from the rampant inflation of the 'seventies. In other words, it bites deeply, and capriciously, into the capital itself.

K15. This has long been recognised as manifestly unjust. Indeed, from the time I first entered this House I have argued that Capital Gains Tax should fall only on real gains, and not on paper gains. I have therefore looked hard to see if the indexation provisions could be applied right back to the inception of the tax in 1965. Unfortunately, they cannot. The necessary information is in many cases no longer available.

K16. Accordingly, I have decided to bring the base date for the tax forward from 1965 to 1982. That is to say, for all disposals on or after 6 April, that part of any capital gain which arose before April 1982 will be exempt from tax altogether, for individuals and companies alike.

K17. This Budget thus ends once and for all the injustice of taxing purely inflationary gains. This will benefit the economy by unlocking assets which have been virtually



sterilised because of the penal tax that would have arisen on any sale. And it will help many small businessmen and farmers in particular.

K18. At present, the first £6,600 a year of capital gain is tax free. The relatively high level of this threshold stems from the substantial increase my predecessor made in 1982, explicitly as rough and ready partial compensation for the continued taxation of pre-1982 paper gains. Now that I have taken pre-1982 gains out of tax altogether, I propose to reduce the capital gains tax threshold to £5,000. It should also be borne in mind that, with the introduction of independent taxation in 1990, a husband and wife will each have their own threshold for capital gains tax as well as for income tax.

K19. Rebasing the tax so as to produce a fully indexed system makes it possible to bring the taxation of gains closer to that of income. In principle, there is little economic difference between income and capital gains, and many people effectively have the option of choosing to a significant extent which to receive. And, insofar as there is a difference, it is by no means clear why one should be taxed more heavily than the other. Taxing them at different rates distorts investment decisions and inevitably creates a major tax avoidance industry.



K20. Moreover, at present, with capital gains taxed at 30 per cent for everybody, higher rate taxpayers face a lower - sometimes much lower - rate of tax on gains than on investment income, while basic rate taxpayers face a higher rate of tax on gains than on income. This contrast is hard to justify.

K21. I therefore propose a fundamental reform. Subject to the new base date, capital gains will continue to be worked out as now, with the present exemptions and reliefs. In particular, the principal private residence will remain tax-free. But the indexed gain will then be taxed at the income tax rate that would apply if it were the taxpayer's marginal slice of income. In other words, I propose in future to apply the same rate of tax to income and capital gains alike.

K22. These changes will not take effect until 6 April.

K23. Taxing capital gains at income tax rates makes for greater neutrality in the tax system. It is what we now do for companies. And it is also the practice in the United States, with the big difference that there they have neither indexation relief nor a separate capital gains tax threshold.

K24. The changes I have announced represent a thoroughgoing reform of capital gains tax which will



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benefit the economy and eradicate a major injustice. They will sharply reduce the damaging effects of the tax, while ensuring that capital gains remain properly taxed and the yield of income tax adequately protected.

K25. They are expected to cost £210 million in 1989-90.

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**L. INCOME TAX**

L1. Finally, I turn to income tax.

L2. The way to a strong economy is to boost incentives and enterprise. And, that means, among other things, keeping income tax as low as possible.

L3. Income tax has now been reduced in each of the last six Budgets - the first time this has ever occurred. And the strength of the economy over that period speaks for itself.

L4. However, reforming Income Tax is not simply a matter of cutting the rates. I also have to look at all the various allowances and reliefs to ensure that they are still justified.

L5. With this in mind, I have a number of proposals to announce.

L6. First, forestry. I accept that the tax system should recognise the special characteristics of forestry, where it can take anything up to a hundred years between the costs of planting and the income from selling the felled timber.



L7. But the present system cannot be justified. It enables top rate taxpayers in particular to shelter other income from tax, by setting it against expenditure on forestry, while the proceeds from any eventual sale are effectively tax free. ~~Indeed a whole industry has grown up to promote this particular tax shelter.~~

L8. The time has come to bring it to an end. I propose to do so by the simple expedient of taking commercial woodlands out of the tax system altogether. That is to say, as from today, and subject to transitional provisions, expenditure on commercial woodlands will no longer be allowed as a deduction for income tax and corporation tax. But, equally, receipts from the sale of trees or felled timber will no longer be liable to tax.

L9. It is, perhaps, a measure of the absurdity of the present system that the exemption of commercial woodlands from tax will, in time, produce a yield of over £10 million a year.

L10. But in order to further the Government's objectives for the rural areas, I have agreed with my rt hon. Friends who have responsibilities for forestry and the environment that, <sup>in parallel,</sup> ~~there should be a parallel~~ increase<sup>s</sup> in planting grants. Full details of the new grant scheme will be announced next week.



L11. The net effect of these changes will be to end an ~~increasingly blatant form of tax avoidance~~ *unacceptable form of tax shelter*; to simplify the tax system, abolishing the archaic Schedule B in its entirety; and to enable the Government to secure its forestry objectives with proper regard for the environment, including a better balance between broad-leaved trees and conifers.

L12. One of the legacies of the years of penal top tax rates is the complicated special relief for large redundancy payments. This is no longer justified. I propose to increase the exemption limit for these payments from £25,000 to £30,000, and to abolish the additional relief for larger amounts.

L13. I have a few changes to propose following from the recommendations of the Keith Committee on the Inland Revenue taxes. Most are designed to improve compliance, and to help the Revenue to uncover taxpayers who do not declare all their income, particularly where large amounts of tax are being lost. At the same time I have reviewed the VAT enforcement regime, and have a number of relaxations to propose which will make life easier for businesses, while safeguarding tax revenue. Some of the penalties will be reduced from midnight tonight.

L14. Next, benefits in kind - perhaps better known as perks. One of the biggest tax-induced distortions in the economy today is the growing tendency to provide



remuneration in kind rather than in cash. It must be right to move towards a system of lower taxes all round and fewer tax breaks of this kind.

L15. Far and away the most widespread benefit in kind is the company car, which is substantially undertaxed. Independent studies, based on figures supplied by the AA, suggest that an employee with a typical company car may be taxed on only a quarter of its true value to him.

L16. This discrepancy is too great to be allowed to continue. On the other hand, the scale of the undertaxation is so great that it cannot be put right in a single year. But in a Budget when I am able to reduce tax rates, there is a strong case for a substantial increase in the taxation of these benefits. I therefore propose to double the car scales for 1988-89. This increase replaces the 10 per cent increase which I had already announced for 1988-89. The yield from this will be £260 million in 1988-89.

L17. The scales for the taxation of car fuel adequately reflect the value of the benefit, and I propose to leave them unchanged for 1988-89.

L18. However, the taxation of the benefit of free car parking threatens to become an administrative nightmare. I propose to exempt this particular benefit from tax altogether.



L19. Next, mortgage interest relief. This Government is committed to the further spread of home ownership. Mortgage interest relief has an important role to play in achieving that aim, and will continue in place, against both the basic and higher rates of tax.

L20. However, in addition to the decision to apply the £30,000 limit to the house or flat, which I have already announced, and which will remove the most widely-resented tax penalty on marriage, I have one further reform to propose in this area.

L21. This concerns the parallel tax relief for home improvement loans. Most of these loans are for fittings such as double glazing, and have played a significant part in the recent growth of consumer credit without in any way contributing to the expansion of home ownership. This may be partly due to the substantial scope for abuse, as loans ostensibly taken out for home improvements are used for other purposes, a matter which was the subject of a recent report from the Public Accounts Committee.

L22. I propose, therefore, to end tax relief for all new home improvement loans taken out after 5 April. Existing home improvement loans will be unaffected. This is expected to yield £80 million in 1988-89.



L23. Finally, I turn to income tax itself.

L24. The statutory indexation formula means that I should increase all the principal income tax allowances and bands by the increase in the RPI over the year to last December, or 3.7 per cent, rounded up. I propose to do more than that; indeed twice as much.

L25. Thus the single allowance will go up not by £90, as required by indexation, but by £180, to £2605; and the married allowance will go up not by £150 but by £300, to £4095. The additional personal allowance and widow's bereavement allowance will thus rise by £120 to £1490. Similarly the single age allowance will rise by £220 to £3180 and the married age allowance by £360 to £5035. The higher allowances for taxpayers aged 80 and over, which I introduced in the last Budget, will correspondingly be increased by £240 and £360 to £3310 and £5205 respectively, and the new age allowance income limit will be £10,600. The upper limit of taxable income for the basic rate band will be increased to £19,300.

L26. The increases I have just announced mean that the basic tax thresholds will be fully 25 per cent higher, in real terms, than they were in 1978-79, Labour's last year. Indeed, the married man's tax threshold will be at its highest level in real terms for nearly half a century.



L27. Given these substantial increases in the main allowances, I am taking the opportunity to simplify the system by abolishing three minor personal allowances which have been unchanged, in cash terms, for over twenty years: the housekeeper allowance, the dependent relative allowance, and the son's or daughter's services allowance.

L28. In our general election manifesto last year, we committed ourselves to reducing the basic rate of income tax to 25 pence in the £ as soon as it was prudent to do so. This pledge followed a reduction of twopence in the £ to 27 pence in last year's Budget.

L29. At the time, this was regarded with some scepticism, not to say cynicism, by the Opposition, who no doubt recalled that Labour Governments used to reduce tax only in front of an election, and at all other times increased it. Indeed, shortly before last year's Budget the rt hon Gentleman the deputy leader of the Labour Party said this:

"I must advise the Chancellor of something he already knows: whichever party wins the general election, the tax cuts he makes in this Budget will be reversed."

L30. The time has come to put the rt hon Gentleman out of his misery. So far from reversing the 1987 Budget tax reductions, I propose to take this, the first opportunity



since the general election, to fulfil our manifesto pledge. The basic rate of income tax for 1988-89 will be 25 pence in the pound.

L31. The small companies' rate of corporation tax will similarly be reduced to 25 per cent. This means that the basic rate of income tax, and the corporation tax rate for small companies, will both be at their lowest level since the war.

L32. Life Assurance premium relief remains in place for policies taken out before the 1984 Budget. It has traditionally been given at half the basic rate of income tax. I therefore propose to reduce it from 15 per cent to 12½ per cent. But, to give life offices time to adjust, this change will not take effect until 6 April 1989.

L33. I also propose to reduce the additional rate which applies to the income of discretionary trusts and for certain other purposes from 18 per cent to 10 per cent.

L34. It is now nine years since my predecessor, in his first Budget in 1979, reduced the top rate of tax from the absurd 83 per cent that prevailed under Labour to 60 per cent, where it has remained ever since.

L35. At that time, this was broadly in line with the European average for the top rate of tax. It is now one



of the highest. And not only do the majority of European countries now have a top rate of tax below 60 per cent, but in the English-speaking countries outside Europe - not only the United States and Canada, but socialist Australia and New Zealand, too - the top rate is now below 50 per cent, sometimes well below.

L36. The reason for the worldwide trend towards lower top rates of tax is clear. Excessive rates of income tax destroy enterprise, encourage avoidance, and drive talent to more hospitable shores overseas. As a result, so far from raising additional revenue, over time they actually raise less.

L37. By contrast, a reduction in the top rates of tax can, over time, result in a higher, not a lower, yield to the Exchequer. Despite the substantial reduction in the top rate of tax in 1979, and the subsequent abolition of the investment income surcharge in 1984, the top five per cent of taxpayers today contribute a third as much again in real terms as they did in 1978-79, Labour's last year; while the remaining 95 per cent of taxpayers actually pay less.

L38. After nine years at 60 per cent I believe the time has come to make a further reduction in the top rate of income tax. At present there are no fewer than five higher rates of income tax: 40 per cent, 45 per cent,



50 per cent, 55 per cent, and 60 per cent. I propose to abolish all the higher rates of tax above 40 per cent.

L39. This major reform will leave us with one of the simplest systems of income tax in the world, consisting of a basic rate of 25 per cent and a single higher rate of 40 per cent. And, indeed, a system of personal taxation in which there is no rate anywhere in excess of 40 per cent.

L40. I believe that 40 per cent is an acceptable top rate of tax. But, bearing in mind that the basic rate of income tax is also the starting rate, 25 per cent is still too high.

L41. Since we first took office in 1979, we have now reduced the basic rate of income tax from 33 per cent - one third - to 25 per cent - a quarter. Our aim should now be to get it down to a fifth - a rate of 20 pence in the pound - as soon as we prudently and sensibly can.

L42. Meanwhile, I have today been able to reduce income tax at all levels, with increases in both the personal allowances and the basic rate limit, and reductions in both the basic and higher rates. The tax reduction for a married man on average earnings in 1988-89 will be worth nearly £5 a week. The changes will take effect under PAYE on the first pay day after 14 June. They will cost



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£4½ billion in 1988-89 over and above statutory indexation, of which three quarters represents the cost of increasing tax thresholds and reducing the basic rate.

L43. The total cost of all the measures in this year's Budget, again on an indexed basis, is £4 billion.

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**M. PERORATION**

M1. In this Budget, I have reaffirmed the prudent policies which have brought us unprecedented economic strength. I have announced a radical reform of the taxation of marriage, which for the first time ever will give married women a fair deal from the tax system. I have eliminated the long-standing injustice of taxing inflationary gains, and abolished a fifth tax. I have radically reformed the structure of personal taxation, so that there is no rate anywhere in the system in excess of 40 per cent.

M2. After an Autumn Statement which substantially increased public spending in priority areas, I have once again cut the basic rate of income tax, fulfilling our Manifesto pledge of a basic rate of 25 pence in the £ and setting a new target of 20 pence in the £.

M3. And I have balanced the Budget.

M4. I commend this Budget to the House.

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*pmf*

FROM: J MACAUSLAN

DATE: 13 JUNE 1988

I hope this will provide a

1 MR ANSON basis for a second reading discussion

2 CHIEF SECRETARY at Wednesday's meeting.

- cc: Chancellor
- Sir P Middleton
- Mr Monck
- Mr H Phillips
- Mr Turnbull
- Mr Luce
- Mr Gieve
- Mr Hansford
- Mr Mowl
- Miss Walker
- Mr Call

*a*  
*For discussion @ Wednesday's*  
*meeting*  
*AA*  
*NOTE:*  
*Health*  
*Construction*  
*Nls & priv.*  
*transfer will*  
*GGP & 2 gov't*  
*(in last yr)*

**SURVEY PROSPECT 1988**

1. We have now completed our initial assessment of departmental bids in consultation with Expenditure Groups.

2. In summary:

	£ billion		
	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
<u>Bids</u>	+8.5	+11.8	+15.4
<u>Treasury assessment of outcome</u>			
departments	+3.3	+4.8	+6.8
net contribution to EC	+0.4	+0.3	+0.2
nationalised industries	+0.4	+0.4	+2.0
local authority relevant	+1.3	+1.6	+1.8
Total addition to programmes	+5.4	+7.1	+10.7
Assumed draw down of Reserve (1)	-3.5	-3.5	-3.5
<u>Addition to planning total</u>	+1.9	+3.6	+7.2

(1) Leaving reserves for these 3 years of £3.5/7.0/10.5 billion, the same pattern as in the last PEWP.



