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PART D



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PART D

BUDGET 1988 SCORECARD  
AND OVERVIEW

NL/0120

PO -CH

PART D

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SCORECARD

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I have discussed the formula in paragraph 19 with C.T.P. I think it strikes a suitable

- 1. MR ANSON *balance between constraint and credibility.*
- 2. CHANCELLOR OF THE EXCHEQUER +1 *17/6*

FROM: A TURNBULL  
DATE: 17 JUNE 1988

- cc Mr Phillips
- Mr Monck?
- Mr Luce?
- Mr Odling-Smee
- Mr Sedgwick?
- Mr Mowl?
- Mr MacAuslan
- Mr Gieve?
- Miss Walker
- Mr Call
- Mr Tyrie }?

Copies attached for

Chief Secretary  
Sir P Middleton  
Sir T Burns

*Thanks. V. helpful. Mr [unclear] has to discuss on [unclear] of conduct.*

*\* \**

OBJECTIVES FOR THE 1988 SURVEY

Mr MacAuslan's submission of 13 June provided a first assessment, based on Expenditure Groups' judgements of the extent to which bids can be cut back and savings made, of the possible outcome of the Survey. Following your meeting on 15 June, you requested a paper examining:

- i. what the Treasury's objectives for the Survey should be;
- ii. what tactics should be adopted for the July Cabinet.
- iii. how the outcome might be presented in November.

Objectives

- 2. We suggest that the twin objectives should be:
  - i. to continue the downward trend of public spending as a proportion of national income in order to make possible further reductions in the burden of taxation;
  - ii. to re-establish the discipline of cash planning totals by holding to, or as close as possible to, the existing totals; and by setting planning totals which have a reasonable chance of being held to in subsequent Surveys.

*?*



GGE/GDP ratio

3. Rapid growth of money GDP has produced very much faster progress than envisaged in the last PEWP.

GGE excluding privatisation proceeds as proportion of GDP

	1986-87	1987-88	1988-89	1989-90	1990-91
1988 PEWP	44	42½	42	41¾	41¼
1988 FSBR	43¾	41¾	41¼	40¾	40

4. If, as seems likely, money GDP in 1988-89 is higher than projected in the FSBR; and if spending is, as currently expected, close to plans, then the ratio in 1988-89 could be down around 40½ per cent. It should be an objective of this Survey to continue the downward trend from the lower point we have already reached, even when money GDP grows more slowly than recently. We should, therefore, aim to achieve modest year to year increases in cash expenditure over the Survey period, and so to move along a path for the ratio that both declines and is much lower than that envisaged in the last PEWP (which would be far too lax a constraint).

Public spending in real terms

X | 5. The recent work on long-term public expenditure provided a further guide to the kind of outcome we should be seeking. That work showed that declining debt interest payments will slow the growth of GGE (excluding privatisation proceeds), but the benefit of this is nearly cancelled out by three adverse developments:

- declining interest receipts;
- the run-down in North Sea oil revenues;
- a slight assumed decline in the contribution from privatisation proceeds (constant in nominal terms, declining as a proportion of GDP).

*Non-sense!  
GGE is  
private ex  
proceeds -  
see X*



The relevant figures are summarised in the table in paragraphs 8-9 of Mr Gieve's covering paper (below Mr Anson's submission of 10 May) on the long term - a copy is attached for ease of reference.

6. This means that if we want to stop the non-North Sea tax burden from growing between now and 1991-92, we must hold the growth of GGE (excluding privatisation proceeds) below the growth of GDP by a margin sufficient to compensate for the adverse factors mentioned above, ie probably by at least 0.3 percentage points a year. If we wanted to reduce the burden by, say, 1 percentage point or so by 1991-92, we would have to hold the GGE growth rate below the GDP growth rate by more like ¾ percentage point.

7. Put another way, as the decline in debt interest payments is more or less cancelled out by the developments in paragraph 5 above, the prospects for non-North Sea taxation depend very closely on the growth in spending on departmental programmes (the planning total excluding privatisation proceeds).

8. The growth of departmental spending in real terms implied by the existing cash plans is around 2¼ per cent, about the most which according to the LTPE work was consistent with measurable progress in reducing the burden of taxation. This indicates that the Treasury's objective in the Survey should be to minimise the extent to which those plans are increased.

Prospects for the 1988 Survey

9. The assessment in Mr MacAuslan's minute of 13 June suggested additions to programmes in the three Survey years of:

£ billion

5.4            7.1            10.7

On the assumption that we again publish reserves of £3.5/7.0/10.5 billion, allowing a draw-down of £3.5 billion in each year, this would imply increases to the planning totals of

1.9            3.6            7.2



though only the increases for the first two years would be apparent in the Autumn Statement and 1989 PEWP.

10. Using the FSBR forecasts for money GDP, GDP deflators, and debt interest, and assuming spending in 1988-89 is as planned, but substituting new national accounts adjustments to reflect the impact on PCMOB of the privatisation programme, produces the following outcome:

	1988-89	1989-90	1990-91	1991-92	Average 3 Survey years
Real terms growth					
a. departmental spending	2.5	3.4	2.6	3.0	3.0
b. GGE ex priv proceeds	1.6	2.2	1.6	2.2	2.0
GGE ex priv proceeds as ratio of GDP	41.2	41.1	40.7	40.5	

This outcome would be unsatisfactory in two respects:

- marked ✓*
- i. the growth of departmental spending would be much higher than the LTPE work indicated was satisfactory;
  - ii. the further downward progress in the ratio would be minimal.

11. It was concluded at your meeting that every effort should be made to improve upon it. Expenditure groups will shortly be preparing drafts of the agenda letters which the Chief Secretary will send to colleagues after the July Cabinet meeting. At the same time they will be working on options which could improve upon the initial assessments. They will be concentrating upon further scaling back the bids from Transport, Education and Science and Home Office; and finding greater savings from Trade and Industry, Employment and Agriculture.

12. Nevertheless, it was recognised that improving on the outcome would not be easy. Indeed there could still be further bids to



come eg from estimating changes; and some of the assessments might prove unattainable.

Tactics for July Cabinet

13. Two issues need to be considered for the July Cabinet:

- i. the proposition which Cabinet is asked to endorse
- ii. the argumentation used by the Treasury to back it.

This submission focuses on (i), on which the aim is to find a formula:

- which sets a boundary within which the bilaterals can take place so that the Survey is not open-ended;
- which is credible to colleagues and to the outside world and which will not be discredited at the conclusion of the Survey;
- which does not require a major policy announcement in July when there is not normally an economic statement to set the context.

The formula could be a form of words or a statement of specific totals.

14. The ideal outcome would be a position in which it is credible to seek Cabinet's endorsement of existing planning totals. This sets a limit and does not require announcement of any new direction of policy. But this year some increase in the planning total seems unavoidable, particularly if adequate Reserves are to be left. This indicates that it would be unwise to ask Cabinet simply to endorse the existing figures. If they were then raised in November we would create the impression of a Treasury failure even if the outcome were satisfactory in other respects.

15. On the other hand there are dangers in trying in July to set a new figure. Although the initial assessment of the 1986 Survey was very close to the final outcome, the equivalent assessment in



1987 was too pessimistic by a substantial margin. Furthermore, announcing new totals is likely to require something more formal than the usual No 10 statement plus Prime Minister's questions.

16. What seems required therefore is a formula which does not tie the Government irrevocably to a set of figures but which minimises the scope for slippage from existing plans.

17. Last year colleagues were invited to agree that

"We must keep as close as possible to the existing planning totals, and we must not in any circumstances exceed the shares of GDP in the White Paper."

But there has been a very large increase in money GDP beyond the levels assumed in the PEWP (some of which is already recorded in the FSBR). This means that the second half of this formulation would be insufficiently binding. Indeed, increases in the planning total of £4-6 billion might still produce ratios better than those in the PEWP. A further reason for seeking something tougher than last year's formula is that we have included much larger reserves, so that the baseline plans already embody significant real increases.

18. A further alternative would be to revert to something like the 1986 formula where the Chief Secretary and colleagues were invited to conduct bilaterals "working within the existing planning totals". This does not involve a total commitment to existing totals carrying as it does the implication that, at the end of the bilaterals, the position can be reconsidered.

19. Another approach would be to take last year's "keep as close as possible to the existing planning totals"; but to add "and ensure that [the recent falls in] the ratio of spending to [national income] continues over the Survey period at broadly the planned rate".

20. An advantage of this formula is that if, as seems likely, higher money GDP is declared in the Autumn Statement, the level for the ratio at the starting point will be lower and with it the ratios for future years implied by the objective. The formula

*Wp/mt*  
*to be*  
*(ex pp)*  
*581?*  
*?*  
*k declare [over the Survey period.]*



thereby automatically prevents any basedrift in money GDP from leading to higher expenditure.

21. If the ratio is exceptionally low in a particular year, it may not be possible to achieve a decline in every year; but we need to maintain the downward trend. "At broadly the planned rate" is intended to imply a decline in the ratio between 1988-89 and 1991-92 of 1-1½ percentage points. This would be in line with the decline shown in the last PEWP of 1½ percentage points between 1987-88 and 1990-91. The table in paragraph 25 below suggests that the aim is achievable. We think it would be necessary to add the constraint of such an aim, because a decline of, say, 0.5 percentage points would probably not be adequate.

22. Colleagues may argue that this denies public spending a fair share of the benefit of the higher GDP in 1988. Against this we would deploy the line of argument you suggested at your meeting, that it would be wrong to reflect in the rate of growth of expenditure in the future the exceptional, above trend, growth in GDP in a particular year.

#### Presenting the outcome

23. Although much can change between now and November, it is helpful to look ahead at the way the Survey outcome might be presented. The following factors may change from the current assessment:

- i. we may secure a better or worse outcome in the negotiations;
- ii. we may choose a different path for the Reserves;
- iii. it may well be necessary to alter the economic assumptions. The net effect of any changes is difficult to predict but seems likely to be adverse;
- iv. the Autumn Statement forecast published alongside the Survey outcome is likely to show higher money GDP in 1988-89 and may call for a revision of the GDP deflator both in 1988-89 and 1989-90;



v. the Autumn Statement forecast may show a larger debt repayment in 1988-89 and trigger a reassessment (as happened last year) of the assumption made about the PSBR in future years.

24. For the purposes of this exercise we have made the following stylised assumptions:

- outcome on programmes as in current assessment;

- reserves as last year;

- money GDP in 1988-89 is 2 per cent higher than in FSBR and the GDP deflator for 1989-90 is raised from 4 to 4½ per cent, but no change in the output growth assumption for 1989-90 or beyond;

- the estimates of debt interest are modified to reflect the assumptions that PSDR in 1988-89 is £5 billion; and the Autumn Statement adopts last year's stylised assumption that the PSDR for future years is the same as the forecast for the current year. The net effect is to reduce debt interest payments by about £1 billion by the third year.

25. The outcome would then look as follows (cf table given in paragraph 10).

	1988-89	1989-90	1990-91	1991-92	Average 3 Survey years
Real terms growth					
a. Departmental spending	1.6	2.9	2.6	3.0	2.8
b. GGE ex priv proceeds	0.6	1.5	1.4	2.1	1.6
GGE ex priv proceeds as % of GDP	40.4	40.0	39.5	39.4	

26. If the outcome were along these lines, the points we would want to stress are:



i. even though progress in reducing GGE/GDP ratio is small, this is on top of the large fall of recent years. In this Survey period, it could be below 40 per cent for the first time since 1967.

ii. In the discussion of growth rates, we would want to divert attention to GGE rather than the planning total (despite our own reservations that GGE presents a flattering picture of the prospects for reducing the tax burden). Growth of 1.6 per cent would nevertheless be higher than in the recent past - see below:

	Real growth of GGE ex priv proceeds	Real growth of GDP
1968-69 - 1978-79	2.9	2.3
1978-79 - 1982-83	2.2	0.2
1982-83 - 1988-89	1.1	3.6
1988-89 - 1991-92	1.6	2.5 (assumed)

} 1.5      } 2.2

Growth of 1.6 per cent would also be seen as a retreat from the last PEWP, where the plans to 1990-91 were expressed as an increase of  $1\frac{1}{4}$  per cent a year in GGE excluding privatisation proceeds, compared with rates of  $2\frac{1}{4}$  per cent from 1978-79 to 1982-83 and  $1\frac{1}{4}$  per cent from 1982-83 to 1986-87.

iii. Attention could be drawn to the impact of the loss of negative EFLs of industries being privatised (Steel, Giro, Water, Electricity). This is likely to be large as an absolute amount, though small in effect on growth rates. The problem is complex because the impact on the planning total will be larger than that on GGE because the planning total loses the whole EFL but GGE loses only that part which was projected to be repaid to government. Our preliminary estimate is that the planning total will be £1.8 billion higher than baseline in 1991-92 but GGE only £1.3 billion higher, the difference being PCMOB. Over the three years, excluding the EFLs of the departing industries reduces the growth rate of spending on programmes by 0.2 percentage points a year but that of GGE (excluding privatisation



proceeds) by 0.1 percentage points a year. Most of the impact, however, is likely to fall in 1991-92. However, these estimates are very preliminary and a lot of work will be needed to refine them.

iv. All the calculations of future growth rates have been done assuming spending in 1988-89 is as planned. We have also used 1988-89 as the base, ie the practice prior to the last Survey. We will need to reassess this in the light of what happens to spending and the GDP deflator in 1988-89. If the former is below and the latter above the FSBR projections there could be advantage in adopting 1987-88 as the base.

v. As you suggested at Wednesday's meeting, it seems on balance unlikely to be helpful to present the figures after abstracting the increases for health: those increases are unlikely to mirror the increases in the planning total, either in size or profile.

27. The general conclusion remains that it seems unlikely that we will be able to escape from showing a planned growth of spending which exceeds that since 1982-83, unless we are able to produce an outcome on programmes which is significantly better than the first assessment.

*J MacArthur*

PP A TURNBULL



## 11. MEDIUM TERM FISCAL PROJECTIONS (PAPER 1)

7. What happens in future depends partly on the economy, partly on specific factors such as North Sea revenues and privatisation proceeds, and partly on policy towards expenditure and taxation. Paper 1 presents projections which are designed to illustrate what combinations of expenditure growth and tax cuts may be feasible. Two views of the economy are taken. In the central case output grows at 2½% a year to 1991-92 and 2¼% thereafter, and inflation falls by ½ percentage point a year. In the pessimistic case output grows at 1¼% to 1991-92 and 1½% thereafter, and inflation falls to 3% and sticks there. Real interest rates fall gradually to 3% in both cases.

8. Both projections assume a zero PSBR from 1989-90 in line with the MTFPS. The move from net debt repayment to a balanced budget itself creates some headroom for expenditure increases or tax reductions. This is equivalent to a reduction in the tax burden of 0.7 percentage points.

Table 2

Debt Interest, North Sea Revenues, and Privatisation Proceeds

	(per cent of money GDP)				
	1988-89	Change 1988-89 to 1991-92	1991-92	Change 1991-92 to 1996-97	1996-97
1. Gross debt interest	3.7	-0.9	2.8	-1.0	1.8
2. Interest receipts and dividends	1.3	-0.5	0.8	-0.5	0.3
3. North Sea revenues	0.7	-0.2	0.5	-0.3	0.2
4. Privatisation proceeds	1.1	-0.2	0.9	-0.1	0.8
5. Other net receipts	-0.1	0.1	0.0	0.0	0.0
6. Available for departmental expenditure increases or tax cuts (2+3+4+5-1)		0.1		0.1	

9. The projected changes to the other components of the accounts apart from spending on programmes and non-North Sea taxation are shown in Table 2, based on central economic assumptions. The continued fall in gross debt interest is just sufficient to cover the decline in relation to GDP in North Sea revenues, interest receipts and dividends, and privatisation proceeds (which are assumed to continue at their current cash level throughout the period). Thus, leaving aside the return to budget balance, changes in the tax burden will depend directly on the rate of growth of departmental spending in relation to GDP growth.



*my***SCORECARD**  
**COPY NO: 2 OF 15 COPIES****FROM: COLIN MOWL**  
**DATE: 22 June 1988****MR ANSON***✓*  
cc PS/Chancellor ✓  
PS/Chief Secretary  
Sir P Middleton  
Sir T Burns  
Mr Phillips  
Mr Monck  
Mr Sedgwick  
Mr Turnbull  
Mr Odling-Smee  
Mr Luce  
Mr MacAuslan  
Mr Franklin  
Mr Holder**PUBLIC EXPENDITURE: COMPARISON OF SUMMER ECONOMIC FORECAST WITH EXPECTED SURVEY OUTCOME**

The summer forecast report, circulated today by Mr Sedgwick ("Treasury Economic Forecasting Exercise"), summarises our latest assessment of the prospect for public expenditure in light of the outlook for the economy generally. The attached note, largely by Andrew Holder, compares the forecast with the expected outcome of the Survey as set out in Mr MacAuslan's minute of 13 June to the Chief Secretary ("Survey Prospect 1988").

*Colin Mowl***COLIN MOWL**



**PUBLIC EXPENDITURE: COMPARISON OF SUMMER ECONOMIC FORECAST WITH EXPECTED SURVEY OUTCOME**

This note compares public expenditure in the Summer Economic Forecast (reported in Mr Sedgwick's note of 22 June) with the latest assessment of the Survey outcome (Mr MacAuslan's note of 13 June to the Chief Secretary).

2. It is essential to remember that while GEP monitor likely additions to departmental baselines and allow for possible overspending by a separate Reserve, the economic forecast deals exclusively with outturn expenditure including any eventual allocation of the Reserve and increase in the Planning Total. On the assumption that the Reserve will be fully spent in each year, it is only the aggregate Planning Total figures for which the economic forecast and GEP's assessment are fully comparable.

3. With these caveats in mind, the comparison of the present Planning Total forecast with GEP's assessment of the likely outcome of the Survey is summarised below:

**TABLE 1: COMPARISON OF SURVEY AND ECONOMIC FORECAST**

	<u>1989-90</u>		<u>1990-91</u>	
	GEP Forecast Outcome	Summer Economic Forecast	GEP Forecast Outcome	Summer Economic Forecast
<i>£ billion</i>				
Survey Baseline	167.1	167.1	176.2	176.2
Addition to Planning Total	1.9	2.5	3.6	5.7
Implied Planning Total	169.0	169.6	179.8	181.9
<i>Real growth rates<sup>1</sup> (%)</i>				
Departmental <sup>2</sup> spending	2.9	2.8	2.6	2.9
GGE ex. priv proceeds	1.5	1.3	1.4	1.4
<i>Ratio to GDP<sup>1</sup> (%)</i>				
GGE ex. priv proceeds	40.0	39.7	39.5	39.4

1. GDP deflators, GGE and nominal GDP from Mr Turnbull's note of 17 June to the Chancellor and the Summer Economic Forecast respectively

2. Planning Total including Reserve excluding privatisation proceeds



4. The economic forecast indicates a slightly higher Planning Total outturn in cash terms for 1989-90 than GEP's expected Survey outcome, but given the margins of error on both the forecast and GEP's assessment we would regard them as telling a similar story. The difference between the forecast and GEP looks larger for 1990-91, but it should be recalled that the forecast, unlike GEP, also attempts to anticipate (i) the outcome of next year's Survey, (ii) within year pressures for extra expenditure, and (iii) changes in demand-led expenditure. If, next year, there is an upward revision to plans for 1990-91 similar to that expected by GEP now for 1989-90, the forecast and GEP would be very close.

5. Inflation is forecast to be significantly higher than assumed in the Survey, and higher than used for the figuring in Mr Turnbull's note, in both years as shown below.

<i>GDP Deflator growth rates (%)</i>	<u>1989-90</u>	<u>1990-91</u>
1988 MTFS	3.9	3.5
GEP figuring	4.5	3.5
Summer Economic Forecast	5.2	4.0

6. Table 1 also shows that the Planning Total in 1989-90 is forecast to grow more slowly in real terms than implied by GEP's assessment of the likely Survey outcome, as cash expenditure is squeezed by higher inflation. In 1990-91, when the forecast also anticipates the 1989 Survey, the real growth of the Planning Total is slightly faster than implied by the GEP assessment. The growth of GGE in the forecast benefits from lower debt interest payments, and the ratio of GGE to GDP benefits from higher nominal GDP than used by GEP.

<i>Debt Interest and other adjustments (£ billion)</i>	<u>1989-90</u>	<u>1990-91</u>
1988 MTFS	25.7	25.5
GEP figuring	25.5	24.5
Summer Economic Forecast	24.9	23.6
<i>nominal GDP (£ billion)</i>		
1988 MTFS	486	516
GEP figuring	498	529
Summer Economic Forecast	503	534



SECRET AND PERSONAL

7. Table 2, attached, gives more detail on a spending authority basis, showing departmental bids, GEP's assessment of the likely outcome and the economic forecast.

8. The prime factor producing the large forecast defence and health overspends is the growth of earnings significantly above inflation. There is relatively little provision in these bids for future Pay Review Body awards. We have also included a significant overspend on health procurement, by more than necessary to maintain planned real growth, reflecting the continuation of recent experience.

9. In the case of Social Security we do not feel that DHSS have yet made full allowance for the underlying growth of benefit payments, which is estimated to have been 3.2 per cent in 1986-87 and 3.9 per cent in 1987-88. We have projected underlying growth of 3 per cent in 1988-89 falling to 2.5 per cent thereafter. This combined with higher uprating and a small allowance for policy changes in the 1989 Survey, is only partially offset by the effect of lower unemployment than assumed in the Survey.

10. The forecast of EC contributions is in line with EC division, taking account of the Brussels European Council decisions. The forecast of "Other" Central Government expenditure is broadly in line with GEP's view of the Survey outcome.

11. The Local Authority forecast mainly reflects judgements about earnings growth and real trends in procurement and capital spending. We have not given great weight to departmental bids both because the recent record is of significant in-year overspends and because departments have less control over LA expenditure than over most Central Government spending.

12. Public Corporations' contribution to the Planning Total is forecast to be a little lower than the GEP assessment in 1989-90 and rather higher in 1990-91. The forecast is based on less ambitious profits growth than in the Survey baseline, and makes some allowance for additional bids in the 1989 Survey for 1990-91.



## SECRET AND PERSONAL

TABLE 2: COMPARISON OF SURVEY AND ECONOMIC FORECAST - FURTHER DETAIL

<i>£ billion</i>	<u>1989-90</u>			<u>1990-91</u>		
	Dept Bid	GEP Forecast Outcome	Summer Economic Forecast	Dept Bid	GEP Forecast Outcome	Summer Economic Forecast
<b>Central Government</b>						
Social Security	0.5	0.4	0.9	1.0	0.8	2.6
Defence	0.3	0.1	0.5	0.9	0.5	1.0
Health	2.2	1.2	1.9	3.1	1.4	2.8
Net EC	0.4	0.4	0.4	0.3	0.3	0.3
Other	2.1	1.2	1.1	3.2	1.8	1.7
Total CG	5.5	3.1	4.8	8.6	4.8	8.3
<b>Local Authority</b>						
Current	1.4	1.4	3.8	1.8	1.8	6.2
Capital	0.9	0.2	0.4	1.0	0.1	0.7
Total LA	2.3	1.6	4.3	2.8	1.9	6.9
<b>Public Corporations</b>	0.7	0.6	0.5	0.5	0.4	1.0
<b>Total Programmes</b>	8.5	5.4	9.5	11.8	7.1	16.2
Expenditure met from existing reserve	3.5	3.5	7.0	3.5	3.5	10.5
Required Addition to Planning Total	5.0	1.9	2.5	8.3	3.6	5.7



↓ 1.6 bn  
£1.8 bn  
~~£1.8 bn~~

*How much  
of this v. poor  
for (3) prospects  
(80% by X & Y) is  
due to the loss of  
No negative effects of  
Glebehead & water  
via P. M. & water  
This what is  
scope is  
is upon you  
particular?*

SCORECARD  
COPY NO 3 OF 19 COPIES

FROM: S P B WALKER  
DATE: 1 September 1988

1 MR ANSON  
copies attached for:  
Chancellor  
Sir P Middleton  
Sir T Burns

cc: Mr Phillips  
Mr Monck  
Mr Turnbull  
Mr Luce  
Mr Odling-Smee  
Mr Sedgwick  
Mr MacAuslan  
Mrs R Butler  
Mr Mowl  
Mr Gieve  
Mr Richardson  
Mr Call  
Mr Tyrie

2 CHIEF SECRETARY

**SURVEY PROSPECTS**

This submission summarises divisions' latest forecasts of Survey outcome, and considers their implications for the Cabinet remit and tactics for the bilaterals.

2. The latest scorecard is at Annex A, together with a table showing the changes in forecast outcome since the July Cabinet.

Changes to bids

3. Totals bids are lower by £370m in 1989-90 (mainly due to the inclusion of increased estimates of housing receipts, partially offset by increases elsewhere) but higher in the later years, by £540m and £3,250m. Much of the increase is due to the revised economic assumptions, which have affected Social Security in particular, but have also inspired higher bids from other departments, including ODA and Health. Several new bids have also been received, for example, from Lord Young and from DOE, for expenditure connected with the reorganisation of the water industry. The revised bids will be incorporated into revised agenda tables agreed with the departments in time for the bilaterals. New bids have also been submitted for the nationalised industries, on which PE are submitting separately.

not yet here!



Changes to forecast outcome

4. The forecast outcome has improved significantly in all three years. The main improvements are

(i) the increased forecasts of housing receipts;

(ii) a more optimistic forecast of the costs of IBAP market support, as a result of a poor UK harvest and the US drought: there is a chance that these figures could improve further when IBAP produce their own forecast in September;

(iii) the local authority relevant figures are lower because of the proposal to follow what was agreed last year and give Scotland and Wales only the formula consequences of the English settlement and require them to make up the difference between that and the Scottish and Welsh settlements from their blocks;

(iv) a more optimistic forecast for Employment, reflecting Ministers' wish to press Mr Fowler hard for savings;

(v) the nationalised industries figures are lower, mainly reflecting PE's view that a renegotiation of British Coal's contract to supply the CEBG on more realistic prices is unlikely this year;

(vi) the Social Security figures reflect the revised economic assumptions and the anticipated September estimating changes, which give increases in 1989-90 lower than forecast in July.

5. The reductions are partially offset by less optimistic forecasts for Health, and Transport, the latter reflecting increased bids for LA capital and maintenance costs. The scorecard shows the Northern Ireland figures on a different basis from the last version, when it was thought that the operation of the block formula might be suspended. Recent official discussions suggest that a satisfactory deal based on formula consequentials might now be possible.



6. The change in the ECGD forecast of outcome results mainly from a reclassification: the reductions will be made to the baseline and will not be shown in the Autumn Statement as Survey changes.

#### Planning totals and Ratios

7. Assuming no change in the forecast of privatisation proceeds, and reserves of £3.5/7/10.5 million (ie using up £3.5 million in each year from the Reserves agreed last year) the additions to the published planning totals (or to the unpublished baseline in the case of 1991-92) would be about:-

£ billion		
1989-90	1990-91	1991-92
1.4	3.5	7.9

Using a GDP forecast consistent with the one given to the July Cabinet and the latest available forecast of debt interest, this would represent GGE/GDP ratios (excluding privatisation proceeds) of

40	39½	39½
----	-----	-----

compared with

40¾	40
-----	----

in the FSBR. The unrounded numbers show negligible improvement between 1990-91 and 1991-92. These figures could be presented as consistent with the Cabinet remit, but only just. The real year-on year percentage growth of the planning total would be

3.4	3.0	3.7 (annual average 3.4)
-----	-----	--------------------------



compared with the baseline of

2.0                      1.9                      1.3 (annual average 1.7)

and the real growth of GGE excluding privatisation proceeds would be

1.5                      1.6                      2.3

The annual average growth of GGE excluding privatisation proceeds would be over 1½ per cent, compared with 1½ per cent which resulted from the last Survey.