3. Annex A shows the implications of our current assessment for the planning total, for real growth in expenditure, and for general government expenditure excluding privatisation proceeds as a percentage of GDP. Annex B compares the figures with the assessment made at a comparable stage last year. Annex C discusses trends in spending growth by Department. Annex D sets out the bids and forecast outcome in more detail, and offers short notes on each main programme. These notes summarise the bids, options for reductions identified by expenditure divisions, and the basis for divisions' forecast of the outcome. (This material will of course be worked up more fully for the draft agenda letters and bilateral briefing to be submitted later).

4. Bids: Our discussions with expenditure divisions have yielded the following main conclusions on the bids:

(i) revised economic assumptions mean reductions on some demand led areas, eg ECGD, LAPR/MIRAS, IBAP and social security. But further changes to economic assumptions could erode these reductions. And for social security, the reductions are offset by estimating increases, so that net economic and estimating additions are £-50 /450/ 1775 million.

??  
(ii) on the other hand there are large discretionary bids - on health (as expected); but also on education (beyond expectation) and in particular transport and prisons. Divisions forecast that it should be possible to make substantial cuts in the health bids, but less so for education, transport or prisons.

(iii) there may be more bids to come. Ministers have in some areas put up markers: eg for launch aid; student support; the health review; and policy and estimating changes on social security benefits: these and other such could add £0.5 billion a year. Nothing has been included for radical measures on housing. We also foresee further bids eg for local authority capital allocations and for the initial costs of relocation.



(x) PE also assume some net savings on the Transport industries, with savings on Rail offsetting increases on LRT; an addition of £250/250/350 million for Coal - because renegotiation of the agreement with the electricity industry would mean real price reductions, some loss of sales, and increased redundancy costs, only partly offset by higher electricity profits (see Mr Monck's minute of 2 June to the Chancellor; the outcome is very uncertain); the sale this year of British Shipbuilders, with a benefit of £85/85/90 million; and some relatively small savings on the Post Office.

5. The size of the reserves: At the outcome of the 1987 Survey, there were reserves for the 3 years of £3.5/7.0/10.5 billion. We have provisionally assumed the same pattern for the 3 years covered by this Survey. That implies that £3.5 billion is available in each year for allocation to programmes.

6. Treasury Ministers will need to consider at a later stage what the reserves in the next PEWP will be. There are reasons to think that the excess of actual expenditure over the outcome of this Survey for Social Security and EC contributions may be less massive than after previous Surveys. But there are still hefty upward pressures on local authority relevant, health, and pay (ST now foresee a liability of perhaps £300/600/900 million for the 1989, 1990 and 1991 health Review Bodies, and bids in later Surveys of perhaps £-/160/290 million for Aids). In addition, MOD might add £200 million net to 1989-90 expenditure under their end-year flexibility scheme; a sub-Saharan debt settlement could mean reserve claims of £30 million a year; and there could be a bid of £20-40m a year for support to the new owners of BS shipyards. There is an outside risk of a liability of up to £600 million over the period if our case on the International Tin Council were to fail. Unforeseen contingencies and new policy developments will come on top of all of this. And there are the normal risks on economic assumptions (interest rates, inflation, unemployment and exchange rates) and on eg the cereals harvests.



(iv) DOE's large housing bid may be offset by substantial local authority capital receipts which the division expect to be declared later in the Survey; the division also expect that it may be possible to reduce the DOE-Other Environmental Services bid to modest levels (except in the first year which reflects the costs of introducing the community charge).

(v) the forecast for DE implies major policy savings, converting a big bid into a moderate reduction; the forecast outcome for MOD implies cutting their bids in half or somewhat better; the reductions implied for DTI are less ambitious.

(vi) there are substantial running cost bids; RC will be submitting separately.

(vii) net contributions to the EC show a big increase in the first year, and significant increases thereafter, reflecting the latest assessments on the abatement.

(viii) the increases in local authority relevant current expenditure assume achievement of the option 3 (£1.1 billion addition in England) which you have been discussing with Mr Ridley; option 2 would mean about £200 million more in each year.

(ix) the pattern of the figures for the nationalised industries is critically affected by the privatisation of electricity and its precise timing; the sheet in Annex D distinguishes between industries remaining nationalised and those due to be privatised. If the privatisation programme develops as intended the negative EFLs for Giro, Steel, Water, and electricity will largely have dropped out by 1991-92. The baseline for them in 1991-92 is some £1800 million (compared to £1500 million in 1989-90): that means a substantial addition to the planning total in that year. There are a number of ways in which the presentation could in the event be handled: the ramifications are complicated; we will submit separate advice.



7. We will be in a better position to make a preliminary judgement on this when we have the June forecast report which is due on 24 June. But we will need to consider later in the Survey, in the light of the pressures then foreseeable and the realism of the provision being made for individual programmes, what level of reserves to include.

### Conclusion

8. The last PEWP had bigger reserves for the Survey years, and implied a faster average rate of real growth in departmental spending (the planning total including the reserve but excluding privatisation proceeds) than previously: 2.2 per cent (whether in the PEWP or the FSBR) compared to an average of 1.3 per cent for 1979-80 to 1987-88. Our current assessment of the outcome for this Survey implies real growth on a comparable basis for the 3 years of the new Survey averaging 3% (see Annex A). *WKM:AJ*

9. This figure of 3 per cent can be compared with those in paragraphs 7-12 of Mr Gieve's paper attached to Mr Anson's submission of 10 May on the long term. On that basis, they would mean that little if any progress could be made on reducing the burden of non-North Sea taxation before 1991-92; and that there would probably be increases thereafter. They would also allow at most only very limited progress before 1991-92 in reducing the basic rate towards 20p - and if the average annual growth in expenditure persisted up to 1996-97, even that progress would probably have to be reversed. (These estimates are on the basis of the optimistic assumptions for economic growth used in the work on the long term).

10. The FSBR showed General Government Expenditure excluding privatisation proceeds as 41.25 per cent of GDP in 1988-89. On the basis of the current assessment of the Survey prospects, there would be a reduction in this percentage of only about 0.85 percentage points by 1991-92. (Nearly half of this reduction arises from a recent - and tentative - reassessment of debt interest and the other adjustments used to derive figures for GGE: see note 3 to Annex A).

*But GGE grows @ 2% ✓*

*figures based on FSBR  
figures for money GDP.  
True percent based to  
be higher money GDP lower GGE/GDP %.*



11. The figures in Annex A are only tentative; and much depends on the view taken of the loss of negative EFLs through privatisation. But given the estimates shown there, you will want to consider whether we should go back to divisions to ask them to identify areas to focus on if you wanted to press your colleagues harder - even at the cost of greater political pain than divisions have so far assumed on the basis of last year's experience.

12. We will be submitting advice in a week or so on the overall strategy for the Survey and for the handling of the July Cabinet. In the meantime, it would be helpful to know whether you would like us to ask divisions to do further work as in paragraph 11 above (we might aim at sets of reductions below the forecast outcome totalling say £0.5/1/2 billion and say £1/2/4 billion); and in which areas you would like divisions to press harder.

be tough on DTp, HO, DES.

jm

J MACAUSLAN



PES 1988: JUNE ASSESSMENT

	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
Baseline (£bn)	156.8	167.1	176.2	183.9
Likely additions (£bn)	-	+1.9	+3.6	+7.2
Revised planning total (1) (£bn)	156.8	169.0	179.8	191.1
Real growth on previous year (2)		3.4	2.6	3.0
Average annual real growth 1988-89 to 1991-92 (2)				3.0
<hr/>				
GGE excl privatisation proceeds (3)	187.9	199.5	209.3	220.1
(a) as % of GDP (4)				
- PEWP 88	42.0	41.75	41.25	
- FSBR 88	41.25	40.75	40.0	39.4
- current assessment (3)	41.25	41.0	40.6	40.4
(b) real growth on previous year (2)		2.1	1.4	2.1
(c) average annual real growth 1988-89 to 1991-92 (2)				1.9

Notes

(1) Assumes reserves of £3.5/7.0/10.5 billion for the new Survey years and privatisation proceeds of £5/5/5 billion; assumes 1988-89 outturn as plans.

(2) Excluding privatisation proceeds, and using GDP deflators as in FSBR. If the increase in the planning total in 1991-92 due to the loss of the negative EFLs of electricity, steel and water were also excluded the average annual real growth rate of the planning total from 1988-89 to 1991-92 would be 2.7%. *α added for 1995? 1.62??*

(3) Assuming debt interest and national accounts adjustments totalling £25.5/24.5/24 billion.

(4) Assumes money GDP as in FSBR.



BIDS AND FORECASTS, 1987 AND 1988

£ billion

	<u>PES 87</u>			<u>PES 88</u>		
	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
Departmental Bids	+5.3	+7.3	+10.4	+6.5	+9.5	+13.4
Other (LA relevant, EC, Nat Inds)	+2.4	+3.4	+3.3	+2.0	+2.3	+2.1
<u>PROPOSED TOTAL</u> <u>ADDITIONS TO</u> <u>PROGRAMMES</u>	+7.6	+10.6	+13.7	+8.5	+11.8	+15.4
Treasury assessment (1)	+5.5	+7.4	+9.5	+5.4	+7.1	+10.7
Outcome	+4.6	+6.1	+7.7			
<u>Increase in plan-</u> <u>ning total (2)</u>	+2.6	+5.6	+10.6	+1.9	+3.6	+7.2

(1) July assessment for PES 87, June for PES 88.

(2) For PES 88, assumes outcome as assessment, and drawing down reserves by £3.5 billion in each year.



COMPARISON BETWEEN PROGRAMMES

1. Table 1 below shows real growth in departments' programmes relative to the growth of public spending overall. It compares figures for 1983-84 to 1988-89 with those for 1988-89 to 1991-92. (Figures for the latter period are based on the current Treasury assessment of the Survey outcome). This illustrates how relative priorities between programmes might seem to have altered.

2. Not too much weight should be put on the precise figures, since there are some inconsistencies in treatment. The main inconsistency is that for 1983-84 the reserve is fully allocated between departments, whereas for 1988-89 and 1991-92 allocations are made only to DHSS - health (for Review Body Awards and Aids). (If, in the event the reserves were allocated in proportion to each department's size, no distortion would arise).

3. The figures show

(i) a slight decline in the position of MOD, ODA and FCO.

(ii) acceleration in the decline of DTI and DEN, but a slow down for MAFF.

(iii) a change in trend for DE, from above average growth to decline

(iv) much faster growth for DTp, DOE-Other, and HO, with smaller improvements for DOE-housing and DES.

(v) continued relative growth for DHSS-health and (to a lesser extent) DHSS-social security benefits.



(vi) a change of trend for Scotland and Wales from relative decline to relative growth, but deterioration for N Ireland.

(vii) a dramatic change in trend for nationalised industries from rapid decline to even more rapid growth, reflecting in particular the effect in the first period of improvements in electricity, water and steel, followed in the second period by the loss of those industries' negative EFLs.

(viii) LA relevant moves into relative - and improbable - decline.

4. The turnround for nationalised industries (and EC contributions) clearly leaves far less room for other programmes, despite unreal figures for LA relevant, and despite higher overall growth in the later period: 3% compared to 1.4% (for the planning total excluding privatisation proceeds but including reserves).

5. Nevertheless, the table suggests focussing on the departments in (iv) above (DTp, DOE-Other, HO and DES) to see if their sharp increases can be moderated, and on MAFF, DTI, and DE, to see if faster reductions could be achieved. A similar message emerges from Table 2, which shows the forecast outcome in each year for the main departments as a percentage of the baseline.



Table 1Average annual real growth in programmes relative to the growth in the overall planning total

<u>Department</u>	<u>1983-84 to 1988-89(1)</u>	<u>1988-89 to 1991-92(2)</u>
MOD	-1.0	-0.8
FCO-ODA	+1.2	-0.7
FCO-Diplomatic	+0.7	-0.8
MAFF (excl IBAP)	-4.7	-2.1
DTI (excl ECGD)	-1.7	-8.0
DEn	+4.8	-8.1
DE	+2.2	-4.0
DTP	-2.2	+3.0
DOE-housing	-5.0	-4.0
DOE-Other (excl PSA)	-8.4	+4.5
HO	+2.8	+5.8
DES	-1.1	+0.6
DHSS-health	+2.2	+2.3
DHSS-social security benefits	+1.0	+0.8
Scotland	-1.2	+0.6
Wales	-0.2	+0.2
Northern Ireland	+0.6	-0.9
EC Contributions	-5.1	+18.0
Nationalised Industries	-12.3	+19.2
LA relevant	+0.6	-1.1

Notes

(1) Using GDP deflator of 1.25 for this period; using 1988 Survey baseline figures, but adding £600m to health for 1988-89 for the 1988 Review Body Award. Average annual real growth shown after deducting average growth of planning total (excluding privatisation proceeds, and including the reserve for 1983-84 but not for 1988-89) of 0.8%.

(2) Assuming FSBR deflator of 1.11; using 1988 Survey baseline figures as above for 1988-89, with Treasury assessment of additions for 1991-92, and further additions of £1200m for DHSS-health for future Review Body Awards and for Aids; average annual real growth shown after deducting average growth of planning total (excluding reserves and privatisation proceeds) of 1.4%.



FORECAST OUTCOMES (1) AS % OF BASELINES FOR SELECTED DEPARTMENTS

	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
MOD	0.5	2.2	2.8
ODA	1.9	1.9	1.9
FCO - Dip	2.5	5.0	5.0
MAFF	2.1	1.8	2.1
DTI	4.7	5.1	-8.4
DTP	12.9	14.4	18.7
DOE-housing	-0.2	-0.5	0.0
DOE-Other	19.7	8.0	4.3
HO and legal	11.6	14.4	15.7
DES	7.4	8.1	8.4
Social Security	1.0	2.1	4.5
Health and PSS	5.2	6.2	7.7
LA relevant	3.9	4.7	5.2
TOTAL	3.2	4.1	6.1

Notes

(1) Treasury divisions' assessment of the additions over baseline likely to be required for each Department as a percentage of the baseline for each year.