8. These GGE figures would result in a slowly rising non-oil tax burden unless offset by reducing the PSDR.

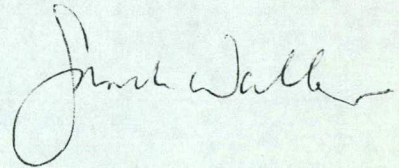
9. There are still significant risks of further bids which have not yet materialised. For example, the knock-on effects of extra costs of the nurses' regrading exercise could add £100-150m a year; possible corporation tax payments by the LDDC could be over £50m a year; arrangements between MOD and BNFL for the disposal of nuclear waste could cost £40m a year; and any settlement of the International Tin Council dispute could have a significant cost. There is also the uncertainty surrounding the forecasts of IBAP expenditure and LAPR/MIRAS costs, and possible revisions to economic assumptions in October. On top of these items, which might emerge in time to be taken into account in the Survey, there are potential claims on the Reserve in the Survey years, such as pay settlements, particularly in the health service, the outcome of the health reviews, student loans, MOD's end-year flexibility arrangements (which could lead to a £350m call on the 1989-90 reserve), and the move to more realistic pricing by British Coal. These factors might lead you to decide on more generous Reserves (perhaps £4/8/12m). Reserves of this size added to the current forecast outcome would give GGE/GDP ratios of 40/39½/40, which would be unacceptable.



Conclusion

10. The forecast outcome has improved since July, but if delivered it would only barely represent a falling path for the GGE/GDP ratio. In view of the outstanding threats and uncertainties, you may feel it is too close for comfort. Also recent press speculation in the wake of the balance of payments figures means that the markets will expect a tough Treasury line in the Survey, and that anything which looks like a relaxation of control over public expenditure would have an unsettling effect.

11. In the light of this, we will want to do better than the forecast outcome wherever possible, and we will need to communicate this message to divisions at the pre-bilateral briefing meetings. We will also need to look particularly carefully at the position in the last year, where the loss of the negative EFLs of the privatised industries produces an unwelcome increase in the growth rate.



S P B WALKER

The flat path in the GGE/GDP ratio in paragraph 7 partly reflects changes in the GDP base. The ratio for the first year is  $3\frac{1}{4}\%$  lower than in the FSBR and  $1\frac{3}{4}\%$  lower than in the PEWP. But commentators will tend to look at the most recent profile of the ratio, and as Meris Walker says we will need to seize any opportunity to do better than the "forecast outcome"

✓  
2/9



Annex A

SECRET  
SUMMARY SCORECARD

Date of last update: 01/09/88

(£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	333.0	150.0	0.0	20,575.0	989.0	500.0	0.0	21,075.0	1,440.0	650.0	0.0
FCO - Diplomatic, Information, Culture	743.0	36.5	9.7	-17.3	761.0	56.4	27.9	-10.1	780.0	60.3	31.4	-20.3
FCO - Overseas Development Administration	1,505.0	49.0	30.0	4.0	1,551.0	88.0	55.0	8.0	1,590.0	137.0	80.0	27.5
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	-302.2	-247.5	-401.0	1,845.0	-287.9	-248.0	-352.0	1,891.0	-192.8	-196.5	-253.0
Ministry of Agriculture, Fisheries and Food	786.0	42.1	19.7	-38.4	801.0	50.5	18.4	-95.7	821.0	68.4	20.6	-126.9
Forestry Commission	64.0	10.4	9.8	0.0	65.0	13.2	12.5	0.0	67.0	14.4	13.7	0.0
Department of Trade and Industry	1,282.0	125.5	73.6	-52.3	1,222.0	112.4	67.2	-60.9	1,225.0	-24.1	-91.2	-150.4
Export Credits Guarantee Department	139.0	-3.6	-3.6	-3.6	120.0	-20.5	-20.5	-20.5	123.0	-63.6	-63.6	-63.6
Department of Energy	309.0	-16.7	-18.5	-18.5	316.0	-24.2	-26.0	-26.0	323.0	-30.2	-32.1	-32.1
Department of Employment	4,185.0	182.6	-214.7	-514.8	4,241.0	227.7	-349.2	-836.6	4,347.0	237.6	-397.0	-963.9
Department of Transport	2,244.0	548.2	323.0	-8.0	2,299.0	587.5	307.5	-17.0	2,357.0	758.5	328.0	-17.0
DOE - Housing	2,378.0	-354.9	-574.9	-1,124.9	2,399.0	52.0	-508.0	-1,103.0	2,459.0	602.1	-132.3	-884.3
DOE - Other Environmental Services	904.0	415.2	153.2	-244.9	935.0	417.8	73.2	-218.4	958.0	406.5	74.6	-218.5
Home Office & Legal Departments	2,428.0	469.7	307.4	-58.5	2,522.0	625.2	419.7	-55.9	2,585.0	698.1	459.3	-77.5
Department of Education and Science	5,156.0	702.4	395.1	0.0	5,293.0	916.1	442.3	0.0	5,425.0	1,055.5	469.5	0.0
Office of Arts and Libraries	454.0	1.6	0.0	0.0	471.0	2.3	0.0	0.0	483.0	52.6	20.5	2.0
Department of Health	18,559.0	2,008.2	1,065.2	-1,069.0	19,445.0	2,781.1	1,411.1	-1,339.0	19,931.0	3,726.6	1,879.6	-1,818.0
Department of Social Security	50,889.0	922.5	733.8	169.3	53,347.0	2,114.6	1,819.8	1,097.8	54,681.0	3,892.8	3,484.2	2,760.8
Scotland: negotiable	5,033.0	79.3	17.3	-313.2	5,206.0	76.9	12.0	-373.1	5,336.0	82.5	13.0	-379.5
Scotland: formula		401.8	169.7	-261.8		578.4	219.3	-289.0		795.9	327.8	-320.8
Wales: negotiable	2,101.0	69.5	53.0	12.0	2,169.0	61.8	49.9	14.9	2,223.0	62.2	40.8	15.8
Wales: formula		178.8	71.1	-125.4		259.9	90.7	-138.4		364.5	142.7	-153.4
Northern Ireland: negotiable	5,323.0	54.5	3.0	12.7	5,508.0	92.4	5.4	17.4	5,645.0	155.5	47.0	52.1
Northern Ireland: formula		168.8	102.4	27.4		231.4	128.1	-25.3		296.6	162.0	-28.3
Chancellor's Departments	4,019.0	-3.0	-29.1	-77.8	4,162.0	99.7	51.1	-12.4	4,268.0	203.5	150.4	55.9
Other Departments	397.0	30.8	23.4	7.1	415.0	43.0	31.4	4.8	425.0	82.1	67.4	41.4
DOE - Property Services Agency	-163.0	34.5	10.0	0.0	-162.0	82.7	20.0	-5.0	-166.0	81.7	5.0	-34.0
Nationalised Industries	114.0	64.8	-140.0	-378.2	-274.0	-24.3	-285.0	-655.3	-282.0	-153.8	-425.0	-982.8
Privatisation EFLS		332.5	235.0	235.0		520.4	280.0	180.4		632.7	1,820.0	1,820.0
Local Authority Relevant	33,520.0	1,653.0	1,653.0	1,653.0	34,517.0	1,965.0	1,965.0	1,965.0	35,380.0	2,177.0	2,177.0	2,177.0
Adjustment												
TOTAL ADDITIONS TO PROGRAMMES	165,126.0	8,688.1	4,860.1	-2,161.5	170,692.0	13,076.4	6,980.8	-2,000.8	174,918.0	17,920.1	11,433.7	681.4



SECRET

02/09/88

SUMMARY OF CHANGES IN FORECAST OUTCOME  
SINCE LAST SCORECARD

	1989-90	1990-91	1991-92
	CHANGE IN	CHANGE IN	CHANGE IN
	FORECAST	FORECAST	FORECAST
	OUTCOME	OUTCOME	OUTCOME
Ministry of Defence	10.0	0.0	-10.0
FCO - Diplomatic, Information, Culture	-1.5	-0.7	1.5
FCO - Overseas Development Administration	2.0	26.0	50.0
European Communities	0.0	0.0	0.0
Intervention Board for Agricultural Produce	-148.2	-149.4	-99.5
Ministry of Agriculture, Fisheries and Food	1.5	1.5	1.5
Forestry Commission	0.7	0.7	0.7
Department of Trade and Industry	23.5	16.5	23.9
Export Credits Guarantee Department	-11.6	-19.5	-25.9
Department of Energy	-8.3	-8.3	-8.0
Department of Employment	-114.7	-199.2	-197.0
Department of Transport	69.0	22.5	22.0
DOE - Housing	-278.2	-428.8	-60.5
DOE - Other Environmental Services	24.8	48.8	83.3
Home Office & Legal Departments	27.0	13.4	15.6
Department of Education and Science	12.6	11.9	11.7
Office of Arts and Libraries	0.0	0.0	0.0
Department of Health	-4.0	127.0	382.0
Department of Social Security	-130.5	19.6	-11.1
Scotland: negotiable	-18.5	-33.0	-35.9
Scotland: formula	-27.7	-32.0	48.2
Wales: negotiable	-1.1	-2.2	0.2
Wales: formula	-18.8	-20.7	18.3
Northern Ireland: negotiable	-50.4	-52.0	-47.5
Northern Ireland: formula	102.4	128.1	162.0
Chancellor's Departments	9.9	20.7	40.2
Other Departments	0.9	3.0	6.0
DOE - Property Services Agency	0.0	-10.0	-15.0
Nationalised Industries	-240.0	-435.0	-605.0
Privatisation EFLs	-40.0	5.0	20.0
Local Authority Relevant	-98.0	-108.0	-130.0
Adjustment			
TOTAL ADDITIONS TO PROGRAMMES	-907.1	-1,054.0	-358.3





## SCORECARD

COPY NO 19 OF 22 COPIES

FROM: MISS M P WALLACE

DATE: 5 September 1988

PS/CHIEF SECRETARY

cc Sir P Middleton  
Sir T Burns  
Mr Anson  
Mr Phillips  
Mr Monck  
Mr Turnbull  
Mr Luce  
Mr Odling-Smee  
Mr Sedgwick  
Mr MacAuslan  
Mrs R Butler  
Mr Mowl  
Mr Gieve  
Mr Richardson  
Miss Walker  
Mr Call  
Mr Tyrie

## SURVEY PROSPECTS

The Chancellor has seen Miss Walker's minute of 1 September. He has asked how much of the very poor prospect for Year 3 is due to the loss of the negative EFLs of Electricity and Water post-privatisation. He has also asked what scope there is to improve on Year 3 in particular.

A handwritten signature in cursive script, appearing to read 'Mpw'.

MOIRA WALLACE



*Moira*



*MP*

FROM: MISS M P WALLACE

DATE: 6 September 1988

PS/SIR P MIDDLETON

cc Miss Walker  
Mr Parsons

SCORECARD LIST

Mr M Parsons has now taken over from Tony Lyons in our registry. I should be grateful if you could add him to the Scorecard list, and remove Mr Lyons' name.

*mpw.*

MOIRA WALLACE



*el?*

FROM: S P B WALKER  
DATE: 9 SEPTEMBER 1988

PS/CHIEF SECRETARY

cc: PS/Chancellor —  
Sir P Middleton  
Sir T Burns  
Mr Anson  
Mr Phillips  
Mr Monck  
Mr Turnbull  
Mr Luce  
Mr D Moore  
Mr Odling-Smee  
Mr Sedgwick  
Mr MacAuslan  
Mrs R Butler  
Mr Mowl  
Mr Gieve  
Mr Richardson  
Mr Call  
Mr Tyrie

*Notes - I will  
have a w/g on this  
@ a later stage, when  
the submission is  
made. I have  
material.*

**SURVEY PROSPECTS**

Miss Wallace's minute to you of 5 September asks about the effects of the loss of the negative EFLs of the Electricity and Water industries on the forecast outcome for 1991-92 shown in my submission of 1 September.

2. The total effect of the loss of negative EFLs in 1991-92 is £1820 million, made up as shown in the attached extract from Mr Moore's submission of 2 September. It is therefore a substantial element of the forecast £7.9 billion addition to the planning total in that year, but the Autumn Statement will not, of course, explicitly give a figure for the addition in the last year, since no plans for 1991-92 were published in the White paper.

*(my copy behind)*

3. The important thing is the effect of year-on-year growth. The industries to be privatised have EFLs of about -£1100m in 1988-89. PE's forecast of the outcome of the Survey implies EFLs in 1989-90 of about -£1250m (with steel and giro privatised), and in 1990-91 of about -£1500m (with water also gone). In 1991-92, the EFLs are of course zero. So, the change from 1990-91 to 1991-92 is an increase of £1500m; the change from 1988-89 to 1991-92 is an increase of some £1100m.



4. These then are the figures that affect the growth rates of the planning total. The Autumn Statement would not normally quote the real growth rate of the planning total; but it would show it graphically, and give the figures needed to compute it. On the assumptions used in my last submission, the real growth rate between 1990-91 and 1991-92 would be about 3.7%.

5. We are considering (with PE) how the effects of the loss of the negative EFLs can best be presented in the Autumn Statement. But our immediate reaction is as follows. The loss of these EFLs is properly counted as an increase in net expenditure: negative EFLs have reduced the planning total in the past, and we will be taking credit in the planning total for the privatisation proceeds which to some extent represent the present value of the future stream of repayments represented by these negative EFLs.

6. It would, however, be possible to show in the Autumn Statement (in addition to the main figures on the normal basis) what the figures would look like excluding the component relating to these industries. This would give a more even pattern of year-on-year growth in the planning total, although the real growth rate is still likely to be significantly higher than in last year's plans.

(ie also the priv. proceeds?)

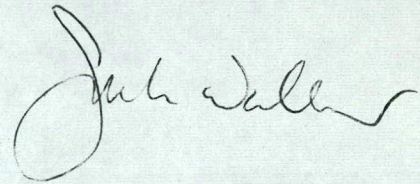
7. We are helped by the fact that most of the analysis of trends (real terms growth rates/ratios etc) is in terms of GGE and the effect on GGE of excluding the privatised industries is different, and will be smaller. While the planning total scores the total EFL, the effect on GGE is only grants or lending/repayments flowing from general government to the public corporations. (The difference is the public corporations' market and overseas borrowing (PCMOB)).

8. A separate submission will set out these effects in detail and suggest alternative forms of presentation. Whether the analysis is in terms of the planning totals or GGE the problem of a larger increase in the final year is likely to remain. Miss Wallace's minute also asks what scope there is elsewhere to improve on the forecast outcome for 1991-92.



9. We will be drawing the attention of divisions to the problem presented by the final year figures and asking them to pay attention to the profile of settlements. For example it would help to bring forward expenditure into the current year, (to raise the base for growth calculations), and to avoid the temptation to make concessions in the final year. My submission of 1 January said that the fall in the GGE/GDP ratio (excluding privatisation proceeds) between the forecast outcomes for 1990-91 and 1991-92 was only just sufficient to show a decline on our conventional rounding to the nearest quarter of a percentage point.

10. In the event, improvements in all three years may be needed simply to offset worse outcomes in other areas than we had forecast. Paragraph 9 of my previous submission noted some such areas.



**S P B WALKER**



## NATIONALISED INDUSTRIES

Possible outcome. All figures rounded and by comparison with baseline except the actual baselines lost by privatisation and shown in B, below the line.

A Ongoing nationalised industries

	89-90	90-91	91-92
<u>Transport</u>			
BR	- 200	- 250	- 200
LRT	+ 125	+ 150	+ 75
CAA	+ 25	+ 5	+ 10
-----			
Transport Total	- 50	- 95	- 115
-----			
<u>DTI</u>			
B Shipbuilders	- 90	- 90	- 90
PO	0	0	- 20
-----			
<u>Energy</u>			
Coal	0	- 100	- 200
-----			
A: TOTAL	- 140	- 285	- 425
-----			

B Industries being privatised

Electricity	- 50	0*	+ 1350*
Scottish Electricity	+ 45	+ 20*	+ 200
Water	+ 75*	+ 65	+ 70
Giro	+ 15	+ 20	+ 20
Steel	+150	+175	+ 180
-----			
B: TOTAL	+235	+280	+ 1820
-----			

Notes: The plus entries below the line are the negative baselines which will be lost on the current privatisation timetable.

\* These entries show likely EFL outturns for a full year. In practice the outturns may differ from the full year estimates because of privatisation of the whole or part of the industry during the year. Similarly, the 1350 for Electricity in 91-92, shown below the line, may be modified by the privatisation of the second generating company in summer 91.



FROM: S P B WALKER  
 DATE: 12 September 1988

CHIEF SECRETARY

cc: Chancellor  
 Sir P Middleton  
 Sir T Burns  
 Mr Anson  
 Mr Phillips  
 Mr Monck  
 Mr Turnbull  
 Mr Luce  
 Mr Odling-Smee  
 Mr Sedgwick  
 Mr MacAuslan  
 Mrs Butler  
 Mr Richardson  
 Mr Hansford  
 Mr Mowl  
 Mr Gieve  
 Mr Call  
 Mr Tyrie

*Pop*

*✓*

## SURVEY SCORECARD

I attach the latest Survey scorecard, and a table showing changes since the version attached to my submission of 1 September.

2. Last week's bilaterals produced no significant changes. You have agreed a deal with Mr Patten on ODA in line with AEF's forecast of outcome, but no progress was made with Sir Geoffrey Howe on the diplomatic wing: the forecast outcome reflects your desire to concede something on scholarships. The DES and Employment changes result not from the bilaterals but from revisions too late to get into the 1 September scorecard. Prospects seem good that a settlement at least as good as forecasts will be possible in both cases. No changes have yet been made to reflect today's MOD bilateral. [Which, I gather, did not make much progress. Younger still miles away from where we want

3. There are however a number of changes to other programmes, reflecting late bids and revisions of divisions' forecasts of outcome. They do not reflect the realisation of the threats of future bids mentioned in my earlier submission, which remain. The main points to note are as follows:-

*ls  
 sel  
 (5)*



Energy Mr M L Williams' submission of 9 September reports PE's new forecast, reflecting several new bids including the costs of the fast reactor decision.

Housing LG have increased the forecast reflecting lower estimates of Housing Corporation capital receipts from DOE.

DOE other The higher forecast outcome in the first year reflects LG2's judgment that not all the water authorities' expenditure financed by ERDF grants, newly reclassified as public expenditure, will be offset by savings elsewhere.

Home Office Higher forecasts of outcome on prison building are offset in the final year by the effects of transferring some police grants to the local authority relevant category.

Health The scorecard shows the same forecast as last week. You will be discussing ST's briefing and forecast outcome on Wednesday. It does not include a possible saving of over £300 million a year which would result from a reduction in contributions by health authority employers towards the NHS pension scheme. ST2 and Mr Luce think that this saving is possible (Mr Luce will be submitting on this this week) but the prospect is uncertain.

Social Security There are increases of £33/43/43m in benefits and £17/45/94m in administration. ST have revised up their forecast outcome on benefits - especially community charge compensation - as reflected in Mr McIntyre's submission of 8 September. On administration, ST had earlier hoped to reduce overheads in line with sharp reductions in manpower in the third year, but now recognise that that is not realistic.

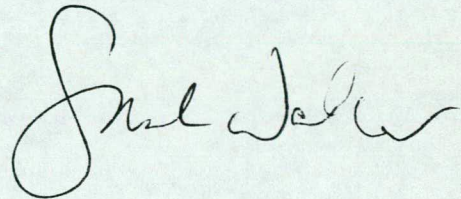
Northern Ireland The change reflects a revised estimate of the saving on social security from the employment training scheme.



Local Authority Relevant LG have recalculated the effect of territorial consequences in the later years.

IBAP As I mentioned in my earlier submission, the forecast of outcome may improve in the light of discussions between IAE1 and MAFF on the effects of the US drought and the poor UK harvest.

4. The overall changes represent an unfortunate increase in the planning totals, but are not of course sufficient to have any noticeable effect on the real growth rates or GGE/GDP ratios.



S P B WALKER



SECRET  
SUMMARY SCORECARD

Date of last update: 12/09/88

(£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	333.0	150.0	0.0	20,575.0	989.0	500.0	0.0	21,075.0	1,440.0	650.0	0.0
FCO - Diplomatic, Information, Culture	743.0	36.5	13.7	9.6	761.0	56.4	35.9	27.6	780.0	60.3	43.4	30.2
FCO - Overseas Development Administration	1,505.0	55.0	30.0	4.0	1,551.0	94.0	55.0	8.0	1,590.0	143.0	80.0	27.5
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	-282.2	-247.5	-401.0	1,845.0	-327.6	-248.0	-382.0	1,891.0	-179.9	-196.5	-287.0
Ministry of Agriculture, Fisheries and Food	786.0	42.1	19.7	-38.4	801.0	50.5	18.4	-95.7	821.0	68.4	20.6	-126.9
Forestry Commission	64.0	10.4	9.8	0.0	65.0	13.2	12.5	0.0	67.0	14.4	13.7	0.0
Department of Trade and Industry	1,282.0	108.4	58.6	-31.7	1,222.0	123.3	81.7	-40.1	1,225.0	-20.7	-82.9	-132.4
Export Credits Guarantee Department	139.0	-3.6	-3.6	-3.6	120.0	-20.5	-20.5	-20.5	123.0	-63.6	-63.6	-63.6
Department of Energy	309.0	43.4	40.4	40.4	316.0	19.3	17.0	17.0	323.0	-18.0	-20.4	-20.4
Department of Employment	4,185.0	186.4	-200.6	-511.0	4,241.0	231.6	-340.8	-832.7	4,347.0	242.3	-397.5	-959.9
Department of Transport	2,244.0	548.2	323.0	-8.0	2,299.0	587.5	308.0	-17.0	2,357.0	758.5	328.0	-17.0
DOE - Housing	2,378.0	-346.9	-566.9	-1,116.9	2,399.0	77.0	-483.0	-1,078.0	2,459.0	639.1	-95.3	-847.3
DOE - Other Environmental Services	904.0	460.7	185.7	-244.9	935.0	430.8	73.2	-218.4	958.0	419.5	74.6	-218.5
Home Office & Legal Departments	2,428.0	477.5	324.7	-131.5	2,522.0	660.8	442.6	-98.9	2,585.0	731.1	429.3	-174.9
Department of Education and Science	5,156.0	707.8	400.1	23.2	5,293.0	923.0	448.3	34.8	5,425.0	1,069.7	477.5	40.6
Office of Arts and Libraries	454.0	5.7	0.0	0.0	471.0	7.1	0.0	0.0	483.0	52.2	20.5	0.0
Department of Health	18,559.0	2,008.2	1,065.2	-1,069.0	19,445.0	2,781.1	1,411.1	-1,339.0	19,931.0	3,726.6	1,879.6	-1,818.0
Department of Social Security	50,889.0	913.5	784.1	173.3	53,347.0	2,125.5	1,908.1	1,063.8	54,681.0	3,914.6	3,621.2	2,599.8
Scotland: negotiable	5,033.0	79.3	21.6	-263.2	5,206.0	76.9	18.5	-273.1	5,336.0	82.5	16.4	-279.5
Scotland: formula		395.3	170.0	-259.9		571.0	219.6	-285.4		790.0	324.3	-315.4
Wales: negotiable	2,101.0	69.5	53.0	12.0	2,169.0	61.8	49.9	14.9	2,223.0	62.2	40.8	15.8
Wales: formula		175.1	68.7	-123.9		254.3	87.6	-135.4		359.7	140.5	-149.3
Northern Ireland: negotiable	5,323.0	59.8	8.3	12.7	5,508.0	99.1	12.1	17.6	5,645.0	164.9	56.4	52.1
Northern Ireland: formula		164.2	92.2	-42.1		227.4	114.6	-48.6		293.3	146.4	-54.4
Chancellor's Departments	4,019.0	-3.0	-29.1	-70.6	4,162.0	99.7	51.1	-51.8	4,268.0	203.5	150.4	73.1
Other Departments	397.0	30.7	25.4	12.7	415.0	43.8	34.3	10.2	425.0	82.4	69.6	48.6
DOE - Property Services Agency	-163.0	34.5	10.0	0.0	-162.0	82.7	20.0	-5.0	-166.0	81.7	5.0	-24.0
Nationalised Industries	114.0	64.8	-140.0	-378.2	-274.0	-24.3	-285.0	-655.3	-282.0	-153.8	-425.0	-982.8
Privatisation EFLS		332.5	235.0	235.0		520.4	280.0	180.4		1,820.0	1,820.0	1,820.0
Local Authority Relevant	33,520.0	1,653.0	1,653.0	1,653.0	34,517.0	1,984.0	1,984.0	1,984.0	35,380.0	2,211.0	2,211.0	2,211.0
Adjustment												
TOTAL ADDITIONS TO PROGRAMMES	165,126.0	8,813.2	5,034.6	-2,092.2	170,692.0	13,206.7	7,216.2	-1,874.2	174,918.0	19,295.0	11,645.1	700.5

In Green of Minister:

1535

3716



SECRET

12/09/88

SUMMARY OF CHANGES IN FORECAST OUTCOME  
SINCE LAST SCORECARD

	1989-90	1990-91	1991-92
	CHANGE IN	CHANGE IN	CHANGE IN
	FORECAST	FORECAST	FORECAST
	OUTCOME	OUTCOME	OUTCOME
Ministry of Defence	0.0	0.0	0.0
FCO - Diplomatic, Information, Culture	4.0	8.0	12.0
FCO - Overseas Development Administration	0.0	0.0	0.0
European Communities	0.0	0.0	0.0
Intervention Board for Agricultural Produce	0.0	0.0	0.0
Ministry of Agriculture, Fisheries and Food	0.0	0.0	0.0
Forestry Commission	0.0	0.0	0.0
Department of Trade and Industry	-15.0	14.5	8.3
Export Credits Guarantee Department	0.0	0.0	0.0
Department of Energy	58.9	43.0	11.7
Department of Employment	14.1	8.4	-0.5
Department of Transport	0.0	0.5	0.0
DOE - Housing	8.0	25.0	37.0
DOE - Other Environmental Services	32.5	0.0	0.0
Home Office & Legal Departments	17.3	22.9	-30.0
Department of Education and Science	5.0	6.0	8.0
Office of Arts and Libraries	0.0	0.0	0.0
Department of Health	0.0	0.0	0.0
Department of Social Security	50.3	88.3	137.0
Scotland: negotiable	4.3	6.5	3.4
Scotland: formula	0.3	0.2	-3.4
Wales: negotiable	0.0	0.0	0.0
Wales: formula	-2.4	-3.1	-2.2
Northern Ireland: negotiable	5.3	6.7	9.4
Northern Ireland: formula	-10.2	-13.5	-15.6
Chancellor's Departments	0.0	0.0	0.0
Other Departments	2.0	2.9	2.2
DOE - Property Services Agency	0.0	0.0	0.0
Nationalised Industries	0.0	0.0	0.0
Privatisation EFLs	0.0	0.0	0.0
Local Authority Relevant	0.0	19.0	34.0
Adjustment			
<b>TOTAL ADDITIONS TO PROGRAMMES</b>	<b>174.5</b>	<b>235.4</b>	<b>211.4</b>



SCORECARD  
COPY NO 3 OF 21

FROM: S P B WALKER  
DATE: 16 September 1988

CHIEF SECRETARY

cc: Chancellor  
Sir P Middleton  
Sir T Burns  
Mr Anson  
Mr Phillips  
Mr Monck  
Mr Turnbull  
Mr Luce  
Mr Odling-Smee  
Mr Sedgwick  
Mr MacAuslan  
Mrs Butler  
Mr Richardson  
Mr Hansford  
Mr Mowl  
Mr Gieve  
Mr Call  
Mr Tyrrie

SURVEY SCORECARD

I attach the latest scorecard and a table showing changes since the version attached to my submission of 12 September. The main feature is a spectacular increase in DOE's estimates of housing receipts, although much of this is offset by increases elsewhere.

(surprise surprise)

2. The main changes are:

(upwards)

MOD the forecast outcome has been revised in the light of Monday's bilateral - see Mr Robson's submission of 16 September. This is still an ambitious objective, particularly if Mr Younger digs in his heels at letting the Defence Budget fall below 4 per cent of GDP.

IBAP the forecast outcome now reflects further savings on market support resulting from the US drought and the poor UK harvest, as I mentioned in my 12 September submission. The forecast is now the same as the savings Mr MacGregor has so far disclosed.



MAFF the estimated cost of EC financed capital grants have been reduced.

Energy the forecast outcome reflects the outcome of Tuesday's bilateral.