SECRET  
SUMMARY SCORECARD

Date of last update: 13/1/88

(£million)

	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	1991-92 BASELINE	1991-92 DEPT POSITION	1991-92 FORECAST OUTCOME	1991-92 HMT POSITION
Ministry of Defence	19,969.0	298.0	100.0	0.0	20,575.0	934.0	450.0	0.0	21,075.0	1,380.0	600.0	0.0
FCO - Diplomatic, Information, Culture	743.0	38.9	18.5	-18.8	761.0	59.4	38.0	-13.7	780.0	61.2	39.3	-24.0
FCO - Overseas Development Administration	1,505.0	44.0	28.0	4.0	1,551.0	75.0	29.0	5.5	1,590.0	94.0	30.0	13.5
European Communities	1,470.0	380.0	380.0	380.0	1,320.0	260.0	260.0	260.0	1,353.0	157.0	157.0	157.0
Intervention Board for Agricultural Produce	1,690.0	-304.3	-99.3	-101.0	1,845.0	-288.9	-98.6	-102.0	1,891.0	-193.8	-97.0	-103.0
Ministry of Agriculture, Fisheries and Food	786.0	39.0	16.6	-38.4	801.0	46.3	14.1	-95.8	821.0	64.8	17.0	-126.9
Forestry Commission	64.0	9.1	9.1	0.0	65.0	11.8	11.8	0.0	67.0	13.0	13.0	0.0
Department of Trade and Industry	1,282.0	97.1	60.4	11.4	1,222.0	98.3	61.8	6.8	1,225.0	-19.2	-103.4	-156.4
Export Credits Guarantee Department	139.0	-46.0	-46.0	-46.0	120.0	-49.0	-49.0	-49.0	123.0	-90.7	-90.7	-90.7
Department of Energy	309.0	9.2	5.4	-11.1	316.0	-9.3	-37.6	-43.0	323.0	-19.6	-49.7	-50.6
Department of Employment	4,185.0	211.0	-50.0	-357.0	4,241.0	260.7	-100.0	-551.0	4,347.0	272.1	-150.0	-747.0
Department of Transport	2,244.0	393.4	290.0	0.0	2,299.0	455.9	330.0	0.0	2,357.0	605.3	440.0	0.0
DOE - Housing	2,378.0	549.0	-6.0	-368.0	2,399.0	627.0	-13.0	-409.0	2,459.0	961.0	0.0	-486.0
DOE - Other Environmental Services	904.0	418.6	178.4	-170.6	935.0	351.0	74.4	-170.6	958.0	310.6	41.3	-156.7
Home Office & Legal Departments	2,428.0	389.8	282.5	30.8	2,522.0	540.2	362.8	-28.4	2,585.0	618.9	405.4	-38.0
Department of Education and Science	5,156.0	632.1	382.5	0.0	5,293.0	843.1	430.4	0.0	5,425.0	975.9	457.8	0.0
Office of Arts and Libraries	454.0	0.0	0.0	0.0	471.0	0.0	0.0	0.0	483.0	50.0	19.5	0.0
DHSS - Health and Personal Social Services	18,559.0	1,866.2	973.2	-902.0	19,445.0	2,596.1	1,202.1	-1,142.0	19,931.0	3,481.6	1,537.6	-1,430.0
DHSS - Social Security	50,889.0	785.5	503.0	40.0	53,347.0	1,393.3	1,127.0	419.0	54,681.0	2,707.7	2,441.6	1,592.0
Scotland: negotiable	5,033.0	27.5	-28.7	-212.4	5,206.0	26.8	-30.4	-225.5	5,336.0	24.6	-35.9	-242.9
Scotland: formula		450.4	231.7	-155.6		576.3	262.3	-192.2		750.1	316.7	-230.3
Wales: negotiable	2,101.0	44.1	31.5	26.0	2,169.0	39.4	28.5	23.0	2,223.0	37.0	16.5	11.0
Wales: formula		209.6	105.9	-74.5		264.7	116.8	-91.0		348.8	143.0	-111.6
Northern Ireland*	5,323.0	82.3	100.0	0.0	5,508.0	116.7	120.0	0.0	5,645.0	185.8	140.0	0.0
Chancellor's Departments	4,019.0	-29.7	-47.4	-83.1	4,162.0	51.8	14.1	-57.8	4,268.0	179.0	116.5	-20.1
Other Departments	397.0	24.5	19.1	3.5	415.0	38.6	27.0	3.3	425.0	73.9	62.3	36.3
DOE - Property Services Agency	-163.0	26.0	10.0	0.0	-162.0	72.3	20.0	0.0	-166.0	69.9	20.0	0.0
Nationalised Industries	114.0	11.0	100.0	100.0	-274.0	-2.0	150.0	150.0	-282.0	-140.0	180.0	180.0
Privatisation EFLS		319.0	275.0	275.0		440.0	275.0	275.0		193.0	1,800.0	1,800.0
Local Authority Relevant	33,520.0	1,317.0	1,317.0	1,317.0	34,517.0	1,636.0	1,636.0	1,636.0	35,380.0	1,847.0	1,847.0	1,847.0
VAT on non-domestic construction		150.0	150.0	150.0		250.0	250.0	250.0		300.0	300.0	300.0
Adjustment												
<b>TOTAL ADDITIONS TO PROGRAMMES</b>	<b>165,126.0</b>	<b>8,512.2</b>	<b>5,350.4</b>	<b>-200.8</b>	<b>170,692.0</b>	<b>11,840.6</b>	<b>7,072.5</b>	<b>-142.4</b>	<b>174,918.0</b>	<b>15,438.9</b>	<b>10,734.8</b>	<b>1,922.6</b>

\*of which formula consequences would be:

125.9    65.8    -40.5                    159.8    73.5    -51.3                    206.6    87.4    -62.8

Annex D



ASSESSMENT OF SURVEY OUTCOME  
MINISTRY OF DEFENCE

	1989-90	1990-91	1991-92
1. BASELINE	19,969	20,575	21,075
2. Bids - A1 ) programme	213	756	1,089
A2 ) armed forces pay increases above general inflation	85	178	291
TOTAL BIDS	298	934	1,380
3. Reduced requirements - none			
TOTAL REDUCED REQUIREMENTS	-	-	-
4. PROPOSED NET INCREASE (bids-reductions)	298	934	1,380
5. TREASURY OPTIONS - none	-	-	-
6. POSSIBLE OUTCOME	+100	+450	+600

At the end of 1987 PES it was agreed that MOD could plan ahead on the basis of a provision for military pay in excess of the baseline (by approximately + 100, + 200, + 300). The assumed outcome would fund this and make a small contribution to MOD's equipment bid (+ 0, + 250, + 300). Taking account of the deployment of existing underspending under EYF facility (current estimate £550m, say £350m used in 1988-89 and £200m used in 1989-90), this would broadly level out provision in real terms over the period 1988-89 to 1991-92. The ultimate impact on the MOD programme would depend critically on how far this relatively tight settlement pushed them into implementing efficiency savings within the programme.



Survey1 No.6 13-Jun-88

## ASSESSMENT OF SURVEY OUTCOME

## FOREIGN AND COMMONWEALTH OFFICE - DIPLOMATIC WING

	1989-90	1990-91	£ million 1991-92
1. BASELINE	743.0	761.4	780.4
2. BIDS			
A.1 Running costs to fund existing activities	16.9	26.3	34.4
A.2 Extra scholarships, exchanges and military training	16.4	18.0	18.8
A.3 New information activities	4.0	5.6	5.7
A.4 Modernisation of IT etc equipment	9.8	8.6	7.9
A.5 Personnel, including improved accommodation and conditions of service	4.9	5.2	5.4
A.6 Security: equipment and property work	5.7	5.4	6.0
A.7 BBC External Services: better audibility	4.2	12.5	5.7
A.8 Asset recycling (estimating)	0.5	1.3	0.0
TOTAL BIDS	62.4	82.9	83.9
3. REDUCED REQUIREMENTS			
B.1 Overseas prices	-22.7	-22.7	-22.7
B.2 Other	-0.8	-0.8	0.0
TOTAL REDUCED REQUIREMENTS	-23.5	-23.5	-22.7
4. PROPOSED NET INCREASE	38.9	59.4	61.2
5. TREASURY OPTIONS			
C.1 Manpower: 1% cut	0.0	-2.0	-2.0
C.2 Commercial work charges	0.0	-2.0	-5.0
6. PROBABLE OUTCOME *	18.5	38.0	39.3

\* Assumes bids A.1, A.7 and A.8 are conceded in full;  
 Plus half of bids A.2 to 6;  
 less the full reduced requirements at B.1 and 2;  
 but none of the Treasury options at C.1 and 2.



## ASSESSMENT OF SURVEY OUTCOME

## FCO: OVERSEAS DEVELOPMENT ADMINISTRATION

	£m		
	1989-90	1990-91	1991-92
1. BASELINE	1505	1551	1590
2. Bids:			
A1 maintaining existing key policies	14	21	22
A2 ATP soft loans	0	12	14
A3 Overseas students	5	10	11
A4 Afghanistan	10	15	20
A5 Central African Pensions	5	5	3
A6 IMF ESAF	4	5.5	14
A7 Administration	0	0.5	2
A8 Superannuation: War Service Credit	6	6	6
<b>TOTAL BIDS</b>	<b>44</b>	<b>75</b>	<b>94</b>
3. REDUCED REQUIREMENTS	0	0	0
4. PROPOSED NET INCREASE	44	75	94
5. TREASURY OPTIONS	0	0	0
6. PROBABLE OUTCOME	28	29	30

**OUTCOME.** Assumes rejection of superannuation bid. Focus of PES will be on aid programme. Of this, IMF Enhanced Structural Adjustment Facility (ESAF) is an agreed bid. As aid programme a block budget, final settlement likely to be in cash terms, allowing cost of ESAF plus other expenditure according to ODA's own priorities. Outcome gives 2% on existing aid programme baseline each year. Outcome in final years most open to doubt, as ESAF costs provide limited margin for other expenditure.



## ASSESSMENT OF SURVEY OUTCOME

## IBAP AND OTHER CAP

	1989-90	1990-91	1991-92
			£M
1. BASELINE	1690	1845	1891
2. Bids			
A1 - IBAP administration	0.7	1.4	3.0
A2 - Non IBAP schemes	8.0	-13.3	-23.8
TOTAL BIDS	8.7	-11.9	-20.8
3. Reduced requirements			
B1 - Market support	-313.0	-277.0	-173.0
TOTAL REDUCED REQUIREMENTS	-313.0	-277.0	-173.0
4. PROPOSED NET INCREASE	-304.3	-288.9	-193.8
5. TREASURY OPTIONS			
C1 - Agency efficiency savings	-1.0	-2.0	-3.0
6. PROBABLE OUTCOME	-99.3	-98.6	-97.0

1. Assumes acceptance of A2 and more realistic assessment of B1. IBAP forecast takes most optimistic view of likely production figures and savings from Brussels European Council.

2. IBAP forecast always subject to range of uncertainty of £200m largely because cereals production figures (for 1988) are not available until late September. [1 million tonnes extra production = additional £1 million in support costs]



MAFF

DOMESTIC AGRICULTURE: MAFF, DAFS, WOAD AND DANI

	1989-90	1990-91	1991-92	£m
1. BASELINE	785.6	801.3	821.4	
<hr/>				
2. BIDS				
A1 EC pre-funded expenditure and demanded (estimating) net	- 6.0	- 5.9	1.4	
A2 Northern Ireland: capital grants	8.1	3.3	0.2	
A3 Flood defence	5.0	8.7	15.6	
A4 Running costs	20.0	30.5	38.7	
A5 Administration: capital	1.0	0.7	0.6	
A6 Capital grants: diversification	1.9	1.9	2.0	
A7 Food stockpile (programme 9)	4.0	4.1	4.2	
A8 Scotland (total)	4.5	4.8	3.7	
A9 Other	2.0	1.7	1.7	
<hr/>				
TOTAL BIDS	40.5	49.8	68.1	
3. SAVINGS				
B1 Scotland	- 0.9	- 0.8	- 1.1	
B2 Northern Ireland	- 0	- 0.1	- 0.1	
B3 NI EFL: Thames tidal defences	- 0.0	- 1.6	- 1.6	
B4 Other	- 0.5	- 0.5	- 0.5	
<hr/>				
TOTAL SAVINGS	- 1.4	- 2.9	- 3.3	
<hr/>				
4. PROPOSED NET INCREASE	39.0	46.8	64.8	



## 5. TREASURY OPTIONS

C1	Capital grants	-10.0	-35.0	-50.0
C2	ADAS advisory services	-10.0	-25.0	-35.0
C3	Research and development	-10.0	-25.0	-35.0
C4	Fisheries support	- 1.0	- 2.0	- 5.0
6.	PROBABLE OUTCOME	+16.6	+14.1	+17.0

- (i) Assumes refusal of bid A2 and reduction of bid A4 by 25%; and partial achievement of options C1, C2, and C3.
- (ii) No allowance has been made for possible late bids on Hill Livestock Compensatory Allowances; extensification and conversion; relocation; and nitrates.
- (iii) This would imply approximately *-0.7% average* annual real growth from 1988-89 to 1991-92.
- (iv) The margin of error between our estimate of probable outcome and actual outcome is about zero to plus £10 million [ie we are unlikely to achieve a better result].



## CONFIDENTIAL

## FORESTRY COMMISSION

	£ million		
	1989-90	1990-91	1991-92
1. BASELINE	63.8	65.0	66.7
<hr/>			
2. BIDS			
A1 Pensions	1.0	0.7	0.4
A2 Land acquisition	0.8	0.8	0.8
A3 Planting grants	4.0	6.8	9.3
A4 1987 Storm damage	3.3	3.5	2.5
A5 Disposals programme (1)	1.5	0	0
<hr/>			
TOTAL BIDS	9.1	11.8	13.0
<hr/>			
3. REDUCED REQUIREMENTS			
B1 Disposals programme (1)	0	- 1.3	- 5.0
<hr/>			
TOTAL REDUCED REQUIREMENTS	0	0	0
<hr/>			
4. PROPOSED NET INCREASE	9.1	11.8	13.0
<hr/>			
5. TREASURY OPTIONS			
C1 Disposals programme (1)	- 7.0	- 11.0	- 15.0
<hr/>			
6. PROBABLE OUTCOME	+ 9.3	+ 11.8	+ 13.0

1. Assumes concession of bids, A1, A3, and A4.

2. This would imply approximately 6.2 per cent annual real growth from 1988-89 to 1991-92

3. The range of uncertainty between the forecast probable outcome and the final decision is in the region of zero to +£5 million.

(1) Proceeds from Forestry Commission disposals are credited to the Privatisation programme and not the Forestry programme.



ASSESSMENT OF SURVEY OUTCOME

DEPARTMENT OF TRADE AND INDUSTRY

	1989-90	1990-91	£million 1991-92
1. Baseline (excluding NI's and LA current)	1,281.9	1,222.5	1,225.5
2. Bids			
A1. RDG	25.0	30.8	-20.4
A2. RSA	9.0	19.3	36.3
A3. National selective assistance	4.2	1.8	-6.0
A4. Innovation (EUROPES)	0.0	0.0	28.6
A5. Space	6.6	2.8	2.3
A6. Publicity	4.0	0.0	0.0
A7. Major works (capital)	12.8	7.5	2.9
A8. Computers (capital)	4.6	3.5	3.5
A9. Running costs	26.7	31.1	32.8
A10. Relocation costs (current)	4.9	7.5	10.7
A11. Management development	1.9	2.0	2.1
TOTAL BIDS	99.7	106.3	92.8
3. Reduced requirements			
B1. Launch aid etc	-2.6	-8.0	-112.0
TOTAL REDUCED REQUIREMENTS	-2.6	-8.0	-112.0
4. PROPOSED NET INCREASE	97.1	98.3	-19.2
5. TREASURY OPTIONS			
C1. Mineral stockpile	-3.0	-5.0	-5.0
C2. Innovation	-5.0	-5.0	-5.0
C3. EIEC	-2.0	-2.0	-2.0
C4. Aeroengine R&D	0.0	-3.0	-5.0
C5. Regulation	-1.0	-1.0	-1.0
TOTAL TREASURY OPTIONS	-11.0	-16.0	-18.0
6. PROBABLE OUTCOME	60.4	61.8	-103.4

Outcome assumes acceptance of A1 (which is demand led) and part of A2, A4 and A7 to A10, offset by reduced requirement at B1 and options C1 to C5 and reduction in final year on A3. This would result in a 4.5 per cent increase in 1989-90 over 1988-89, but overall a reduction of 12.6 per cent reflecting the declining baseline. Further proposals still expected in a number of areas of which launch aid could be substantial: £50-75 million a year.



ASSESSMENT OF SURVEY OUTCOME

ECGD

	1989-90	1990-91	1991-92
			£m
1. BASELINE	139.0	120.1	123.1
2. Bids - A1 Cost escalation	0.0	0.2	0.0
A2 Tender to contract	4.5	4.0	4.7
TOTAL BIDS	4.5	4.2	4.7
3. Reduced requirements			
B1 Interest support	-50.5	-53.2	-93.6
B2 Mixed credit matching	0.0	0.0	-1.8
TOTAL REDUCED REQUIREMENTS	-50.5	-53.2	-95.4
4. PROPOSED NET INCREASE (bids-reductions)	-46.0	-49.0	-90.7
5. PROBABLE OUTCOME	-46.0	-49.0	-90.7

Bulk of expenditure is demand-led, and depends on interest rate movements. Forecast of outcome is therefore subject to revision in response to changes in interest rate assumptions.



## ASSESSMENT OF SURVEY OUTCOME

## DEPARTMENT OF ENERGY

	<u>£ million</u>		
	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
1. <u>Baseline</u>	309	316	323
2. <u>Bids</u>			
A1 Privatisation Expenses	16.1	5.0	0.5
A2 Running Costs	0.4	1.4	2.2
TOTAL BIDS	16.5	6.4	2.7
3. <u>Reduced Requirements</u>			
B1 Nuclear R & D	-2.7	-10.0	-14.8
B2 Non Nuclear R & D	-4.6	- 5.7	- 7.5
TOTAL REDUCED REQUIREMENTS	-7.3	-15.7	-22.3
4. <u>Proposed Net Increase/Decrease</u>	9.2	- 9.3	-19.6
5. <u>Treasury Options</u>			
C1 Nuclear Safety	0.0	-22.5	-22.5
C2 Fusion	-1.0	- 2.0	- 3.0
C3 Other	-2.8	- 3.8	- 4.6
6. <u>Probable Outcome</u>	5.4	-37.6	-49.7

(i) Assumes concession of bids A1 and part of A2 offset by C1 to C3

(ii) Would imply annual real growth from 1988-89 to 1991-92 of minus 6.7 per cent.

(iii) Main area of uncertainty: C1 assumes the proposed transfer of Nuclear Safety research to NII in April 1990 will go ahead.



## ASSESSMENT OF SURVEY OUTCOME

DE

## DEPARTMENT OF EMPLOYMENT

	£m		
	1989-90	1990-91	1991-92
Baseline	4,185.0	4,241.0	4,347.0
of which Running Costs	947.7	955.6	979.5
2.A. Bids			
i. Programme			
A1 ET: Transfer from DHSS Income Support	57.0	62.0	64.0
A2 ET Marketing	8.1	5.0	5.4
A3 Higher education: TC grants	8.6	12.9	16.3
A4 Training Access Points	4.7	11.5	11.9
A5 TVEI	7.0	14.5	22.9
A6 Tourism	1.7	2.8	3.1
A7 Small firms publicity	3.0	3.0	3.0
A8 Grants to Dock Labour Board	2.9	-	-
A9 Sheltered Employment	3.2	5.7	8.0
A10 Other Programme	12.1	13.9	17.6
Sub-total (i)	108.3	131.3	152.2
<u>Running Costs</u>			
(ii) A11 Stricter Benefit Regime	29.1	29.0	29.7
A12 ET and Bridging Allowance	24.7	24.0	24.2
A13 Accommodation Costs	11.5	11.7	14.7
A14 Pay realism (DE, TC, HSE, ACAS)	31.0	59.6	87.4
A15 Price realism (DE, TC)	11.0	15.3	20.0
A16 Other Running Costs	30.8	50.6	56.8
Sub total (ii)	138.1	190.2	232.8
(iii) A17 Non-Running Costs Admin	53.9	46.6	23.7
Total Bids	300.3	368.1	408.7
3.B. REDUCTIONS PROPOSED BY DEPT CENTRAL GOVERNMENT			
B1 DE: PER	- 3.8	- 3.9	- 4.0
B2 : Economic assumptions	-11.9	-11.9	-11.9
B3 : Stricter benefit reg.	- 8.0	- 8.0	- 8.0
B4 : Job Release Scheme	- 0.6	- 0.4	- 4.7
B5 : Restart	- 0.1	- 0.6	- 0.7
B6 : Small Firms Loan Guarantee Scheme	- 7.8	- 7.1	- 3.6
B7 : International Labour Organisation	0.0	- 0.2	- 0.4
B8 TC: YTS	- 5.0	-15.0	-38.2
B9 : ET	- 5.0	- 5.0	- 5.0
B10 : Research and eval.	- 0.2	- 1.7	- 1.3
B11 : Management plans	0.0	0.0	0.0



B12	: Field systems review	-	-	-
B13	: HSC: NII receipts	- 6.2	- 8.0	- 9.9
B14	: Management plans	0.0	0.0	0.0
B15	: ACAS: Management plans	0.0	0.0	0.0
B16	: Redundancy Fund	-40.7	-45.6	-48.9
B	Total reduced requirements	- 89.3	-107.4	-136.6
	PROPOSED NET INCREASE	211	260.7	272.1

#### 4.C Treasury options

##### Programme

(i)	C5	ET	-70.0	-100.0	-130.0
	C6	YTS	-121.0	-195.0	-276.0
	C7	Publicity	- 15.0	- 15.0	- 15.0
	C8	Enterprise Allowance Scheme	- 10.0	- 30.0	- 40.0
	C9	Tourism	- 10.0	- 30.0	- 50.0
	C10	Restart	- 10.0	- 10.0	- 10.0
	C11	Jobstart	- 8.0	- 8.0	- 8.0
	C12	Adult Training for Employees	- 5.0	- 10.0	- 15.0
	C13	Other programmes	- 1.0	- 2.0	- 6.0
	Sub-total (i)		-250.0	-400.0	-550.0
	Total		-268.0	-444.0	-610.0

##### Running Costs

(ii)	C1	Job Centre and Restart	-10.0	-17.0	-19.0
	C2	Computerisation	- 3.0	- 5.0	- 7.0
	C3	STA	0	-10.0	-15.0
	C4	Other R.C's	- 5.0	-12.0	-19.0
	Sub-total (ii)		-18.0	-44.0	-60.0

#### 6. Probable outcome

Running Costs	+ 85	+ 95	+115
Programme	-135	-195	-265
Non-Running Costs Admin	-	-	-
Total	- 50.0	-100.0	-150.0

Probable outcome involves conceding A1 (virtually agreed transfer), but rejecting most of the rest of programme bids and some running costs bids, and achieving something over half of programme options.

Implies average annual decline in real terms for 1988-89 to 1991-92 of 2.6%.



## ASSESSMENT OF SURVEY OUTCOME

## DEPARTMENT OF TRANSPORT

	£ million		
	1989-90	1990-91	1991-92
1. <u>Baseline</u>	2244	2299	2357
2. <u>Bids</u> : A1 National roads: new construction	137	265	380
A2 National roads: maintenance	33	37	37
A3 National roads: bridges	58	49	46
A4 Local roads: restore allocations, cover inflation and traffic growth	133	30	80
A5 Manchester Light Rapid Transit	5	27	8
A6 More terminal capacity at Manchester, Luton, Birmingham airports	20	35	30
A7 Running costs	7.4	12.9	24.3
Total bids	393.4	455.9	605.3
3. <u>Reduced requirements</u>	0	0	0
4. <u>Proposed net increase</u>	393.4	455.9	605.3
5. <u>Treasury options</u>	0	0	0
6. <u>Probable outcome</u>	290	330	440

Assumes concession of most of A1-3, about half of A4-6 in 1989-90 and much less in later years, and part of A7.

Would imply year on year real growth of 10% in 1989-90, zero in 1990-91 and 3% in 1991-92.

Range of uncertainty + £100m in each year around central estimate of outcome above.



**ASSESSMENT OF SURVEY OUTCOME**

**DOE: HOUSING**

	1989-90	1990-91	1991-92
<b>BASELINE</b>	2378	2399	2459
<b>Bids</b>			
1. Provision for rent by HAs	+95	+186	+457
9. Mainstream Renovation	+144	+100	+100
10. Estate Action	+100	+100	+100
13. Home Improvement Grants	+163	+149	+164
16. Area Improvement	+10	+20	+20
18. Support for HAs	+60	+85	+95
*23. Housing Action Trusts	+250	+25	+75
Other	+4	+16	+16
<b>TOTAL BIDS</b>	<b>+826</b>	<b>+681</b>	<b>+1027</b>
<b>Reduced Requirements</b>			
4. Total HC Receipts	-43	-50	-62
*21. LA receipts (from HATs)	-225	-	-
Other	-9	-4	-4
<b>TOTAL REDUCED REQUIREMENTS</b>	<b>-277</b>	<b>-54</b>	<b>-66</b>
<b>PROPOSED NET INCREASE</b>	<b>+549</b>	<b>+627</b>	<b>+961</b>
<b>Treasury Options</b>			
21. LA Receipts	-300	-350	-400
25. NT Receipts	-30	-30	-30

**Probable Outcome**

- 1. Assumes concessions of bid 10, part of bids 1,13, 18 and 23, offset by options 21 and 25.
- 2. It would imply a real increase in gross capital provision of 3.5% from 1988-89 to 1991-92.

\* All of line 23 other than £50 million for 1991-92 and the reduced requirement in line 21 represent probable requirements for Mr Ridley which are still under discussion by officials and which therefore did not appear in the original bid.



## ASSESSMENT OF SURVEY OUTCOME

DOE (OES)	1989-90	1990-91	1991-92
1. Baseline	904	935	958
2. Bids			
A4 City Grant: "maintain momentum"	25.0	40.0	35.0
C Countryside, recreation	15.2	12.0	12.1
D Heritage	13.9	14.1	12.2
G DOE administration	33.0	28.5	30.0
F Water: National Rivers Authority, ERDF & Water Services Office	13.1	106.0	105.0
E1 LES capital: incl. community charge	241	90	90
A1 More money for 2nd generation UDCs and for LDDC	79	62	28
Total bids	<u>420.2</u>	<u>352.6</u>	<u>312.3</u>
3. Reduced requirements			
C. Countryside, recreation	-1.1	-1.1	-1.1
F. Water	-0.5	-0.5	-0.5
Total reduced requirements	<u>-1.6</u>	<u>-1.6</u>	<u>-1.7</u>
4. Proposed net increase	418.6	351	310.6
5. Treasury options			
E. LES receipts	-89	-89	-75
A1 UDCs	50	50	50
Total	<u>-139</u>	<u>139</u>	<u>125</u>
6. Probable outcome	178.4	74.4	41.3

Forecast outcome assumes part concessions on A4(15/20/20), C(5/4/4), D(6/6/5), G(20/15/15), F(10/80/80), E1(200/50/34) and A1(60/50/20), but extra receipts at E(130/130/110).