Transport extra in-year LA capital receipts have been declared in 1989-90.

DOE the housing figures reflect huge increases in DOE's estimate of receipts. The increases are so large it is difficult to assess precisely where we might end up. The forecast outcome is despite additions to gross housing spending of around £500 million. The increase in the Other Environmental Services programmes reflects the removal of £-89/-89/-75 million of estimated extra LES receipts, and a more pessimistic view of the prospects of offsetting the costs of restructuring the water industry. LG's view is that the amount of extra receipts which will be declared is uncertain, and may well be offset by increases elsewhere in the programme.

*reflects!* Home Office and legal departments part of the change neglects the correction of an earlier error. HE are more pessimistic about the bid for prison building in the last year, and more optimistic about the settlements with the legal departments.

Health ST have revised the forecast outcome following your briefing meeting this week. *(upwards)*

Social Security ST have revised their forecast in the light of yesterday's bilateral. It does not yet reflect the effects of revised economic assumptions (see below). *(downwards)*

Scotland ST's forecast has been revised following the bilateral. We now assume that the block will receive at least the consequential of English VAT increases but this has been offset by the removal of double counting of some agricultural spending. *(up)*



Wales the main changes are to the forecast outcome on RDGs, and ST's forecast now assumes that Mr Walker will settle for formula consequentials instead of his full VAT bids.

Territorial consequences it does not seem realistic to expect to achieve the full effect of the very high housing receipts on the territorial blocks. For the scorecard I have therefore excluded housing from the operation of the formula.

Nationalised Industries the increase in the first year reflects an increase in PE's forecast of the outcome on British Coal, to assume more expenditure on pit closures in 1989-90. This is a rough estimate, and could be on the low side.

### Economic assumptions

*private copy behind /x*

3. The scorecard does not reflect the effects of possible revised economic assumptions. If the Chancellor agrees to changes in the unemployment and RPI assumptions they will have a downward effect on the totals (mainly in Social Security - see Mr McIntyre's submission of 15 September). The savings from a lower unemployment assumption may overlap with the savings offered by Mr Moore from a tighter Unemployment Benefit regime, and so the extra savings in 1989-90 from the revised economic assumptions may be £250m to £300m, rather than the £410 million Mr McIntyre quotes. In the later years these savings are likely to be more than cancelled out if the GDP deflator assumption is raised, as Mr McIntyre explains. In that event, there would also be pressure from other departments (MOD, Health, ODA, and perhaps Education) for adjustments to their programmes.

*see sep folder*

### Phasing of expenditure

4. We have asked divisions to identify expenditure which could be brought forward from the Survey period into the current year, and will report to you next week.



## Threats

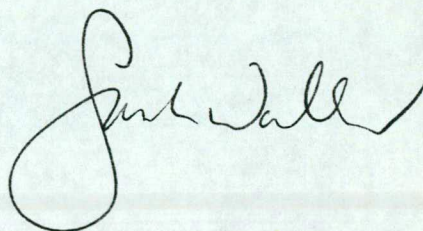
5. Although the housing receipts make the picture look healthier than last week, substantial threats still remain. As well as the revised economic assumptions, there are still the risks mentioned in paragraph 9 of my submission of 1 September (copy attached) plus several other items:

(i) a possible payment by the Electricity industry to capitalise a liability for certain pension payments before privatisation (although it is possible that this could be brought forward into 1988-89).

(ii) higher GDP growth and higher inflation and imports could increase our net payments to the EC.

(iii) there are still considerable uncertainties surrounding both DOE programmes. The much higher level of receipts now projected improves the prospect for a low settlement but it does also make us more vulnerable should those receipts not materialise. This is a factor we will need to take into account in judging the right level of reserves.

(iv) the MOD outcome could still be on the optimistic side.



S P B WALKER



SECRET  
SUMMARY SCORECARD

Date of last update: 16/09/88

(£million)

	1989-90				1990-91				1991-92			
	BASELINE	DEPT POSITION	FORECAST OUTCOME	HMT POSITION	BASELINE	DEPT POSITION	FORECAST OUTCOME	HMT POSITION	BASELINE	DEPT POSITION	FORECAST OUTCOME	HMT POSITION
Ministry of Defence	19,969.0	410.0	250.0	0.0	20,575.0	822.0	500.0	0.0	21,075.0	1,272.0	750.0	0.0
FCO - Diplomatic, Information, Culture	743.0	36.5	13.1	8.9	761.0	56.2	35.4	27.2	780.0	60.3	43.0	29.9
FCO - Overseas Development Administration	1,505.0	55.0	30.0	4.0	1,551.0	94.0	55.0	8.0	1,590.0	143.0	80.0	27.5
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	-282.2	-282.5	-401.0	1,845.0	-327.6	-328.0	-382.0	1,891.0	-179.9	-180.5	-287.0
Ministry of Agriculture, Fisheries and Food	786.0	34.8	10.7	-40.8	801.0	47.7	5.2	-106.9	821.0	70.4	1.8	-143.6
Forestry Commission	64.0	10.4	9.8	0.0	65.0	13.2	12.5	0.0	67.0	14.4	13.7	0.0
Department of Trade and Industry	1,282.0	110.1	60.3	-52.3	1,222.0	120.8	79.2	-60.9	1,225.0	-19.9	-82.1	-150.4
Export Credits Guarantee Department	139.0	-3.6	-3.6	-3.6	120.0	-20.5	-20.5	-20.5	123.0	-63.6	-63.6	-63.6
Department of Energy	309.0	42.7	40.7	39.7	316.0	16.6	14.3	14.3	323.0	-22.8	-25.2	-25.2
Department of Employment	4,185.0	186.4	-200.6	-511.0	4,241.0	231.6	-340.8	-832.7	4,347.0	241.6	-398.2	-959.9
Department of Transport	2,244.0	548.2	278.0	-54.0	2,299.0	587.5	308.0	-24.0	2,357.0	758.5	328.0	-24.0
DOE - Housing	2,378.0	-905.9	-1,356.9	-1,675.9	2,399.0	-681.0	-941.0	-1,336.0	2,459.0	-134.9	-681.3	-1,121.3
DOE - Other Environmental Services	904.0	458.7	277.9	68.8	935.0	415.6	215.9	24.8	958.0	404.3	206.0	-1.2
Home Office & Legal Departments	2,428.0	477.5	329.8	-131.5	2,522.0	660.8	446.2	-155.4	2,585.0	731.1	441.3	-174.5
Department of Education and Science	5,156.0	707.8	400.1	23.2	5,293.0	923.0	448.3	34.8	5,425.0	1,069.7	477.5	40.6
Office of Arts and Libraries	454.0	5.7	4.0	0.0	471.0	7.1	5.0	0.0	483.0	52.2	26.5	0.0
Department of Health	18,559.0	2,010.0	1,248.0	-382.0	19,445.0	2,783.0	1,514.0	-567.0	19,931.0	3,729.0	2,047.0	-954.0
Department of Social Security	50,889.0	864.0	778.6	117.8	53,347.0	2,031.7	1,816.3	922.0	54,681.0	3,761.3	3,509.9	2,438.5
Scotland: negotiable	5,033.0	53.5	22.4	-248.6	5,206.0	66.3	38.1	-246.9	5,336.0	76.6	43.1	-248.9
Scotland: formula		436.9	259.2	-29.3		562.0	298.0	-54.6		715.6	365.2	-102.5
Wales: negotiable	2,101.0	79.5	46.4	13.4	2,169.0	79.8	48.4	20.4	2,223.0	62.2	44.7	22.7
Wales: formula		195.9	113.4	-8.6		249.8	127.2	-20.0		322.5	160.9	-42.9
Northern Ireland: negotiable	5,323.0	59.8	8.3	12.7	5,508.0	99.1	12.1	17.6	5,645.0	164.9	56.4	52.1
Northern Ireland: formula		176.7	117.5	22.0		226.7	136.3	14.4		273.1	157.7	3.2
Chancellor's Departments	4,019.0	2.5	-25.8	-65.5	4,162.0	106.3	50.1	9.6	4,268.0	210.8	156.2	85.6
Other Departments	397.0	31.9	27.2	14.2	415.0	45.5	36.4	11.7	425.0	84.2	71.4	50.1
DOE - Property Services Agency	-163.0	59.7	30.0	22.0	-162.0	90.3	20.0	-28.0	-166.0	70.4	0.0	-62.0
Nationalised Industries	114.0	64.8	-65.0	-378.2	-274.0	-24.3	-285.0	-655.3	-282.0	-153.8	-425.0	-982.8
Privatisation EFLS		332.5	235.0	235.0		520.4	280.0	180.4		1,820.0	1,820.0	1,820.0
Local Authority Relevant	33,520.0	1,653.0	1,653.0	1,653.0	34,517.0	1,984.0	1,984.0	1,984.0	35,380.0	2,211.0	2,211.0	2,211.0
Adjustment												
<b>TOTAL ADDITIONS TO PROGRAMMES</b>	<b>165,126.0</b>	<b>8,366.2</b>	<b>4,789.1</b>	<b>-1,321.9</b>	<b>170,692.0</b>	<b>12,175.5</b>	<b>6,980.5</b>	<b>-876.6</b>	<b>174,918.0</b>	<b>18,044.3</b>	<b>11,462.4</b>	<b>1,690.6</b>

*- 3,570*  
*1,289*

*- 3,570*  
*3,480*



SECRET

16/09/88

SUMMARY OF CHANGES IN FORECAST OUTCOME  
SINCE LAST SCORECARD

	1989-90	1990-91	1991-92
	CHANGE IN	CHANGE IN	CHANGE IN
	FORECAST	FORECAST	FORECAST
	OUTCOME	OUTCOME	OUTCOME
Ministry of Defence	100.0	0.0	100.0
FCO - Diplomatic, Information, Culture	-0.6	-0.5	-0.4
FCO - Overseas Development Administration	0.0	0.0	0.0
European Communities	0.0	0.0	0.0
Intervention Board for Agricultural Produce	-35.0	-80.0	16.0
Ministry of Agriculture, Fisheries and Food	-9.0	-13.2	-18.8
Forestry Commission	0.0	0.0	0.0
Department of Trade and Industry	1.7	-2.5	0.8
Export Credits Guarantee Department	0.0	0.0	0.0
Department of Energy	0.3	-2.7	-4.8
Department of Employment	0.0	0.0	-0.7
Department of Transport	-45.0	0.0	0.0
DOE - Housing	-790.0	-458.0	-586.0
DOE - Other Environmental Services	92.2	142.7	131.4
Home Office & Legal Departments	5.1	3.6	12.0
Department of Education and Science	0.0	0.0	0.0
Office of Arts and Libraries	4.0	5.0	6.0
Department of Health	182.8	102.9	167.4
Department of Social Security	-5.5	-91.8	-111.3
Scotland: negotiable	0.8	19.6	26.7
Scotland: formula	89.2	78.5	40.9
Wales: negotiable	-6.6	-1.5	3.9
Wales: formula	44.7	39.6	20.4
Northern Ireland: negotiable	0.0	0.0	0.0
Northern Ireland: formula	25.3	21.6	11.2
Chancellor's Departments	3.3	-1.0	5.8
Other Departments	1.8	2.1	1.8
DOE - Property Services Agency	20.0	0.0	-5.0
Nationalised Industries	75.0	0.0	0.0
Privatisation EFLs	0.0	0.0	0.0
Local Authority Relevant	0.0	0.0	0.0
Adjustment			
TOTAL ADDITIONS TO PROGRAMMES	-245.5	-235.6	-182.7



Extract from 1 September Submission

compared with the baseline of

2.0                      1.9                      1.3 (annual average 1.7)

and the real growth of GGE excluding privatisation proceeds would be

1.5                      1.6                      2.3

The annual average growth of GGE excluding privatisation proceeds would be over 1½ per cent, compared with 1½ per cent which resulted from the last Survey.

8. These GGE figures would result in a slowly rising non-oil tax burden unless offset by reducing the PSDR.

9. There are still significant risks of further bids which have not yet materialised. For example, the knock-on effects of extra costs of the nurses' regrading exercise could add £100-150m a year; possible corporation tax payments by the LDDC could be over £50m a year; arrangements between MOD and BNFL for the disposal of nuclear waste could cost £40m a year; and any settlement of the International Tin Council dispute could have a significant cost. There is also the uncertainty surrounding the forecasts of IBAP expenditure and LAPR/MIRAS costs, and possible revisions to economic assumptions in October. On top of these items, which might emerge in time to be taken into account in the Survey, there are potential claims on the Reserve in the Survey years, such as pay settlements, particularly in the health service, the outcome of the health reviews, student loans, MOD's end-year flexibility arrangements (which could lead to a £350m call on the 1989-90 reserve), and the move to more realistic pricing by British Coal. These factors might lead you to decide on more generous Reserves (perhaps £4/8/12m). Reserves of this size added to the current forecast outcome would give GGE/GDP ratios of 40/39½/40, which would be unacceptable.



*Handwritten notes:*  
 12  
 11  
 3  
 5/2  
 7/2  
 1/2  
 SCIS H PP  
 below 40%?

CHIEF SECRETARY

SCORECARD  
COPY NO 2 OF 6

FROM: J MACAUSLAN  
DATE: 21 SEPTEMBER 1988

cc: **Chancellor**  
 Mr Anson  
 Mr Turnbull  
 Miss Walker

1988 SURVEY OUTCOME

You asked for a note discussing possible aims for the Survey, and what it would take to achieve them.

2. You also asked us to cover what could be the effect on public expenditure of revised inflation assumptions.

3. Table 1 attached shows the implications of the forecast outcome shown in Sarah Walker's submission of 16 September. The figures in the table are based on the same assumptions about GDP growth and inflation as those used in her note of 2 September - in particular, GDP deflators in the years from 1988-89 to 1991-92 of 5.5/4.5/3.5/3%.

4. The main areas of sensitivity that emerge are, in order of importance: *rising?*

(i) keeping the addition to the planning total in 1989-90 below £2 billion, and if at all possible below £1 billion.

(ii) keeping the addition to the planning total in 1990-91 below £4 billion;

(iii) ensuring that the GGE ratio, when rounded to the nearest ¼ per cent, still shows a decline in 1991-92;



(iv) keeping the average annual real growth rate of GGE over the 4 year period from 1987-88 to 1991-92, when rounded, to 1½ per cent or less.