ASSESSMENT OF SURVEY OUTCOME  
HOME OFFICE

	£m		
	1989-90	1990-91	1991-92
1. BASELINE	1382	1415	1450
2. BIDS			
A1 Prison (building): 6900 extra places	157	225	155
A2 Prison (manpower): to man additional places from existing and proposed building programme	72	123	189
A3 Prison (other): mainly consequences of building programme	11	35	45
A4 Criminal Injuries Compensation Board: estimating changes and cutting backlog	17	27	40
A5 Non-prisons (manpower): Immigration staff and pay	17	26	30
A6 Non-prisons (other): miscellaneous	38	35	32
A7 Local authority capital (police, fire etc)	70	30	29
TOTAL BIDS	382	500	518
3. REDUCED REQUIREMENT			
B1 Directorate of Telecommunications: switch to local authority purchasing	-21	-20	-20
B2 Fines and Fees: estimating	-8	-15	-25
TOTAL REDUCED REQUIREMENT	-29	-35	-45
4. PROPOSED NET INCREASE	353	465	473
5. TREASURY OPTIONS			
C1 Non-prisons (miscellaneous)	-20	-35	-40
6. PROBABLE OUTCOME	250	300	280

Notes

- Assumes concession on prisons bids (A1-3) of (185/275/255), A4 (10/15/20), A5 (15/20/25), A6 (10/15/15) (after taking account of outcome on C1) and A7 (65/20/20); acceptance of B1 and higher receipts on B2 (10/20/30).
- Most of LA capital bid A7 in 1989-90 is consequent upon a switch in purchasing from central to local government. Increases offset at B1.
- Outcome very uncertain at this stage.



## 1988 SURVEY: ASSESSMENT OF SURVEY OUTCOME

DEPARTMENT: LORD CHANCELLOR'S DEPARTMENT

			<u>£m</u>
	1989-90	1990-91	1991-92
1. Baseline	813.915	868.12	889.826
2. Bids:			
A1 Running Costs	9.7	17.0	36.0
A2 Court Building	18.54	23.23	22.55
A3 Legal Aid	10.5	17.5	53.9
A4 Other	3.52	2.52	4.52
TOTAL BIDS	42.26	60.35	116.97
3. Reduced requirements:			
B1 Costs from Central Funds	-10.5	-10.5	-11.0
B2 Other	-1.5	0	0
TOTAL REDUCED REQUIREMENTS	-12.0	-10.5	-11.0
4. PROPOSED NET INCREASE	30.26	49.85	105.97
5. TREASURY OPTIONS	0.0	0.0	0.0
6. PROBABLE OUTCOME	23.0	39.1	88.5

Figures represent reasonable assessment of outcome. Difficult, at this stage, to predict effect upon individual bids.



## ASSESSMENT OF SURVEY OUTCOME

## DEPARTMENT OF EDUCATION AND SCIENCE

	£m		
	1989-90	1990-91	1991-92
1. BASELINE	5,126	5,293	5,425
2. BIDS			
A1 Student awards (covenants, estimating etc)	64.2	93.9	98.7
A2 PCFC current (pay, repairs, new initiatives)	103.3	107.8	113.9
A3 PCFC capital (renew equipment etc)	50.0	50.0	50.0
A4 Science (more IRCs, core science, CERN etc)	147.0	187.0	206.0
A5 Maintained sector capital (school and FHE building improvements)	155.0	260.0	336.0
A6 Universities (pay, new equipment, estimating etc)	94.5	127.4	147.4
A7 Other	18.1	17.0	23.9
TOTAL BIDS	632.1	843.1	975.9
3. REDUCED REQUIREMENTS	0	0	0
4. PROPOSED NET INCREASE	632.1	843.1	975.9
5. TREASURY OPTIONS	0	0	0
6. PROBABLE OUTCOME	382.5	430.4	457.8

Assumes concession of part of A1 (51.5/71.4/80.8), A2 (71/73/75), A3 (30/30/30), A4 (91/90/87), A5 (70/75/80), A6 (60/80/92) and A7 (9/11/13).

Would imply real growth in baseline (adjusting for transfer of PCFC sector) from 1988-89 to 1991-92 of 6 per cent (8 per cent for science; 6 per cent for education).

Excludes potential bids for student loans package starting in 1990-91, and for moving to a new headquarters building.



ASSESSMENT OF SURVEY OUTCOME  
OFFICE OF ARTS AND LIBRARIES

	<u>£ million</u>		
	1989-90	1990-91	1991-92
1. BASELINE	454	471	483
2. Bids - A1 Living arts	-	-	15.0
A2 Museums and galleries	-	-	14.0
A3 Protection of collections	-	-	0.7
A4 OAL running costs	-	-	0.2
A5 British Library St Pancras	-	-	14.3
A6 Heritage	-	-	6.0
TOTAL BIDS	-	-	50.0
3. Reduced requirements - none			
TOTAL REDUCED REQUIREMENTS	-	-	-
4. PROPOSED NET INCREASE	-	-	50.0
5. TREASURY OPTIONS - none			
6. PROBABLE OUTCOME	-	-	19.5

(1) Assumes rolling forward three-year settlement agreed in 1987 Survey to cover A1-A4; concession of A5 except for move-in costs; and withdrawal or postponement of A6.

(2) Bid implies 10 per cent real increase in new third year of rolled-forward three-year deal; forecast outcome implies 3.6 per cent real increase in that year.



## ASSESSMENT OF SURVEY OUTCOME

DHSS-HPSS

## DEPARTMENT OF HEALTH AND SOCIAL SECURITY - HEALTH AND PERSONAL SOCIAL SERVICES

	1989-90	1990-91	1991-92
1. BASELINE	<u>18,559</u>	<u>19,445</u>	<u>19,931</u>
2. Bids - A1 HCHS - Estimating	1,155	1,625	2,250
A2 - AIDS	105	240	370
A3 - Management	175	205	220
A4 - Investment	330	455	415
A5 FPS - Estimating	142	182	443
A6 Other	<u>144</u>	<u>164</u>	<u>179</u>
TOTAL BIDS	<u>2,051</u>	<u>2,871</u>	<u>3,877</u>
3. Reduced requirements			
B1 HCHS - income generation	- 30	- 50	- 55
B2 - efficiency	- 55	- 125	- 240
B3 - increased cap receipts	<u>- 100</u>	<u>- 100</u>	<u>- 100</u>
TOTAL REDUCED REQUIREMENTS	<u>- 185</u>	<u>- 275</u>	<u>- 395</u>
4. PROPOSED NET INCREASE (bids-reductions)	<u>1,866</u>	<u>2,596</u>	<u>3,482</u>
5. TREASURY OPTIONS			
C1 HCHS - cap reduction	- 100	- 150	- 250
C2 HCHS & FPS - charges	- 500	- 500	- 500
C3 CFS - welfare food	<u>- 20</u>	<u>- 25</u>	<u>- 30</u>
6. FORECAST OUTCOME	<u>973</u>	<u>1,202</u>	<u>1,538</u>

Assessment of probable outcome assumes concessions on A1 (840/1025/1250/) including effects of 1988 Review Body(RB) pay awards, A2(80/80/80), A3(45/70/85/), A4(60/130/90), A5(132/162/413), small part of A6(36/45/55), offset by full reduced requirements and achievement of part of C2(-20/-20/-20) and C3(-15/-15/-20) but none of C1.(Full Treasury option on charges a package partly involving primary legislation). Probable outcome implies average annual real growth 1988-89 to 1991-92 of 2.0% (starting from an assumed 1988-89 baseline that takes account of an increase of £596 million agreed for 1988 RB pay awards after database fixed). No allowance made for future RB pay awards(say 300/600/900) nor for balance of AIDS treatment and prevention bid(25/160/290). Assessment, which assumes around half net increase proposed for 1989-90 and less than half in 1990-91 and 1991-92, open to very considerable uncertainty.



## ASSESSMENT OF SURVEY OUTCOME : DHSS : SOCIAL SECURITY BENEFITS

	£ million		
	1989-90	1990-91	1991-92
<b>1. BASELINE</b>			
Benefit expenditure	48668	51060	52336
<b>2. BIDS</b>			
A1 Economic and Estimating	-47	446	1774
A2 E(LF)	88	91	94
A3 Losers : Trans Protection	50	40	30
A4 ETP	177	189	193
A5 RPI Error	77	81	84
A6 Poorer pensioners	74	84	90
A7 Child benefit	44	44	44
A8 Overseas pensions	16	28.6	40
A9 Rent taper	46	48	49
A10 Losers : HB Capital Limit	22	23	24
A11 Other policy bids	15.5	19.7	25.7
TOTAL BIDS	562	1094	2448
<b>3. REDUCED REQUIREMENTS</b>			
B1 Miscellaneous savings	-16.5	-15.8	-16.2
TOTAL REDUCED REQUIREMENTS	-16.5	-15.8	-16.2
<b>4. PROPOSED NET INCREASE (bids - reductions)</b>	<b>547</b>	<b>1078</b>	<b>2432</b>
<b>5. TREASURY OPTIONS</b>			
C1 Child Benefit freeze	95	98	102
C2 One Parent Benefit freeze	4	4	4
C3 Residential homes: freeze income support limits	15	15	15
C4 Recovery of benefits from tort damages		35	35
C5 Under-25s: freeze income support and cut UB	35	35	35
C6 Housing Benefit changes	50	50	50
C7 Dependency additions	5	5	5
C8 Anti-fraud	10	10	10
C9 Abolish Additional Pension			
C10 Abolish Industrial Injuries Benefit		30	55
C11 Invalidity Benefit: tighter conditions		?	?
C12 Sickness Benefit: extend payment from 6 to 12 months		30	100
C13 Offset Mobility Allowance and higher rate of Attendance Allowance		2	2
C14. Offset occupational pensions against Invalidity Benefit		20	50
Total Treasury Options	214	334	463
<b>6. PROBABLE OUTCOME</b>	<b>309</b>	<b>868</b>	<b>2197</b>

assumes: (a) anticipated further upwards estimating changes are broadly offset by lower revised Treasury economic assumptions, (b) bid on child benefit (A7) conceded in full, but implementation of bids on pensioners (A6) and overseas pensions (A8) postponed by a year, (c) some reduction of other minor policy bids, (d) acceptance of Treasury proposals for savings on tort (C4)\* and residential homes, (e) large range of uncertainty, of at least £500m in either direction, around central estimate of outcome.

\* Achievement of C4 depends on primary legislation.



## ASSESSMENT OF SURVEY OUTCOME: DHSS: SOCIAL SECURITY ADMINISTRATION

	1989-90	1990-91	£ million 1991-92
<b>1. BASELINE</b>			
Administrative expenditure	2280	2347	2406
<b>2. BIDS</b>			
A1 Running costs	191	272	295
A2 Capital	55	40	8
A3 Other	1	-	-
TOTAL BIDS	247	315	306
<b>3. REDUCED REQUIREMENTS</b>			
B1 Running costs	-5	-	-
B2 Capital	-10	-2	-30
B3 Other	-1	-6	-6
TOTAL REDUCED REQUIREMENTS	-16	-8	-36
<b>4. PROPOSED NET INCREASE</b>	231	307	270
<b>5. PROBABLE OUTCOME</b>	195	235	145

assumes: (a) running costs bids reduced; (b) capital bids conceded in full; (c) other bids conceded in full.

## NOTES:

1. Excludes bids for increased agency payment to Department of Employment for administration of Unemployment Service, which are reflected in Survey assessment for DEmp.

2. Includes estimate of expected further bids for the running costs of the Housing Benefit Transitional Protection Unit.



ASSESSMENT OF SURVEY OUTCOME

SCOTLAND

	1989-90	1990-91	£m 1991-92
1. BASELINE	5,033.0	5,206.0	5,336.0
2. Bids			
A1 Agriculture & fisheries	4.0	4.0	3.0
A2 Industry	22.0	23.0	22.0
A3 Electricity privatisation	6.0	4.0	-1.0
A4 Transport privatisation	1.0	0.0	0.0
TOTAL BIDS	31.0	31.0	25.0
3. Reduced requirements			
B1 Housing interest rate assumption	-4.0	-4.0	0.0
TOTAL REDUCED REQUIREMENTS	-4.0	-4.0	0.0
4. PROPOSED NET INCREASE (bids-reductions)	28.0	27.0	25.0
5. TREASURY OPTIONS			
C1 Population baseline adjustment	-225.0	-230.0	-240.0
6. PROBABLE OUTCOME (excluding formula consequences)	-29.0	-30.0	-36.0

Forecast outcome assumes achievement of £50 million a year saving on the Block, from either the ratcheting down effect of the LA settlement or from the partial implementation of the baseline population projection.



ASSESSMENT OF SURVEY OUTCOME

WALES

	1989-90	1990-91	£m 1991-92
1. BASELINE	2,101.0	2,169.0	2,223.0
2. Bids			
A1 WDA	17.5	15.8	15.4
A2 RDGs	26.0	23.0	11.0
A3 RSA	0.0	0.0	10.0
A4 DBRW housing subsidy	0.3	0.3	0.3
A5 Careers service strengthening	0.1	0.1	0.1
A6 Other	0.2	0.2	0.2
TOTAL BIDS	44.1	39.4	37.0
3. TREASURY OPTIONS - None			
4. PROBABLE OUTCOME (excluding formula consequences)	31.5	28.5	16.5

Mr Walker is seeking concessions on the definition of the Block which would cost up to £50 million. We recommend that these should be resisted, although it may mean that Mr Walker will fight all the harder on his non-block bids.



## ASSESSMENT OF SURVEY OUTCOME

## NORTHERN IRELAND

	1989-90	1990-91	£m 1991-92
<b>1. BASELINE</b>	<b>5,323</b>	<b>5,508</b>	<b>5,645</b>
<b>2. Bids -</b>			
A1 - Law and Order	21.5	41.1	61.1
A2 - Inner City Belfast	23.2	21.2	19.3
A3 - Public Sector Renewal	43.0	48.0	53.0
[of which - Roads	8	13	18
Education	15	15	15
HPSS	20	20	20]
A4 - ACE	10.4	17.1	15.0
A5 - Employment Training	2.2	6.9	15.9
A6 - Other	4.8	5.7	6.9
<b>TOTAL BIDS</b>	<b>105.1</b>	<b>140.0</b>	<b>171.2</b>
(assumes formula consequentials of	65	80	110)
(Total NI Requirement	170.1	220	281.2)
<b>3. Reduced Requirements -</b>			
B1 - Excess Assets of NICF	52.5	52	51.5
B2 - Social Security -	12.3	15	18.4
(savings from Emp & Training measures)			
B3 - Housing Loan Charges	1.8	1.8	-
B4 - Social Security -	21.2	33.8	23.4
(Revised Economic Assumptions)			
B5 - ERDF	-	0.7	2.1
<b>TOTAL REDUCED REQUIREMENTS</b>	<b>87.8</b>	<b>103.3</b>	<b>95.4</b>
<b>4. PROPOSED NET INCREASE</b>	<b>17.3</b>	<b>36.7</b>	<b>75.8</b>
(excluding formula consequentials)			
<b>5. TREASURY OPTIONS</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>6. PROBABLE OUTCOME</b>	<b>100.0</b>	<b>120.0</b>	<b>140.0</b>

Notes

Outcome assumes:

- i) Formula consequential system not operating;
- ii) Bid A3 resisted;
- iii) Bid A4 agreed to secure social security savings at B2;
- iv) Half remaining bids agreed;
- v) Reduced requirement B1 not able to be used to offset bids;
- vi) Reduced requirements B3 and B4 ring-fenced and likely to change later in Survey; and
- vii) that the Chief Secretary would not wish to secure a negotiated settlement at a level below that Mr King would have received on the basis of formula consequentials (including LA current).