Table 1 shows that if the outcome were as in the 16 September scorecard we could achieve these aims. But:

- we would get the addition to the planning total under £2 billion in 1989-90 but not under £1 billion; and

- there is perilously little in hand on either (iii) or (iv).

#### POSSIBLE CHANGES TO SCORECARD

5. Table 2 starts from the additions to the planning total shown in the latest forecast outcome, and lists the main factors we can now foresee which might affect those figures.

6. The new unemployment assumption proposed in Mr Hibberd's submission of 20 September reduces the figures substantially in all years.

7. On the other hand, higher inflation assumptions could increase the figures. You asked us to consider the implications of possible revisions to the assumptions.

8. There are four programmes where Ministers' presentation depends on the level of GDP or of the GDP deflator. These are health, defence, education, and aid. The departments would be tempted by higher inflation assumptions to re-open settlements; each 1 per cent increase in the price level might elicit bids of £200 million from DH, £200 million from MOD, £50 million from DES, and £15 million from ODA. This would be awkward to handle. You might want to take the line that the settlements were already generous, and that higher inflation made it all the more important to stick as close as possible to the existing planning totals, so that even the worst affected departments could not be compensated. In the event, some compromise might be necessary, though this would be difficult to orchestrate right at the end of the Survey.

*Handwritten notes in red ink:*  
See with  
Chow Jack  
W. H. M.  
10/11



9. MOD might in addition bid for £200 million extra in the last year in order to keep their programme at over 4 per cent of GDP. (Higher real growth this year may push the defence programme below 4 per cent in the final year). I assume that you will be able to hold off any such bid. I also assume that bids for extra running costs as a result of higher inflation could be resisted.

10. Higher inflation also means more expenditure on social security. I assume that it will not be possible to offset this extra spending which is largely on pledged benefits.

11. Table 2 shows the possible expenditure consequences of revising the GDP deflator assumptions upwards by  $\frac{1}{2}$  per cent in each of 1989-90 and 1990-91, yielding a run of deflators from 1988-89 to 1991-92 of  $5\frac{1}{2}/5/4/3$  (ie with no change to the assumption for 1988-89). These figures are of course purely illustrative; we will have to wait to see what the forecasters come up with. The table also shows the effect on social security of an RPI in September 1988 of 5.8 per cent (0.3 per cent higher than allowed for in the scorecard); and figures in September 1989 and September 1990 that are  $\frac{1}{2}$  per cent higher than assumed previously.

12. There is also a risk of other estimating changes. A higher interest rate assumption would increase expenditure on ECGD and wipe out the savings on LAPR/MIRAS. (Higher interest rates may also have some effect on debt interest payments - though these are more sensitive to assumptions about the PSDR in future). Superannuation, IBAP, and EC net contributions are also sensitive to external factors. The Table shows an illustrative estimate of changes here - with reductions on IBAP outweighed by increases in the other areas.

13. There are several other factors not yet taken into the scorecard: a likely bid from DH for the consequential of the nurses regrading; the payment from BAE to DTI for Rover in 1989-90; extra receipts from DOE/Other; and an adjustment to the social security forecast outcome to prevent double counting between the fall in unemployment and the savings from the review of unemployment benefit.

(ie they concede £100m, then to be rolled forward)

What changes are made?



1 am told.  
Mr Newton  
put a figure  
of £100m on this  
at bilateral

14. Then there are the threats of new bids (eg for restructuring Shorts, launch aid, the effects of the Post Office strike, BNFL etc). And there is the possibility that the forecast outcome could be optimistic (eg on defence and health, although a more generous settlement might make it easier to resist compensation for higher inflation).

15. The net effect of the possible revisions to economic assumptions (lines 1 to 3) the other estimating changes (line 4) and factors in paragraph 13 (line 5) is a small reduction in 1989-90, but big additions in the two later years.

#### POSSIBLE AIMS

16. Table 2 illustrates that keeping the addition to the planning total in 1989-90 at around £1½ billion should be achievable - even if one or two of the threats materialise and it proves necessary to revise the inflation assumptions upwards. But in these circumstances it would be difficult to keep the addition to the planning total in the second year below £4½ billion and to ensure that the GGE/GDP ratio fell in every year (see the top half of Table 3).

17. To contain the increase in the planning total in the first year to less than £1 billion would be extremely difficult, though if it could be achieved it would undoubtedly be a coup. It would give you the option of saying that you had added about £1 billion to health, and kept the rest of public expenditure on baseline. It would also be much more likely to be consistent with circumstances in which the addition in the second year could be less than £4 billion (see the bottom half of Table 3). But it would be just as likely to show no fall in the GGE ratio in the last year.

18. In order to get this £500m improvement over the main case, you would need to achieve some combination of the following:

\* ie "not much more than last year"



a) hold to the current forecast outcomes (line 6 of Table 2)

b) avert the threats (line 7)

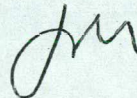
c) reduce the health settlement (eg by docking the £300 million for superannuation contributions, or keeping back sweeteners for the health review - lines 8-9)

d) resist additions to health and defence for higher inflation in 1989-90 (line 3)

e) reduce the estimates for social security by £100m in 1989-90 (gambling that claimants will not fully have found their way round the new system in 1989-90 - line 10)

f) shift significant sums out of 1989-90 into 1988-89 (on which we will report soon).

19. All of this assumes reserves of £3.5/7/10.5 billion.



J MACAUSLAN

*Ans - 3/7/11*



## ASSESSMENT OF SURVEY OUTCOME: AS ON 16 SEPTEMBER SCORECARD

	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
<u>Planning total</u>				
Additions (fbn)		1.29	3.48	7.96
Real growth over previous year (%)		3.6	3.1	3.7
<u>GGE</u>				
As % of GDP	40.5	40.1	39.7	39.6
Rounded	40½	40	39¾	39½
Real growth				
Over previous year (%)		1.3	1.4	2.3
1991-92 over 1987-88				1.5
1988-89				1.7

Notes

GGE figures exclude privatisation proceeds. GDP assumed to grow at 3.75% real in 1988-89, and 2.5% thereafter; deflators in years from 1988-89 to 1991-92 of 5.5/4.5/3.5/3.0%.



POSSIBLE CHANGES TO SCORECARD

	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
1. New unemployment assumption (2m)	-575	-600	-625
2. Rpi (DSS): 9/88	+165	+175	+190
9/89 + ½%	-	+210	+230
9/90 + ½%	-	-	+230
3. GDP deflators: (MOD, DH, ODA, DES)			
89-90 + ½%	+250	+260	+270
90-91 + ½%	-	+260	+270
4. Other estimating changes (ECGD, LAPR/MIRAS, Super-annuation, EC payments, IBAP)	+300	+300	+300
5. Other changes (nurses, Rover DOE/Other receipts, UB review)	-145	+70	+110
6. Realism of forecast outcomes (Health, MOD)	+200	+250	+300
	-----	-----	-----
<b>Modified Scorecard</b>	<b>+195</b>	<b>+925</b>	<b>+1085</b>
7. Threats (Shorts, BNFL, Post Office, tin, launch aid, privatisation pensions etc)	Up to +800	Up to +300	Up to +200
8. DH Superannuation	-300	-310	-320
9. Health review *	-100	-100	-100
10. DSS estimating †	-100	-	-

\* a lower figure than Dick's 200, 300, 500  
(I find this hard to believe)

† apparently DSS claim that after years of underforecasting benefit they have now overforecasted † should adjust down.



ASSESSMENT OF SURVEY OUTCOME: POSSIBLE AIMS

	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
1. <u>Main Case</u>			
<u>Planning Total</u>			
	<i>last scorecard 1.3</i>	<i>3.5</i>	<i>—</i>
	<i>plus Table 2 changes 0.2</i>	<i>0.9</i>	<i>+1.1</i>
	<i>(like</i>		
Addition (£bn)	= +1.5	= +4.4	
Real growth over previous year (%)	3.0	3.0	3.7

GGE

*Gpp*

% of GDP	39.9	39.5	39.5
Real growth over previous year (%)	0.8	1.4	2.4
1991-92 over 1987-88			1.5
(annual average)			

*OK  
in cases  
(1-15)*

2. Below £1 billion

Planning total

Addition (£bn)	+1	+3.9	
Real growth over previous year (%)	2.7	3.0	3.8

GGE

% of GDP	39.8	39.4	39.4
Real growth over previous year (%)	0.5	1.4	2.5
1991-92 over 1987-88			1.4
(annual average)			

Notes

Assumes some carry-back into 1988-89

Assumes GDP deflators in 1988-89 to 1991-92 of 5.5/5/4/3%



Tony D  
1 minute

SCORECARD

COPY NO | OF 6

FROM: J MACAUSLAN

DATE: 22 SEPTEMBER 1988

cc: Chief Secretary  
Mr Anson  
Mr Turnbull  
Miss Walker

CHANCELLOR

*(Handwritten signature in red ink, circled)*

1988 SURVEY OUTCOME

You asked for further information following up my submission of yesterday.

2. The ratios of GGE excluding privatisation proceeds to GDP are given in Table 5.1 of the last PEWP. I attach a copy. This shows that the ratio was last at 40½ per cent in 1970-71; at 40 per cent in 1969-70; and at below 40 per cent (actually 38½ per cent) in 1966-67.

3. You also asked about the debt interest assumptions. The path for gross general government debt interest used in Table 3 of my submission is as follows (£ billion):

PSDR as % of GDP	1988-89	1989-90	1990-91	1991-92
1.5% in 89-90, 0% thereafter	17.7	17.0	16.0	15.5
0% in 89-90 and thereafter		+0.2	+0.5	+0.5
1.5% throughout		-0.4	-0.2	-0.5
2% throughout			-1.0	-1.8

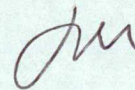
4. These figures are derived from a simulation by PSF. For this, we provisionally assumed that the PSDR underlying the Autumn Statement would be 1½ per cent of GDP in 1988-89 and 1989-90, and 0 thereafter. (We will of course consult you about the actual assumptions in due course). I rounded the PSF figures up to the nearest ½ billion.

88/9 89/90 90/91 91/92  
2 2 1½ 1



5. If instead we assumed that the PSDR were taken as 0 in 1989-90 and later years, gross debt interest might be a couple of hundred million pounds higher in 1989-90, and say around £500 million higher in each of the later two years. If, alternatively, we took the PSDR to be 1.5 per cent of GDP throughout the period, gross debt interest might be a couple of hundred million pounds lower than in the base case in 1990-91, and perhaps over £½ billion lower in 1991-92. (Other assumptions too have had to be made, of course). [Ch - The 2% PSDR figures I have scribbled in table are from Colin Maw's further note, behind.]

6. You also asked what the figures would look like with Reserves of £3/7/11 billion. I attach an amended version of Table 3 showing the result.



J MACAUSLAN



## Historical trends

1. Most of this White Paper concentrates on the future years, set in the context of outturn for the last five years and estimated outturn for the current year. However, it is also of interest to see recent trends set into the perspective of a longer run of years. This is not always easy because of major changes in the coverage of the key control aggregate and also because of smaller changes of classification such as those referred to in paragraphs 4 and 5 of **Chapter 6**.

2. **Table 5.1** shows trends in the planning total on current definitions for the period 1973-74 to 1990-91.

	Planning total <sup>(1)</sup>		General government expenditure			General government expenditure excluding privatisation proceeds		
	Cash	£ billion Real terms <sup>(2)</sup>	Cash	£ billion Real terms <sup>(2)</sup>	% of GDP	Cash	£ billion Real terms <sup>(2)</sup>	% of GDP
1963-64			11.3	83.6	35 $\frac{3}{4}$	11.3	83.6	35 $\frac{3}{4}$
1964-65			12.3	86.5	35 $\frac{1}{2}$	12.3	86.5	35 $\frac{1}{2}$
1965-66			13.6	91.7	36 $\frac{3}{4}$	13.6	91.7	36 $\frac{3}{4}$
1966-67			15.1	97.2	38 $\frac{1}{2}$	15.1	97.2	38 $\frac{1}{2}$
1967-68			17.5	109.7	42	17.5	109.7	42
1968-69			18.2	109.1	40 $\frac{1}{2}$	18.2	109.1	40 $\frac{1}{2}$
1969-70			19.3	110.0	40	19.3	110.0	40
1970-71			21.6	113.6	40 $\frac{1}{2}$	21.6	113.6	40 $\frac{1}{2}$
1971-72			24.4	117.2	41	24.4	117.2	41
1972-73			27.6	123.2	40 $\frac{3}{4}$	27.6	123.2	40 $\frac{3}{4}$
1973-74	29.3	121.8	31.9	132.9	42 $\frac{1}{2}$	31.9	132.9	42 $\frac{1}{2}$
1974-75	39.3	137.2	42.8	149.4	48	42.8	149.4	48
1975-76	48.8	135.6	53.7	149.1	48 $\frac{1}{2}$	53.7	149.1	48 $\frac{1}{2}$
1976-77	54.4	133.5	59.5	145.8	46	59.5	145.8	46
1977-78	56.8	122.4	63.7	137.2	42 $\frac{1}{4}$	64.2	138.4	42 $\frac{1}{2}$
1978-79	65.7	127.9	74.8	145.5	43 $\frac{1}{4}$	74.8	145.5	43 $\frac{1}{4}$
1979-80	77.6	129.1	89.8	149.4	43 $\frac{1}{4}$	90.1	150.1	43 $\frac{1}{2}$
1980-81	92.6	130.1	108.4	152.3	45 $\frac{3}{4}$	108.8	152.8	46
1981-82	104.0	133.0	120.5	154.1	46 $\frac{1}{4}$	121.0	154.7	46 $\frac{1}{2}$
1982-83	113.5	135.4	132.5	158.0	46 $\frac{3}{4}$	133.0	158.6	46 $\frac{3}{4}$
1983-84	120.3	137.2	140.1	159.8	45 $\frac{3}{4}$	141.3	161.1	46
1984-85	129.8	141.8	150.2	164.0	45 $\frac{1}{2}$	152.3	166.4	46 $\frac{1}{4}$
1985-86	133.7	137.7	158.2	163.0	43 $\frac{3}{4}$	160.9	165.8	44 $\frac{1}{2}$
1986-87	139.2	139.2	164.8	164.8	42 $\frac{3}{4}$	169.3	169.3	44
1987-88	147.3	141.3	172.6	165.6	41 $\frac{1}{4}$	177.6	170.4	42 $\frac{1}{2}$
1988-89	156.8	143.9	183.0	168.0	40 $\frac{3}{4}$	188.0	172.6	42
1989-90	167.1	148.2	193.2	171.3	40 $\frac{3}{4}$	198.2	175.7	41 $\frac{3}{4}$
1990-91	176.1	151.6	202.1	174.0	40 $\frac{1}{4}$	207.1	178.3	41 $\frac{1}{4}$

<sup>(1)</sup> Estimated outturn for 1987-88, plans for 1988-89 onwards.