## ASSESSMENT OF SURVEY OUTCOME

## DEPARTMENT OF CUSTOMS AND EXCISE

£m

	1989-90	1990-91	1991-92
1. BASELINE	542.4	571.2	585.5
2. Bids - A1 VAT	14.1	24.3	40.0
A2 Customs	5.4	11.1	20.4
A3 Non-running costs current expenditure	0.3	0.2	0.2
A4 Information technology - capital	0.0	3.0	13.6
A5 Accommodation - capital	0.8	2.5	4.0
A6 Other - capital	1.0	0.0	1.0
TOTAL BIDS	21.6	41.1	79.2
3. Reduced requirements - B1 Increased A-in-A	-0.3	-0.7	-0.8
TOTAL REDUCED REQUIREMENTS	-0.3	-0.7	-0.8
4. PROPOSED NET INCREASE (bids-reductions)	21.3	40.4	78.4
5. TREASURY OPTIONS - C1 NIL			
6. PROBABLE OUTCOME	11.9	22.9	47.1

1. Elements in A1 and A2 seeking sufficient provision to fund manpower agreed in 1987 Survey. These do not look to be soundly based.

2. Forecast outcome assumes elements of A1 and A2 are successfully rejected, otherwise outcome likely to be close to bids. Implies average annual real growth 1988-89 to 1991-92 of 3.5%.



ASSESSMENT OF SURVEY OUTCOME

DEPARTMENT OF INLAND REVENUE

		£m		
		1989-90	1990-91	1991-92
1.	<b>BASELINE</b>	1462.2	1535.0	1573.4
2.	<b>Bids - A1</b>			
	General administrative expenditure	0.5	1.0	1.6
	A2 Centrally controlled IT	0.0	8.7	19.0
	A3 Paybill costs	21.4	42.1	57.4
	A4 Accommodation - current	3.5	5.9	9.1
	A5 Independent taxation - current	33.5	22.4	32.8
	A6 Collection offices	1.2	2.5	2.6
	A7 Developmental training	0.5	0.5	0.5
	A8 Information Technology - capital	0.0	6.4	12.7
	A9 Accommodation - capital	7.7	8.3	0.0
	A10 Independent taxation - capital	1.6	3.3	3.9
	A11 Other - capital	2.2	2.2	0.0
		-----	-----	-----
	<b>TOTAL BIDS</b>	72.1	103.3	139.6
		-----	-----	-----
3.	<b>Reduced requirements - B1 LAPR/MIRAS</b>	-62.0	-44.6	-48.5
	<b>TOTAL REDUCED REQUIREMENTS</b>	-62.0	-44.6	-48.5
4.	<b>PROPOSED NET INCREASE (bids-reductions)</b>	10.1	58.7	91.1
5.	<b>TREASURY OPTIONS - C1 Staff inspection savings</b>	-1.2	-1.9	-2.6
6.	<b>PROBABLE OUTCOME</b>	1.8	38.5	59.9

1. Little prospect of securing reductions in 1989-90.
2. For 1990-91 and 1991-92 seek reductions for desirable rather than essential items, and for increases markedly above forecast GDP deflators.
3. B1 is sensitive to changes in interest rates and details from new Family Expenditure Survey. Reductions may decrease before ~~autumn~~.
4. Ambitious estimate of outcome for last 2 years, implying average annual real growth 1988-89 to 1991-92 of 2%; but actual outcome could be +£8m and +£15m respectively higher than forecast.



Chancellor's small  
departments

ASSESSMENT OF SURVEY OUTCOME

CHANCELLOR'S DEPARTMENTS	£m's		
	1989-90	1990-91	1991-92
<b>BIDS</b>			
Central Office of Information	0	0	0
Registry of Friendly Societies	0.3	0.4	0.5
Government Actuary Department	0	0	0
HMSO (Supplies to Parliament)	0	0	1.0
National Investment and Loans Office	0	0.1	0.1
Department for National Savings	2.7	3.0	3.0
Civil Superannuation	(83.1)	(57.8)	(20.1)
Treasury,			
Running Costs	0	0	0.0
Coinage	10.0	(2.0)	15.0
RGPD	9.0	9.0	10.0
	<hr/>	<hr/>	<hr/>
<b>TOTAL BIDS</b>	<b>(61.1)</b>	<b>(47.3)</b>	<b>9.5</b>
	<hr/>	<hr/>	<hr/>
<b>EXPECTED OUTCOME</b>	<b>(61.1)</b>	<b>(47.3)</b>	<b>9.5</b>

Notes

Agree in full to coinage bid

RGPD bid reflects actual changes in rates in 1988-89, and change in GDP assumptions to which Survey figures are linked.

DNS bid represents major repairs to the fabric of the National Savings Bank building in Glasgow



Other

ASSESSMENT OF SURVEY OUTCOME

OTHER DEPARTMENTS

	1989-90	1990-91	1991-92
BASELINE	397.0	415.0	425.0
Bids - OPCS	3.0	5.7	42.9
Charity Commission	4.2	5.6	4.5
Public Record Office	4.0	5.0	5.8
Cabinet Office	1.0	8.0	6.0
OMCS	3.5	4.2	4.2
Others	7.9	7.8	7.5
TOTAL BIDS	23.6	36.3	70.9
PROBABLE OUTCOME	17.4	24.6	59.6

largest bid is from OPCS, for the 1991 census, which we expect to concede full.



## ASSESSMENT OF SURVEY OUTCOME PROPERTY SERVICES AGENCY

	1989-90	1990-91	£m 1991-92
1. BASELINE	- 163.1	- 162.1	- 162.2
2. BIDS - A1 Major new works	27.7	38.5	42.4
- A2 Rent	21.7	63.5	84.4
- A3 Minor works and maintenance	2.0	13.0	19.0
- A4 Other	6.6	7.3	7.9
<b>TOTAL BIDS</b>	<b>58.0</b>	<b>122.3</b>	<b>153.7</b>
3. REDUCED REQUIREMENTS			
- B1 Increased PRS receipts	30.0	50.0	80.0
- B2 Disposal receipts	2.0	0	3.8
<b>TOTAL REDUCED REQUIREMENTS</b>	<b>32.0</b>	<b>50.0</b>	<b>83.8</b>
4. PROPOSED NET INCREASE	26.0	72.3	69.9
5. TREASURY OPTIONS			
- None identified yet			
6. PROBABLE OUTCOME	10.0	20.0	20.0

1. Assumes concessions <sup>on</sup> A1(20/15/24), A2(22/45/70), A3(0/10/10) but not on A4.

2. Assumes the reduced requirements taken in full.



NATIONALISED INDUSTRIES

ASSESSMENT OF SURVEY OUTCOME

NATIONALISED INDUSTRIES

		<u>1989-90</u>		<u>1990-91</u>		£ million <u>1991-92</u>	
BASELINE		114		-274		-282	
A. <u>ONGOING NAT INDS</u>		<u>BIDS</u>	<u>FORECAST OUTCOME</u>	<u>BIDS</u>	<u>FORECAST OUTCOME</u>	<u>BIDS</u>	<u>FORECAST OUTCOME</u>
<u>Transport</u>	BR	-120	-160	-70	-150	-1	-150
	LRT	123	125	148	145	96	100
	CAA	15	15	5	5	-1	-
	NBC	-42	-40	-	-	-	-
<u>Energy</u>	Coal	122	250	-	250	-112	350
<u>DTI</u>	BS	-85	-85	-84	-85	-91	-90
	PO	-	-5	-	-15	-30	-30
<u>TOTAL</u>		11	100	-2	150	-140	180
B. <u>INDUSTRIES TO BE PRIVATISED IN THE IFR PERIOD</u>		<u>BIDS</u>		<u>BIDS</u>		<u>BIDS</u>	
Water		149		153		160	
Electricity		75		202		-	
Scottish Electricity		81		65		13	
Giro		14		19		6	
BSC		-		-		-	
<u>TOTAL BIDS</u>		319		440		193	
<u>FORECAST OUTCOME (1)</u>		275		275		1800	
C. <u>TOTAL FORECAST OUTCOME</u>		375		425		1980	

(1) Forecast outcome shows combined effect of outcome on bids and of loss of negative EFLs by privatisation of these industries during the IFR period.

(2) Privatisation assumptions:

1988-89: BSC and Giro

1989-90: all water authorities in Nov 1989

1990-91: Electricity distribution in summer 1990; CEGCO Autumn 1990; Scottish electricity January 1991.

1991-92: GENCO summer 1991.





NOTE OF A MEETING HELD IN THE CHANCELLOR'S ROOM AT  
HM TREASURY AT 11 am ON WEDNESDAY 15 JUNE

Present: Chancellor  
Chief Secretary  
Sir P Middleton  
Sir T Burns  
Mr Anson  
Mr Monck  
Mr Phillips  
Mrs Case  
Mr A J C Edwards  
Mr Odling-Smee  
Miss Peirson  
Mr Turnbull  
Mr Gieve  
Mr MacAuslan  
Miss Walker  
Mr Tyrie  
Mr Call

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**PUBLIC EXPENDITURE SURVEY**

Long-Term projections of Tax and Expenditure

(Mr Anson's minute of 10 May)

The Chancellor thanked officials for the work that had been put into this paper, which he had found most interesting. He and the Chief Secretary were agreed that this paper should not be circulated outside the Treasury, but that it would provide a useful background to the Survey, and should be drawn on in preparing the Cabinet paper and in briefing the Prime Minister. He had one comment on the detail of the paper: he did not agree with the assumption that tax allowances should be over-indexed to compensate





for real fiscal drag. Mr Anson pointed out that this assumption had been chosen to avoid an increase in the number of taxpayers over the period of the projection, but the Chancellor felt this did not reflect the priority the Government attached to cutting marginal rates.

### Survey Prospect

(Mr MacAuslan's minute of 13 June)

Mr Anson said that against the background of the long-term public expenditure paper, the first forecast of likely Survey outcome painted a troubling picture. The growth in spending on departmental programmes would be even higher than in the existing plans which were consistent with only limited progress towards reducing the burden of taxation. Mr Turnbull added that the forecast outcome would imply a rate of growth over the four years from 1987-8 higher than the average for the last four years, and possibly higher than the average since 1978-9.

The Chancellor agreed with Mr Anson that the first assessment of outcome gave cause for concern, particularly since he thought the forecast outcome on Health was probably too sanguine in the current climate. We would clearly have to look for areas where we could press harder - his initial inclination was to target Transport, Home Office, and DES, focussing particularly on the large capital bids, where it must be questionable whether the construction industry could actually cope with the amount of work that would be generated if departments' bids were successful.

The Chief Secretary said that he too found the first assessment very troubling. Real growth in the planning total was set to be 3.4 per cent in year one, and average 3 per cent real growth over the whole Survey period. Admittedly, growth in GGE was likely to be slower, with lower debt interest payments. Mr Anson pointed out that the growth of GGE pointed a more favourable picture than was





warranted: Mr Turnbull explained that roughly half the fall in interest payments would be cancelled out by the loss of interest receipts, and the remainder would not necessarily do any more than offset the fall in privatisation proceeds and North Sea revenues. The Chief Secretary shared the Chancellor's assessment on DES Transport and Home Office. The outlook on social security was gloomy. Estimating changes continued to suggest a worrying upward trend, particularly on disability benefits. He would want to consider in the Survey at what pace any policy changes on disability benefits should be taken. Most of the options under consideration would need legislation, for which there was unlikely to be space for until the session after next. The Chancellor said that in his view, it was very optimistic indeed to expect to introduce any policy changes which would reduce entitlement to disability benefits. The best that could be achieved was probably to have an agreement to take the review in slow time.

Mr Tyrie said that he thought there was a good cause for taking a tough line with Employment. It was now questionable whether employment programmes were making a significant contribution to the continuing falls in unemployment. Mr Monck agreed: when the unemployment figures were last at their current level, the DE budget was £900 million lower in real terms.

Mr Tyrie also suggested that this year it might be worth pressing DoE to revise upwards their receipts forecast before the Autumn. It was agreed that it would make sense to delay the DoE bilateral until late in the round to allow later information to be taken into account.

There was a brief discussion of the realism of the forecast outcome on Health. The Chancellor said he thought that, in retrospect, last year's settlement now looked very tough. Miss Peirson said that she saw some scope for scaling back some Health bids - for example, bids for increased activity, rising to over a billion by





year 3 of the Survey which seemed to make no allowance for increased productivity. Mr Turnbull said he thought that we would also need to look very carefully at the Health capital bids, as there was a risk of capital driving current expenditure upwards at too fast a rate. It was also important to remember that, unlike last year, Mr Moore's bids at this stage made no allowance for the cost of Review Body Awards. The Chancellor said that he thought it was certainly right to be very tough in the bilaterals: Health was almost certain to end up in Star Chamber and any concessions should wait until then.

Sir P Middleton also drew attention to the size of the Home Office prison bids. Mr Phillips said that the Home Office's latest suggestions on tougher non-custodial sentences gave more grounds for optimism. We should do everything we could to advance their timetable. Mrs Case said that the existing forecast outcome already assumed considerable success in switching from custodial to non-custodial sentences. The Chief Secretary added that he would be keen to revive the suggestion that overcrowding in England could be relieved by using vacant space in Scottish prisons - this had been put forward as a Treasury option in last year's Survey and rejected.

#### Tactics for the July Cabinet

The Chancellor said that although he hoped we might be able to do slightly better overall than the aggregate assessment set out in Mr MacAuslan's minute, he did not believe we would do substantially better. He was therefore not attracted to the idea that we should announce in July that we aimed to hold to the existing planning totals. No-one would believe us, and our failure to achieve that objective would be very difficult to present. Last year's line - that we would aim to stay as close as possible to the existing planning totals - had worked better than originally





expected. That success combined with a better performance in holding to the planning totals in-year, could make this a fairly reassuring message.

The Chancellor that he had considered whether there was any middle way between these two approaches. He could think of two options, neither of them very attractive. First, we could set lower Reserves than in past years - but he felt that was a move in the wrong direction. The second possibility would be to exclude some particular programme, perhaps Health, from the July formulation and say that setting this programme to one side, we would be holding to the existing plans. But there were considerable difficulties with this approach, not least that it would appear to remove the constraints on the Health settlement and make negotiations that much more difficult. On balance, therefore, the Chancellor said he had concluded that there was no real improvement on last year's strategy and post-July-Cabinet formulation.

Mr Anson said he agreed with the Chancellor that it was difficult to devise <sup>a</sup> middle way, although he noted that it would be useful in presenting the final outcome of the Survey to make the point that much of the increase in programmes was for Health, and that the loss of negative EFLs for privatised nationalised industries would also be a special factor this year. Mr Anson said that he still saw a strong case for returning this year to the presumption that the planning totals would be held. It undoubtedly created a restraining influence on bilaterals. And this year there was less excuse for exceeding previous plans, since they were considerably more realistic than those in the 1987 PEWP. Sir P Middleton shared this unease. He was uncomfortable about focussing too much on the ratio of GGE:GDP, especially at a time when money GDP was in any case growing rather faster than we would like. Sir T Burns agreed, and added that although it was very difficult to believe that we would end up holding the planning totals, the overshoot implied by





the forecast outcome was only £1.9 billion, and it might be premature to concede defeat in July.

The Chief Secretary said that he inclined more towards the Chancellor's view. A number of Ministers had threatened further bids, and when we had received these the first year overshoot of £1.9 billion might look optimistic rather than pessimistic. More generally, he would be uncomfortable about switching back to a tough line, and promising to hold the planning totals, only to fail and have to switch back to the old line. The Chancellor said that if the Reserves were increased, perhaps to 4/8/12, there might be more chance of holding the planning totals in next year's Survey.

Mr Turnbull noted that the form of words after last year's Cabinet had been that Ministers had agreed to stick as close as possible to the published planning totals, and under no circumstances exceed the ratios of GGE to GDP set out in that year's PEWP. This year, we would not want to use the second half of this formulation in those terms, or it would be assumed that we were prepared to contemplate an overshoot of £4 billion, well above our current forecast outcome. He wondered if there would be advantage in a formulation broadly as last year, but perhaps one notch tigher - by referring only to "seeking to hold the planning totals". Mr Anson added that the ratio could be covered by a reference to the Government's aim to continue a declining path. But there were problems with this: on present projections, even though the ratio would be at 40 per cent in 1988-89 - a level not seen since the late 60s - the problem was how to keep it declining thereafter. The Chancellor asked Mr Turnbull to submit a further note, setting out the options for the formulation to be used at the time of the July Cabinet, and how they could be squared with the likely range of Survey outcomes.

The Chancellor also said that he would envisage following the same procedure for consulting the Prime Minister as last year, and in due course he would be grateful for an appropriate aide-memoire.





Thought would also need to be given to the paper on the economic prospects. The arguments would be rather different from last year's: we would have to make the point about possible overload on the construction industry, and spell out the danger of allowing public spending to gear up in line with levels of economic growth which might not be sustained in the long-term.

*Mpw.*

**MOIRA WALLACE**

Distribution

Those present (Mrs Case and Mr Edwards to see and then return to Mr Caballero Rm 97/3)



~~Miss Wallace~~  
I must be down to 3 days given  
upstairs & meeting. I would certainly  
not return to



drafting para which  
provide for guidance  
to future work. At  
one or two points I  
draft a dispatch  
to recognize the 2nd PS's  
contribution to the debate

~~Mr Turnbull~~

AT  
16/6

Any comments before  
I circulate these?

(My main feeling is  
that they are too long -  
but the only passage  
I would be inclined to  
cut is the drafting para  
on final page. But  
you may want to  
retain/improve this)

Moir.





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final

## NOTE OF A MEETING HELD IN THE CHANCELLOR'S ROOM AT

HM TREASURY AT 11 am ON WEDNESDAY 15 JUNE

Present: Chancellor  
 Chief Secretary  
 Sir P Middleton  
 Sir T Burns  
 Mr Anson  
 Mr Monck  
 Mr Phillips  
 Mrs Case  
 Mr A J C Edwards  
 Mr Odling-Smee  
 Miss Peirson  
 Mr Turnbull  
 Mr Gieve  
 Mr MacAuslan  
 Miss Walker  
 Mr Call  
 Mr Tyrie

**PUBLIC EXPENDITURE SURVEY**Long-Term projections of Tax and Expenditure(Mr Anson's minute of <sup>10</sup> May)

The Chancellor thanked officials for the work that had been put into this paper, which he had found most interesting. He and the Chief Secretary were agreed that this paper should not be circulated outside the Treasury, but that it would provide a useful background to the Survey, and <sup>sh</sup> could be drawn on ~~orally~~ in briefing the Prime Minister. He had one comment on the detail of the paper: he did not agree with the assumption that tax allowances <sup>sh</sup> would be over-indexed to compensate for real fiscal drag. Mr Anson pointed

in preparing the Cabinet paper and





out that this assumption had been chosen to avoid an increase in the number of taxpayers over the period of the projection, but the ~~Chancellor commented that this was not a reason to assume anything other than a continuation of the Government's policy of cutting marginal rates.~~

*felt this did not reflect the priority the Government attached to cutting marginal rates.*

Survey Prospect

(Mr MacAuslan's minute of 13 June)

Mr Anson said that against the background of the long-term public expenditure paper, the first forecast of likely Survey outcome painted a troubling picture. Mr Turnbull added that the forecast outcome would imply a rate of growth over the four years from 1987-8 higher than the average for the last four years, and possibly higher than the average since 1978-9.

*The growth in spending on departmental programmes would be even higher than in the existing plans, which were consistent with only limited progress towards reducing the burden of taxation.*

The Chancellor agreed with Mr Anson that the first assessment of outcome gave cause for concern, particularly since he thought the forecast outcome on Health was probably too sanguine in the current climate. We would clearly have to look for areas where we could press harder - his initial inclination ~~was to~~ <sup>was to</sup> target Transport, Home Office, and DES, focussing particularly on the large capital bids, where it must be questionable whether the construction industry could actually cope with the amount of work that would be generated if departments' bids were successful.

*Mr Anson pointed out that GGE to growth of GGE painted a more favourable picture than was warranted.*

The Chief Secretary said that he too found the first assessment very troubling. Real growth in the planning total was set to be 3.4 per cent in year one, and average 3 per cent real growth over the whole Survey period. Admittedly, growth in GGE was likely to be slower, with lower debt interest payments, ~~but~~ Mr Turnbull

~~pointed out~~ <sup>explained</sup> that roughly half the fall in interest payments would be cancelled out by the loss of interest receipts, and the remainder would not necessarily do any more than offset the fall in privatisation proceeds and North Sea revenues. The Chief Secretary agreed that some of the bids - e.g DES - did appear to be well padded, and that this bid along with Transport and the Home Office must be candidates for significant trimming back. The outlook on social security was ~~also~~ gloomy. Estimating changes continued to

*shared the*

*Chancellor assessed a DES Transport and Home Office*





suggest a worrying upward trend, particularly on disability benefits. He would want to consider in the Survey at what pace any policy changes on disability benefits should be taken. Most of the options under consideration would need legislation, for which there was unlikely to be space for until the session after next. The Chancellor said that in his view, it was very optimistic indeed to expect to introduce any policy changes which would reduce entitlement to disability benefits. The best that could be achieved was probably to have an agreement to take the review in slow time.

X Mr Tyrie said that he thought there was a good cause for taking a tough line with Employment. It was now questionable whether employment programmes were making significant contribution to the continuing falls in unemployment. Mr Monck agreed: when the unemployment figures were last at their current level, the DE Budget was £900 million lower in real terms.

X (l.c) Mr Tyrie also suggested that this year it might be worth pressing DoE to revise upwards their receipts forecast before the Autumn. It was agreed that there were arguments for and against this course. But in any event, it would make sense to delay the DoE bilateral until late in the Autumn round. account.

X There was a brief discussion of the realism of the forecast outcome on Health. The Chancellor said he thought that, in retrospect, last year's settlement now looked very tough. Miss Peirson said that she saw some scope for scaling back some Health bids - for example, bids for increased activity, rising to over a billion by year 3 of the Survey which seemed to make no allowance for increased productivity. Mr Turnbull said he thought that we would also need to look very carefully at the Health capital bids, as there was a risk of the rate of growth of capital assets driving current expenditure upwards at too fast a rate. It was also important to remember that, unlike last year, Mr Moore's bids at this stage made no allowance for the cost of Review Body Awards. The Chancellor said that he thought it was certainly right to be very





tough in the bilaterals: Health was almost certain to end up in Star Chamber and any concessions should wait until then.

X Sir P Middleton also drew attention to the <sup>size of</sup> ~~need to do something~~  
X ~~about~~ the Home Office prison bids. Mr Phillips said that the Home Office's latest suggestions on tougher non-custodial sentences gave more grounds for optimism. We should do everything we could to advance their timetable. Mrs Case said that the existing forecast outcome already assumed considerable success in switching from custodial to non-custodial sentences. The Chief Secretary added that he would be keen to revive the suggestion that overcrowding in England could be relieved by using vacant space in Scottish prisons - this had been put forward as a Treasury option in last year's Survey and rejected.

Tactics  
Strategy for the July Cabinet

X The Chancellor said that although he hoped we might be able to do slightly better overall than the aggregate assessment set out in Mr MacAuslan's minute, he <sup>did not believe</sup> ~~was sure~~ we would ~~not~~ do substantially better. He was therefore not attracted to the idea that we should announce in July that we aimed to hold to the existing planning totals. No-one would believe us, and ~~if we failed~~, our failure <sup>to achieve that objective</sup> would be very difficult to present. Last year's line - that we would aim to stay as close as possible to the existing planning totals - had worked better than originally <sup>expected</sup> ~~anticipated~~. That success combined with a better performance in holding to the planning totals in-year, could make this a fairly reassuring message.

X The Chancellor that he had considered whether there was any middle way between these two approaches. He could think of two options, neither of them very attractive. First, we could set lower Reserves than in past years, but he felt that was a move in the wrong direction. The second possibility would be to ~~specifically~~ exclude some particular programme, perhaps Health, from the July formulation and say that setting this programme to one side, we would be holding to the existing plans. but there were considerable





difficulties with this approach, not least that it would appear to remove ~~all~~ <sup>the</sup> constraints ~~from~~ <sup>on</sup> the Health settlements and make negotiations that much more difficult. On balance, therefore, the Chancellor said he had concluded that there was no real improvement on last year's strategy and post-July Cabinet formulation.

devise  
↓

Mr Anson said he agreed with the Chancellor that ~~there was no~~ <sup>it was difficult to devise</sup> feasible middle way, although he noted that it would be useful in presenting the final outcome of the Survey to make the point that much of the increase in programmes was for Health, and that the loss of negative EFLs for privatised nationalised industries ~~also~~ <sup>was</sup> represented <sup>by</sup> a special factor. <sup>this year</sup> Mr Anson said that he still saw a strong case for ~~a return~~ <sup>returning</sup> this year to the presumption that the planning totals would be held. It undoubtedly created a restraining influence on bilaterals. And this year there was less excuse for exceeding previous plans, since they were considerably more realistic than those in the 1987 PEWP. ~~(and included more~~ <sup>this</sup> generous Reserves.) Sir P Middleton shared Mr Anson's <sup>much</sup> unease. He was uncomfortable about focussing too exclusively on the ratio of GGE:GDP, especially at a time when money GDP was in any case growing rather faster than we would like. Sir T Burns agreed, and added that although it was very difficult to believe that we would end up holding the planning totals ~~at the end of the Survey~~, the overshoot implied by the forecast outcome was only £1.9 billion, and it might be premature to concede defeat in July.

The Chief Secretary said that he ~~was~~ <sup>more</sup> inclined towards the Chancellor's view. A number of Ministers had ~~warned~~ <sup>threatened</sup> that they might be submitting further bids, and ~~when we had received these~~ <sup>STET</sup> the first year overshoot of £1.9 billion might look optimistic rather than pessimistic. More generally, he would be uncomfortable about switching back to a tough line, and promising to hold the planning totals, only to fail and have to ~~return to a ratio based~~ <sup>switched back to the old line.</sup> strategy. He preferred the idea of "consistency on a loose lead". The Chancellor said that if the Reserves were increased, perhaps to 4/8/12, there might be more chance of holding the planning totals in next year's Survey.





X  
Mr Turnbull noted that the form of words after last year's Cabinet had been that Ministers had agreed to stick as close as possible to the published planning totals, and under no circumstances exceed the ratios of GGE to GDP set out in that year's PEWP. This year, we would <sup>not want to use</sup> have to omit the second half of this formulation, <sup>in those terms</sup> or it would be assumed that we were prepared to contemplate an overshoot of £4 billion, well above our current forecast outcome. He wondered if there would be advantage in a formulation broadly as last year, but perhaps one notch tigher - <sup>by referring only to</sup> perhaps something along the lines of "seek <sup>to</sup> hold to the planning totals". ~~Mr Monck suggested the formulation that "any addition to the published plans would be only a small fraction of that agreed last year."~~ And Mr Anson added that the ratio could <sup>be</sup> covered by a reference to the Government's aim to continue a declining path. But there were problems with this: on present projections, <sup>even though</sup> the ratio would be at 40 per cent in 1988-89, a level not seen since the late 60s. <sup>ed</sup> The problem was how to keep it declining thereafter. The Chancellor asked Mr Turnbull to submit a further note, setting out the options for the formulation to be used at the time of the July Cabinet, and how they could be squared with the likely range of Survey outcomes.

X  
The Chancellor also said that he would envisage following the same procedure for consulting the Prime Minister as last year, and in due course he would be grateful for an appropriate aide-memoire. Thought would also need to be given to the paper on the Economic prospect. The arguments would be rather different from last year's: we would have to make the point about possible overload on the construction industry, and spell out the danger of allowing public spending to gear up in line with levels of economic growth which might not be sustainable <sup>ed</sup> in the long-term.