<sup>(2)</sup> Cash figures adjusted for general inflation as measured by the GDP deflator at market prices—base year 1986-87.



ASSESSMENT OF SURVEY OUTCOME: POSSIBLE AIMS

	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
<b>1. <u>Main Case</u></b>			
<b><u>Planning Total</u></b>			
Addition (£bn)	+1.0	+4.4	
Real growth over previous year (%)	2.7	3.3	4.0
<b><u>GGE</u></b>			
% of GDP	39.8	39.5	39.6
Real growth over previous year (%)	0.5	1.7	2.6
1991-92 over 1987-88 (annual average)			1.5
<b>2. <u>Below £1 billion</u></b>			
<b><u>Planning total</u></b>			
Addition (£bn)	+0.5	+3.9	
Real growth over previous year (%)	2.4	3.3	4.1
<b><u>GGE</u></b>			
% of GDP	39.7	39.4	39.5
Real growth over previous year (%)	0.3	1.7	2.7
1991-92 over 1987-88 (annual average)			1.5

Notes

Assumes some carry-back into 1988-89

Assumes GDP deflators in 1988-89 to 1991-92 of 5.5/5/4/3%

*Amended for Reserves of £3/7/11 billion  
22/9/88*





mp

Ch/ your question behind.

Mr Ridley has come up with  
new housing receipts of

-1860    -1318    -1118

[on top of receipts in baseline of  
-2077    -2084    -2136]

so forecast outcome implies  
increase in gross spending of

503    377    536



mpw.



SCORECARD

COPY NO 3 OF 21

FROM: S P B WALKER

DATE: 23 September 1988

CHIEF SECRETARY +1

- cc: Chancellor
- Sir P Middleton
- Sir T Burns
- Mr Anson
- Mr Phillips
- Mr Monck
- Mr Turnbull
- Mr Luce
- Mr Odling-Smee
- Mr Sedgwick
- Mr MacAuslan
- Mrs Butler
- Mr Richardson
- Mr Hansford
- Mr Mowl
- Mr Gieve
- Mr Call
- Mr Tyrie

*X*

*Ass let mt know*

*to jps for memo*

*Council work sent*

*relates to the summer*

*10/2/88*

*implications*

*services*

**SURVEY SCORECARD**

I attach the latest scorecard and a table showing changes since the version attached to my submission of 16 September. The main changes are:

IBAP An increase in the estimate of savings on market support (see Mr Bonney's brief of 22 September). The forecast now assumes greater savings than Mr MacGregor has yet volunteered.

DTI The forecast outcome now includes the receipt of £150 million in 1989-90 from British Aerospace in respect of Rover. For obvious tactical reasons IAE2 do not recommend mentioning this in negotiations with Lord Young, but it will score in the Autumn Statement.

DOE-Other The forecast reflects the briefing for your bilateral with Mr Ridley yesterday, and includes the new forecast of LES receipts.



Health The forecast outcome now includes a modest £100 million a year for the knock-on effect of the nurses pay regrading exercise.

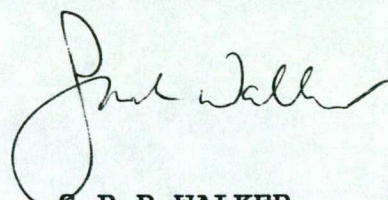
2. No change has been made to the FCO forecast, although Sir Geoffrey Howe's recent letter suggests that it may now prove more difficult to achieve. As last week, we have not assumed the territorial consequences of the large DOE receipts. I have excluded both DOE programmes from the formula consequences lines. This is more generous to Mr Walker than the £40 million extra in 1989-90 you offered him yesterday, which would give him £62 million in total instead of the £111 million shown in the scorecard.

#### Economic Assumptions

3. No account has yet been taken of changes since July to the economic assumptions in any of the figures. As I explained in last week's submission, the effect of the changes, to the unemployment and September 1988 RPI assumptions which the Chancellor has now agreed will be to reduce benefit expenditure, but these effects could well be more than cancelled out in the later years by an increase in the GDP deflator. Revised assumptions would also affect other programmes: for example, each percentage point on interest rates costs an extra £30 million a year on LAPR/MIRAS. None of this has been allowed for in the scorecard.

#### Phasing of expenditure

4. Mr Turnbull's separate submission discusses the scope for bringing forward expenditure into the current year. Several of these proposals would remove potential additions to the Survey years' figures, but substantial threats still remain, in addition to the effects of new economic assumptions mentioned above.

  
S P B WALKER



SECRET  
SUMMARY SCORECARD

Date of last update: 23/09/88

(£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	410.0	250.0	0.0	20,575.0	822.0	500.0	0.0	21,075.0	1,272.0	750.0	0.0
FCO - Diplomatic, Information, Culture	743.0	36.5	13.1	8.9	761.0	56.2	35.4	27.2	780.0	60.3	43.0	29.9
FCO - Overseas Development Administration	1,505.0	30.0	30.0	30.0	1,551.0	55.0	55.0	55.0	1,590.0	80.0	80.0	80.0
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	-289.2	-346.0	-401.0	1,845.0	-332.6	-348.0	-387.0	1,891.0	-182.9	-246.5	-290.0
Ministry of Agriculture, Fisheries and Food	786.0	34.8	20.1	-44.6	801.0	47.7	20.2	-100.9	821.0	70.4	20.0	-139.7
Forestry Commission	64.0	8.6	8.6	8.6	65.0	11.9	11.9	11.9	67.0	13.6	13.6	13.6
Department of Trade and Industry	1,282.0	-39.9	-102.5	-188.0	1,222.0	120.8	70.3	-46.5	1,225.0	-19.9	-82.4	-135.9
Export Credits Guarantee Department	139.0	-3.6	-3.6	-3.6	120.0	-20.5	-20.5	-20.5	123.0	-63.6	-63.6	-63.6
Department of Energy	309.0	40.7	40.7	40.7	316.0	11.3	11.3	11.3	323.0	-21.0	-21.0	-21.0
Department of Employment	4,185.0	186.4	-200.6	-511.0	4,241.0	231.6	-340.8	-832.7	4,347.0	241.6	-398.2	-959.9
Department of Transport	2,244.0	536.2	278.0	-63.0	2,299.0	555.5	308.0	-24.0	2,357.0	726.5	328.0	-24.0
DOE - Housing	2,378.0	-905.9	-1,356.9	-1,551.9	2,399.0	-681.0	-941.0	-1,336.0	2,459.0	-185.9	-582.3	-1,022.3
DOE - Other Environmental Services	904.0	288.7	60.0	-102.1	935.0	122.0	-101.0	-273.1	958.0	127.5	-83.0	-146.2
Home Office	1,382.0	425.8	288.6	-125.3	1,415.0	570.7	371.2	-155.4	1,450.0	569.4	318.5	-174.5
Legal departments	1,046.0	51.7	41.2	2.3	1,107.0	90.1	75.0	10.6	1,135.0	161.7	122.8	11.0
Department of Education and Science	5,156.0	557.3	400.1	23.2	5,293.0	894.0	448.3	34.8	5,425.0	1,024.3	477.5	40.6
Office of Arts and Libraries	454.0	5.7	4.0	0.0	471.0	7.1	5.0	0.0	483.0	52.2	26.5	0.0
Department of Health	18,559.0	1,998.0	1,363.0	-103.0	19,445.0	2,757.0	1,629.0	-247.0	19,931.0	3,690.0	2,162.0	-462.0
Department of Social Security	50,889.0	864.0	778.6	117.8	53,347.0	2,031.7	1,816.3	922.0	54,681.0	3,761.3	3,509.9	2,438.5
Scotland: negotiable	5,033.0	53.5	22.4	-248.6	5,206.0	66.3	38.1	-246.9	5,336.0	76.6	43.1	-248.9
Scotland: formula		287.4	254.0	-203.7		430.6	301.9	-213.4		629.5	369.5	-199.2
Wales: negotiable	2,101.0	76.7	47.0	13.4	2,169.0	80.1	49.2	20.4	2,223.0	62.2	46.4	22.7
Wales: formula		121.1	110.8	-95.8		184.1	129.1	-99.4		279.5	163.0	-91.3
Northern Ireland: negotiable	5,323.0	8.3	8.3	8.3	5,508.0	12.1	12.1	12.1	5,645.0	56.4	56.4	56.4
Northern Ireland: formula		135.6	115.9	-25.7		190.5	137.1	-29.1		249.5	158.3	-22.9
Chancellor's Departments	4,019.0	2.5	-25.8	-65.5	4,162.0	106.3	50.1	9.6	4,268.0	210.8	157.4	85.6
Other Departments	397.0	31.6	27.0	7.6	415.0	43.8	36.8	6.5	425.0	86.2	74.5	43.9
DOE - Property Services Agency	-163.0	60.4	30.0	22.0	-162.0	90.3	20.0	-28.0	-166.0	70.4	-20.0	-62.0
Nationalised Industries	114.0	64.8	-65.0	-378.2	-274.0	-24.3	-285.0	-655.3	-282.0	-153.8	-425.0	-982.8
Privatisation EFLS		332.5	235.0	235.0		520.4	280.0	180.4		1,820.0	1,820.0	1,820.0
Local Authority Relevant	33,520.0	1,653.0	1,653.0	1,653.0	34,517.0	1,984.0	1,984.0	1,984.0	35,380.0	2,211.0	2,211.0	2,211.0
Adjustment												
TOTAL ADDITIONS TO PROGRAMMES	165,126.0	7,516.6	4,459.0	-1,514.5	170,692.0	11,422.6	6,769.0	-1,065.0	174,918.0	17,275.7	11,336.4	2,060.2

+959

+3269



SECRET

23/09/88

SUMMARY OF CHANGES IN FORECAST OUTCOME  
SINCE LAST SCORECARD

	1989-90	1990-91	1991-92
	CHANGE IN	CHANGE IN	CHANGE IN
	FORECAST	FORECAST	FORECAST
	OUTCOME	OUTCOME	OUTCOME
Ministry of Defence	0.0	0.0	0.0
FCO - Diplomatic, Information, Culture	0.0	0.0	0.0
FCO - Overseas Development Administration	0.0	0.0	0.0
European Communities	0.0	0.0	0.0
Intervention Board for Agricultural Produce	-63.5	-20.0	-66.0
Ministry of Agriculture, Fisheries and Food	9.4	15.0	18.2
Forestry Commission	-1.2	-0.6	-0.1
Department of Trade and Industry	-162.8	-8.9	-0.3
Export Credits Guarantee Department	0.0	0.0	0.0
Department of Energy	0.0	-3.0	4.2
Department of Employment	0.0	0.0	0.0
Department of Transport	0.0	0.0	0.0
DOE - Housing	0.0	0.0	99.0
DOE - Other Environmental Services	-217.9	-316.9	-289.0
Home Office	0.0	0.0	0.0
Legal departments	0.0	0.0	0.0
Department of Education and Science	0.0	0.0	0.0
Office of Arts and Libraries	0.0	0.0	0.0
Department of Health	115.0	115.0	115.0
Department of Social Security	0.0	0.0	0.0
Scotland: negotiable	0.0	0.0	0.0
Scotland: formula	-5.2	3.9	4.3
Wales: negotiable	0.6	0.8	1.7
Wales: formula	-2.6	1.9	2.1
Northern Ireland: negotiable	0.0	0.0	0.0
Northern Ireland: formula	-1.6	0.8	0.6
Chancellor's Departments	0.0	0.0	1.2
Other Departments	-0.2	0.4	3.1
DOE - Property Services Agency	0.0	0.0	-20.0
Nationalised Industries	0.0	0.0	0.0
Privatisation EFLs	0.0	0.0	0.0
Local Authority Relevant	0.0	0.0	0.0
Adjustment			
TOTAL ADDITIONS TO PROGRAMMES	-330.1	-211.5	-126.0



*This should be a memorandum on the way to deal with the problem - see pt: Not sure if this is a problem - see our GGE growth rate - see GGE ex parallel private, 2 to which exist - 5*

*consequence of privatisation, 1 to 2. X of 5*

SCORECARD

COPY No. 3 OF 13 COPIES

FROM: J. ANSON  
23rd September, 1988.

CHIEF SECRETARY + 1

- c.c. Chancellor
- Sir P. Middleton
- Mr. Monck
- Mr. Phillips
- Mr. Turnbull
- Mr. Moore
- Mr. MacAuslan
- Miss Walker
- Miss Adamson

PRIVATISATION AND THE SURVEY OUTCOME

I agree with Mr. Turnbull's analysis in his minute of 23rd September.

2. It is convenient that by the end of the period the impact of the five privatisations on GGE is very small, and indeed favourable if one looks at the growth rate between 1988-89 and 1991-92.

3. In the case of the planning total there is a significant adverse impact. But in the Autumn Statement we do not focus on growth rates for the planning total, but only on GGE which is a more relevant measure. If we were to break with that practice by giving specially adjusted growth rates for the planning total, this would not be helpful because they would still be much higher than those for GGE.

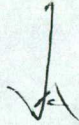
4. I think therefore that we should continue to focus on GGE growth rates - in which case this particular adjustment does not need to be mentioned. As far as the planning total is concerned, the point can be dealt with as suggested in Mr. Turnbull's paragraph 12, ie by giving, as factual information, adjusted absolute figures for the

ANSON TO CST 23SEPT



SECRET AND PERSONAL

planning total in a footnote to Table 2.7 (which shows the contribution of public corporations to the planning total). This will get the basic figures on the record, and we can point to them if the issue is raised.