MOIRA WALLACE

Distribution

Those present





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NOTE OF A MEETING HELD IN THE CHANCELLOR'S ROOM AT  
HM TREASURY AT 11 am ON WEDNESDAY 15 JUNE

Present: Chancellor  
Chief Secretary  
Sir P Middleton  
Sir T Burns  
Mr Anson  
Mr Monck  
Mr Phillips  
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Mr A J C Edwards  
Mr Odling-Smee  
Miss Peirson  
Mr Turnbull  
Mr Gieve  
Mr MacAuslan  
Miss Walker  
Mr Tyrie  
Mr Call

pl send this copy to

1. Mr Burgner RB 23/6
2. Mr Robson, to see, 88/24.6
- then 3. back to me

37/1

Moir ✓ Walker

**PUBLIC EXPENDITURE SURVEY**

Long-Term projections of Tax and Expenditure

(Mr Anson's minute of 10 May)

The Chancellor thanked officials for the work that had been put into this paper, which he had found most interesting. He and the Chief Secretary were agreed that this paper should not be circulated outside the Treasury, but that it would provide a useful background to the Survey, and should be drawn on in preparing the Cabinet paper and in briefing the Prime Minister. He had one comment on the detail of the paper: he did not agree with the assumption that tax allowances should be over-indexed to compensate





for real fiscal drag. Mr Anson pointed out that this assumption had been chosen to avoid an increase in the number of taxpayers over the period of the projection, but the Chancellor felt this did not reflect the priority the Government attached to cutting marginal rates.

### Survey Prospect

(Mr MacAuslan's minute of 13 June)

Mr Anson said that against the background of the long-term public expenditure paper, the first forecast of likely Survey outcome painted a troubling picture. The growth in spending on departmental programmes would be even *higher* than in the existing plans which were consistent with only limited progress towards reducing the burden of taxation. Mr Turnbull added that the forecast outcome would imply a rate of growth over the four years from 1987-8 higher than the average for the last four years, and possibly higher than the average since 1978-9.

The Chancellor agreed with Mr Anson that the first assessment of outcome gave cause for concern, particularly since he thought the forecast outcome on Health was probably too sanguine in the current climate. We would clearly have to look for areas where we could press harder - his initial inclination was to target Transport, Home Office, and DES, focussing particularly on the large capital bids, where it must be questionable whether the construction industry could actually cope with the amount of work that would be generated if departments' bids were successful.

The Chief Secretary said that he too found the first assessment very troubling. Real growth in the planning total was set to be 3.4 per cent in year one, and average 3 per cent real growth over the whole Survey period. Admittedly, growth in GGE was likely to be slower, with lower debt interest payments. Mr Anson pointed out that the growth of GGE pointed a more favourable picture than was





warranted: Mr Turnbull explained that roughly half the fall in interest payments would be cancelled out by the loss of interest receipts, and the remainder would not necessarily do any more than offset the fall in privatisation proceeds and North Sea revenues. The Chief Secretary shared the Chancellor's assessment on DES Transport and Home Office. The outlook on social security was gloomy. Estimating changes continued to suggest a worrying upward trend, particularly on disability benefits. He would want to consider in the Survey at what pace any policy changes on disability benefits should be taken. Most of the options under consideration would need legislation, for which there was unlikely to be space for until the session after next. The Chancellor said that in his view, it was very optimistic indeed to expect to introduce any policy changes which would reduce entitlement to disability benefits. The best that could be achieved was probably to have an agreement to take the review in slow time.

Mr Tyrie said that he thought there was a good cause for taking a tough line with Employment. It was now questionable whether employment programmes were making a significant contribution to the continuing falls in unemployment. Mr Monck agreed: when the unemployment figures were last at their current level, the DE budget was £900 million lower in real terms.

Mr Tyrie also suggested that this year it might be worth pressing DoE to revise upwards their receipts forecast before the Autumn. It was agreed that it would make sense to delay the DoE bilateral until late in the round to allow later information to be taken into account.

There was a brief discussion of the realism of the forecast outcome on Health. The Chancellor said he thought that, in retrospect, last year's settlement now looked very tough. Miss Peirson said that she saw some scope for scaling back some Health bids - for example, bids for increased activity, rising to over a billion by





year 3 of the Survey which seemed to make no allowance for increased productivity. Mr Turnbull said he thought that we would also need to look very carefully at the Health capital bids, as there was a risk of capital driving current expenditure upwards at too fast a rate. It was also important to remember that, unlike last year, Mr Moore's bids at this stage made no allowance for the cost of Review Body Awards. The Chancellor said that he thought it was certainly right to be very tough in the bilaterals: Health was almost certain to end up in Star Chamber and any concessions should wait until then.

Sir P Middleton also drew attention to the size of the Home Office prison bids. Mr Phillips said that the Home Office's latest suggestions on tougher non-custodial sentences gave more grounds for optimism. We should do everything we could to advance their timetable. Mrs Case said that the existing forecast outcome already assumed considerable success in switching from custodial to non-custodial sentences. The Chief Secretary added that he would be keen to revive the suggestion that overcrowding in England could be relieved by using vacant space in Scottish prisons - this had been put forward as a Treasury option in last year's Survey and rejected.

#### Tactics for the July Cabinet

The Chancellor said that although he hoped we might be able to do slightly better overall than the aggregate assessment set out in Mr MacAuslan's minute, he did not believe we would do substantially better. He was therefore not attracted to the idea that we should announce in July that we aimed to hold to the existing planning totals. No-one would believe us, and our failure to achieve that objective would be very difficult to present. Last year's line - that we would aim to stay as close as possible to the existing planning totals - had worked better than originally





expected. That success combined with a better performance in holding to the planning totals in-year, could make this a fairly reassuring message.

The Chancellor that he had considered whether there was any middle way between these two approaches. He could think of two options, neither of them very attractive. First, we could set lower Reserves than in past years - but he felt that was a move in the wrong direction. The second possibility would be to exclude some particular programme, perhaps Health, from the July formulation and say that setting this programme to one side, we would be holding to the existing plans. But there were considerable difficulties with this approach, not least that it would appear to remove the constraints on the Health settlement and make negotiations that much more difficult. On balance, therefore, the Chancellor said he had concluded that there was no real improvement on last year's strategy and post-July-Cabinet formulation.

Mr Anson said he agreed with the Chancellor that it was difficult to devise a middle way, although he noted that it would be useful in presenting the final outcome of the Survey to make the point that much of the increase in programmes was for Health, and that the loss of negative EFLs for privatised nationalised industries would also be a special factor this year. Mr Anson said that he still saw a strong case for returning this year to the presumption that the planning totals would be held. It undoubtedly created a restraining influence on bilaterals. And this year there was less excuse for exceeding previous plans, since they were considerably more realistic than those in the 1987 PEWP. Sir P Middleton shared this unease. He was uncomfortable about focussing too much on the ratio of GGE:GDP, especially at a time when money GDP was in any case growing rather faster than we would like. Sir T Burns agreed, and added that although it was very difficult to believe that we would end up holding the planning totals, the overshoot implied by





the forecast outcome was only £1.9 billion, and it might be premature to concede defeat in July.

The Chief Secretary said that he inclined more towards the Chancellor's view. A number of Ministers had threatened further bids, and when we had received these the first year overshoot of £1.9 billion might look optimistic rather than pessimistic. More generally, he would be uncomfortable about switching back to a tough line, and promising to hold the planning totals, only to fail and have to switch back to the old line. The Chancellor said that if the Reserves were increased, perhaps to 4/8/12, there might be more chance of holding the planning totals in next year's Survey.

Mr Turnbull noted that the form of words after last year's Cabinet had been that Ministers had agreed to stick as close as possible to the published planning totals, and under no circumstances exceed the ratios of GGE to GDP set out in that year's PEWP. This year, we would not want to use the second half of this formulation in those terms, or it would be assumed that we were prepared to contemplate an overshoot of £4 billion, well above our current forecast outcome. He wondered if there would be advantage in a formulation broadly as last year, but perhaps one notch tigher - by referring only to "seeking to hold the planning totals". Mr Anson added that the ratio could be covered by a reference to the Government's aim to continue a declining path. But there were problems with this: on present projections, even though the ratio would be at 40 per cent in 1988-89 - a level not seen since the late 60s - the problem was how to keep it declining thereafter. The Chancellor asked Mr Turnbull to submit a further note, setting out the options for the formulation to be used at the time of the July Cabinet, and how they could be squared with the likely range of Survey outcomes.

The Chancellor also said that he would envisage following the same procedure for consulting the Prime Minister as last year, and in due course he would be grateful for an appropriate aide-memoire.





Thought would also need to be given to the paper on the economic prospects. The arguments would be rather different from last year's: we would have to make the point about possible overload on the construction industry, and spell out the danger of allowing public spending to gear up in line with levels of economic growth which might not be sustained in the long-term.

*Mpw*

MOIRA WALLACE

Distribution

Those present (Mrs Case and Mr Edwards to see and then return to Mr Caballero Rm 97/3)



*Miss Wallace*

From: SIR PETER MIDDLETON

Date: 17 June 1988

CIRCULATION: AS ATTACHED LIST (ANNEX B)

~~P~~  
 pl keep  
 copy in  
 scorecard  
 Rex. Thamb

AUTUMN STATEMENT SECURITY

I am concerned to ensure that our internal arrangements for handling papers showing the Chief Secretary's negotiating position and the prospects for the Survey are once again as secure as possible.

... 2. I attach a code of practice on the handling of the GEPI scorecard and related material, based on the arrangements used successfully last year. EOG (Mr Rees) will organise spot checks to ensure the system is working properly. Please give him your full co-operation.



P E MIDDLETON



ANNEX A

AUTUMN STATEMENT SECURITY

1. The following arrangements, similar to those used last year, apply to the handling of material about the Chief Secretary's overall negotiating position for the bilaterals and Star Chamber discussions.

Aim

2. The aim is to make our arrangements for handling this material as secure as possible, by ensuring the information is restricted to people who need to know.

Coverage

3. The arrangements apply to copies of the GEP1 scorecard showing the Chief Secretary's overall negotiating position and papers discussing the scorecard and the Chief Secretary's overall tactics. The originators of the material (largely GEP1) are responsible for deciding which papers come into these categories.

ORIGINATORS

4. All papers covered by the arrangements should be classified **SECRET AND PERSONAL** and include the word **SCORECARD** in the top right hand corner of the first page above the copy number.

5. Originators should include copy numbers on all copies of **SCORECARD** material and keep a note of who those copies are sent to. The note, together with a brief description of the material copied, should be sent to Mr Caballero (GEP Room 97/3) within 24 hours, so he can complete a log showing who has which copy.

6. Scorecard material should be circulated on a need to know basis. In no circumstances should a copy be sent (or shown) to anyone not on the Scorecard circulation list (copy attached). This list will be extended later in the Survey, as necessary, to



cover those involved in, for example, the Autumn Statement Briefing exercise. Suggestions for adding people to the list should be sent to Sir Peter Middleton's Private Secretary (Mr Sargent) copied to Miss Walker (GEP1), giving at least one day's notice.

#### RECIPIENTS

7. Recipients are asked not to photocopy any scorecard material and to show it only, on a need to know basis, to others on the Scorecard circulation list. Scorecard papers should not be left unattended by the person responsible for their custody - he/she should lock them away whenever he/she leaves the room. In some cases parts of minutes covered by the scorecard rules or, for example, attachments to them will include less sensitive information eg on departmental running costs. This less sensitive material is not covered by this code of practice and may be shown to others.

8. The normal rules on taking classified documents home apply (paragraph 27 of the Treasury security instructions). If anyone needs to take **SCORECARD** material home on a regular basis, authority must be obtained from the Permanent Secretary. If an occasional need arises, authority must be obtained from an Assistant Secretary or above.

9. Recipients may keep their copies of scorecard material as long as they wish. When they have no further use for it material should be sent to Mr Caballero (GEP1, Room 97/3) so the log can be amended before material is destroyed.

#### Cupboards and spot checks

10. EOG will check that those on the scorecard list can keep the material in secure cupboards ensuring privacy from those not on the list. EOG (Mr Rees) will organise spot checks of scorecard material to ensure the system is working.

#### The Press

11. No one should brief the press on matters related to the bilaterals without first referring to Mr Gieve.



ANNEX B

NEED TO KNOW GEP1 SCORECARD: BILATERALS AND STAR CHAMBER STAGES

Chancellor

Principal Private Secretary (Mr A C S Allan)

Private Secretary (Mr J Taylor)

Assistant Private Secretary (Miss M P Wallace)

Clerks (Mr A Dight), (Miss S Murphy), (Mr P Taylor), (Mr A Lyons)

Chief Secretary

Private Secretary (Miss J Rutter)

Assistant Private Secretary (Miss Z Everest-Phillips)

Clerks (Mr S I M Kosky)

Personal Secretary (Miss P Stanton)

Sir P Middleton

Private Secretary (Mr S Sargent)

Personal Secretary (Miss J C Todd)

Mr J Anson

Senior Personal Secretary (Mrs F E Verlander)

Mr H Phillips

Senior Personal Secretary (Miss M Reader)

Mr N Monck

Personal Secretary (Miss R Jackson)

Sir T Burns

Personal Secretary (Miss V Howard)

GEP

Mr A Turnbull

Senior Personal Secretary (Mrs V Brown)

Mr J MacAuslan

Personal Secretary (Mrs I Perry)

Mr M Richardson

Personal Secretary (Mrs G McKinnon)



Mrs R J Butler  
Personal Secretary (Mrs S Church)  
Miss S P B Walker  
Miss S M A James  
Mr S Caballero

**EA**

Mr Sedgwick  
Personal Secretary (Mrs E Hollyer)

**MP**

Mr Odling Smee  
Personal Secretary (Mrs P E James)

**PSF/GEP3**

Mr C J Mowl  
Personal Secretary (Mrs Perrett)  
Mr M Franklin  
Mr A Holder

Mr D Deaton  
Miss L Adamson

**EOG**

Mr M Rees

**Special Advisers**

Mr M Call  
Personal Secretary (Mrs P A Spencer)

Mr A Tyrie  
Personal Secretary (Miss R Johnson)

**IDT**

Mr E J W Gieve  
Personal Secretary (Mrs P Kemp)

**RCM**

Mr T Luce  
Personal Secretary (Miss N F Hulbert)  
Mr M Hansford  
Personal Secretary (Miss A J Stone)  
Mr G Binns\*

\*Not to be sent copies of SCORECARD documents