J. ANSON



of. 28/9

SCORECARD

COPY No 3 OF 13 COPIES

FROM: A TURNBULL  
DATE: 23 SEPTEMBER 1988

CHIEF SECRETARY +1

cc Chancellor  
Sir P Middleton  
Mr Anson  
Mr Monck  
Mr Phillips  
Mr Moore  
Mr MacAuslan  
Miss Walker  
Miss Adamson**PRIVATISATION AND THE SURVEY OUTCOME**

You and the Chancellor have expressed concern that the privatisation of industries with large negative EFLs could have a very adverse impact on the Survey outcome, particularly in the last year. The problem has arisen in the past with BGC and BA but not on the scale we now face. What is happening is that the Government is effectively capitalising a flow of future receipts but has already taken credit for the capital sums in the privatisation programme but not the recurrent losses.

2. This minute attempts to identify what the impact might be for both the planning total and GGE since, as will be seen below, the size and profile of the effect is very different; and how best the outcome could be presented. The figures are still illustrative at this stage as they are based on the current forecast outcome for the EFLs of the industries concerned which could turn out to be different. The GGE figures in particular are even more sketchy as they are contingent on assumptions about the way the industries financing shifts between the NLF and market and overseas borrowing. Nevertheless, the figures do bring out the underlying issues. The figures have been constructed by assuming that even if an industry leaves the public sector part way through the year, we publish the full year EFL. This will help reduce speculation about the precise timing of flotations. PE will put forward firm proposals in due course.



Planning Total

3. One way of assessing the impact of privatisation is to compare the Survey outcome for the industries concerned with:

- i. the baseline (A); and
- ii. how things would have looked if privatisation had not taken place (B).

Panels A, B and E of Table 1 show the figures (on the assumption that the outcome is as was shown in the last scorecard). For the planning total either comparison shows an addition of £1.8 billion as a result of privatisation.

4. The difficulty with this presentation is that neither the baseline for 1991-92 nor the no-privatisation scenarios are published. An alternative would be to look simply at the outcome (Panel C) and compute the year to year changes. Panel F shows that the contribution of the five industries in the second year goes from -£1,258 million to -£1,491 million, a year to year benefit of -£233 million; and the last year from -£1,491 million to zero, an adverse impact of £1,491 million.

5. This is reflected in the real terms growth rates of the planning total as a whole - see Panel C of Table 2. There is a large increase in year 1, a smaller (but still large) increase in year 2, and a jump in year 3 to 3.6 per cent. It is this last jump that could attract attention and require explanation.

General Government Expenditure

6. The real terms growth rates for GGE are very much lower than those for the planning total. In part this is because debt interest has a strongly dampening effect. But Table 1 also shows that the contribution of the five industries to GGE is very much less than to the planning total - see Panel C. It also shows that the profile is entirely different.

7. The reason for these differences is that a large part of these industries' borrowing and repayment takes place with the



market and overseas rather than general government. Thus if their repayments were previously largely to the market there was no benefit to GGE and hence no loss to GGE when they go private.

8. The GGE figures in Panel C have been constructed with the help of some very heroic assumptions (set out at Annex A). The main factors behind the profile are as follows:

i. In 1988-89 there is a large positive impact on GGE because the industries are assumed to make large early repayment of foreign currency debt following the ending of the incentive to use the Exchange Cover Scheme and the decision to get the departing industries to make early repayment of foreign currency debt. This repayment (which does not score in GGE) is financed by higher NLF debt\* which comes from general government and hence does add to GGE. The figures are based on the proposals which PE have recently put to departments.

ii. In 1990-91 there is a large negative impact on GGE because the water industry's positive net borrowing from the NLF has been removed after its privatisation and, also, the electricity (England and Wales) industry is assumed to repay all its outstanding debt with the NLF prior to privatisation.

9. Accordingly, Panel E shows that the impact of privatisation on GGE is small in all the Survey years; and Panel C shows that given privatisation, the industries' contribution to the change in GGE between 1988-89 (or even 1987-88) and 1991-92 is a reduction, from +870 to zero; the opposite of their contribution to the change in the planning total, from -1,344 to zero.

#### Presentation

10. The first conclusion is that the problems principally relate to the planning total rather than GGE, though the growth in 1991-92 is still somewhat higher than in the other years. This indicates that the main way of dealing with the problem is to confine discussion of real terms trends to GGE.

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\* either greater borrowing or slower repayment.



11. One possibility, however, would be to calculate figures which exclude the five departing industries all the way through. This does reduce the final year figure for the planning total from 3.7 per cent to 2.8 per cent and that for GGE from 2.3 per cent to 2.0 per cent. But while this adjustment reduces the average growth for the planning total, it increases it for GGE, the corollary of paragraph 9 above. The impact on the GGE/GDP ratios is negligible.

12. Our difficulty is that to give prominence to the adjusted figures for the planning total would draw more attention to the last year's growth rate than it might otherwise have attracted. We could also provoke interest in the various underlying assumptions, eg on timing, that lie behind the figures. One possibility which would get the point on the record in a low key way would be to attach a footnote to Table 2.7 of the Autumn Statement saying that if the industries to be privatised were excluded the contribution to the planning total of the industries that will remain in the public sector would be x/y/z rather than the a/b/c shown above. The absolute figures would probably show a declining profile rather than a rising one. The text on the nationalised industries could say that the impact of privatisation is shown in table 2.7. We would keep the adjusted planning total growth rates for defensive briefing, if the issue is raised. ~~4/11~~

AT

A TURNBULL



TABLE 1

## FIGURES FOR THE FIVE\* INDUSTRIES BEING PRIVATISED

£ million

	1987-88	1988-89	1989-90	1990-91	1991-92
<u>A. Baseline figures for five industries</u>					
Planning total	-1371	-1010	-1495	-1770	-1815
GGE	250	-30	-44	-43	-46
<u>B. Survey outcome if five industries not privatised</u>					
Planning total	-1371	-1344	-1425	-1750	-1815
GGE	250	-70	-40	-40	-50
<u>C. Survey outcome if five industries privatised as planned</u>					
Planning total	-1371	-1344	-1258	-1491	-
GGE	250	870	90	-490	-
<u>D. Survey outcome if five industries never appeared in public expenditure</u>					
Planning total	-	-	-	-	-
GGE	-	-	-	-	-
<u>E. Impact on Survey outcome of privatisation (C -B)</u>					
Planning total;	-	-	167	259	1815
GGE	-	+ 940	+ 130	-450	+50
<u>F. Year to year changes on Survey outcome for industries privatised (as In C)</u>					
Planning total		+27	+86	-233	+1491
GGE		+620	-780	-580	+490

\*Electricity (E&W), Electricity (Scotland), Water, BSC, Girobank. Scorecard of 12/9.



## SECRET AND PERSONAL

EFFECT OF PRIVATISATIONS ON GROWTH RATES  
AND GGE AS PERCENTAGE OF GDP

	1987-88	1988-89	1989-90	1990-91	1991-92	£ billion Annual average 1987-88 to 1991-82	
<b>A. <u>Survey baseline</u></b>							
Real terms year on year percentage change							
Planning total	n/a	1.8	2.0	1.9	1.3	1.8	(1.7) <sup>1</sup>
GGE excluding privatisation proceeds	n/a	0.6	1.0	0.8	0.7	0.7	(0.8) <sup>1</sup>
GGE excluding privatisation proceeds as percentage of GDP	41.7	40.4	39.8	39.1	38.5		
<b>B. <u>Survey outcome if five privatisations do not go ahead</u></b>							
Real terms year on year percentage change							
Planning total	n/a	1.0	3.5	3.0	2.9	2.6	(3.1) <sup>1</sup>
GGE excluding privatisation proceeds	n/a	0.6	1.7	1.7	2.0	1.5	(1.8) <sup>1</sup>
GGE excluding privatisation proceeds as percentage of GDP	41.7	40.3	40.0	39.8	39.6		
<b>C. <u>Survey outcome if five privatisations take place</u></b>							
Real terms year on year percentage change							
Planning total	n/a	1.0	3.6	3.1	3.7	2.8	(3.5) <sup>1</sup>
GGE excluding privatisation proceeds	n/a	1.1	1.2	1.5	2.3	1.5	(1.7) <sup>1</sup>
GGE excluding privatisation proceeds as percentage of GDP	41.7	40.5	40.0	39.7	39.6		
<b>D. <u>Survey outcome excluding five industries being privatised</u></b>							
Real terms year on year percentage change							
Planning total	n/a	0.9	3.5	3.2	2.8	2.6	(3.2) <sup>1</sup>
GGE excluding privatisation proceeds	n/a	0.9	1.7	1.7	2.0	1.6	(1.8) <sup>1</sup>
GGE excluding privatisation proceeds as percentage of GDP	41.6	40.4	40.1	39.8	39.6		

<sup>1</sup> average from 1988-89



Assumptions

1. 1988-89 EFLs taken from September Planning Total Note.
2. 1987-88 EFLs taken from Survey Baseline.
3. 1989-90 onwards EFLs based on Survey Baseline plus Mr D Moore's figures for provisional IFR outcome.
4. 'PCMOB' for years from 1989-90 onwards based on Miss Munro's revised bids tables of 12/9/88 'NIMOB including temporary borrowing' (note: for all nationalised industries, British Coal temporary borrowing is excluded from 'NIMOB' for all years).
5. For IFR based figures, Government borrowing repayments and capital grants are calculated as the balance of the provisional IFR EFLs less 'NIMOB' figures based on assumptions in (4).
6. Privatisation timetable assumed to be that in Mr Moore's IFR tables.
7. Electricity (E&W) adjustment for repayment of all outstanding NLF debt supplied by Mr W White has been revised to take account of revised implied 'government borrowing/repayments' from Miss Munro and IFR EFL outcomes from Mr Moore.
8. Early repayments of foreign currency debt by Scottish Electricity and Water assumed to be financed by extra NLF borrowing (in addition to IFR bid data).
9. Early repayments of foreign currency debt based on Miss O'Mara's figures of 14/7:
  - a. All fixed rate loans with first repayment date prior to 1/12/88 assumed to be repaid on second repayment date. All other fixed rate loans assumed to be repaid on first repayment date.



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b. All floating rate loans assumed to be repaid 50 per cent in 1988-89, 50 per cent in 1989-90. (Mr N Williams' advice)

c. SSEB £192.6m of CP loans assumed to be repaid in 1988-89. Remainder of loan assumed to be repaid in 1989-90. (Mr N Williams' advice).

d. Severn Trent FRN loan repayment assumed to take place 50 per cent in 1988-89, 50 per cent in 1989-90. (Mr N Williams' advice).

MISS L ADAMSON

GEP3

14/9/88



Table 2.7 Public corporations<sup>1,2</sup>

	£ million								
	Latest estimates of outturn			New plans			Change from January 1987 White Paper		
	1986-87 outturn	1987-88 estimated outturn	Change 1986-87 to 1987-88	1988-89 plans	1989-90 plans	1990-91 plans	1987-88	1988-89	1989-90
FCO—Overseas Development Administration	24	10	-10	30	30	30	-10	0	0
Ministry of Agriculture, Fisheries and Food	13	20	10	20	20	20	0	0	0
Department of Trade and Industry	173	-210	-390	-100	-150	-140	-230	-20	-70
Department of Energy	-1 098	-320	780	-390	-640	-850	260	120	20
Department of Transport	966	920	-50	1 040	900	880	-170	80	-20
DOE—Housing	19	10	-10	20	90	120	-50	-60	10
DOE—Other environmental services	128	-80	-200	0	80	90	-180	-100	30
Scotland <sup>3</sup>	484	390	-90	400	200	90	60	170	110
Northern Ireland <sup>3</sup>	329	390	60	380	370	380	0	10	10
Other <sup>4</sup>	77	90	10	90	90	90	0	0	0
<b>Total</b>	<b>1 115</b>	<b>1 230</b>	<b>110</b>	<b>1 480</b>	<b>980</b>	<b>710</b>	<b>-380</b>	<b>200</b>	<b>100</b>
of which:—									
Nationalised industries	387	590	200	690	-30	-390	-100	340	20
Other public corporations	729	640	-90	790	1 010	1 090	-270	-150	70

<sup>1</sup> See footnotes to Table 2.3.<sup>2</sup> For nationalised industries and most public corporations, the planning total includes their external finance. For nationalised industries' external financing limits for 1988-89, see Table 2.4.<sup>3</sup> See paragraph 2.26.<sup>4</sup> Ministry of Defence, Department of Employment, DHSS, Wales and Chancellor's Departments.



prop  
 [passed  
 onto AI]

PRIVATISATION + SURVEY OUTCOME

Ch/

Andrew Turnbull has asked me to return to you with this one. My minute, I'm afraid, curtails and  $\therefore$  distorts the Anson/Turnbull proposition: they merely recommended showing adjusted figs for the NLS' contribution to the planning total, and not for the planning total itself (tho' the latter cd. be deduced from the former). Their reasons for not wishing to focus on PT are as at Y on John Anson's minute behind. Do you are you content with their more limited recommendation?

~~OK~~

mp



13



SCORECARD NO. 13 OF 13 COPIES

FROM: MISS M P WALLACE

DATE: 29 September 1988

PS/CHIEF SECRETARY

cc Sir P Middleton  
Mr Anson  
Mr Monck  
Mr Phillips  
Mr Turnbull  
Mr Moore  
Mr MacAuslan  
Miss Walker  
Miss Adamson

**PRIVATISATION AND THE SURVEY OUTCOME**

The Chancellor has seen Mr Anson's minute of 23 September, covering Mr Turnbull's of the same date.

2. He comments that this seems a reasonable way to deal with the problem. But he also notes that since in our presentation we focus on GGE excluding privatisation proceeds, it is surely wholly consistent to discount the revenue consequences of privatisation too.

3. He also strongly agrees that we should get the basic numbers on the record by giving adjusted absolute figures for the planning total in the Autumn Statement.

A handwritten signature in cursive script, appearing to read 'mpw'.

MOIRA WALLACE

Private Secretary



SECRET

pl put this with  
scorecard pps

FROM: A TURNBULL  
DATE: 29 SEPTEMBER 1988

CHIEF SECRETARY

[Bad news]

cc Chancellor  
Mr Anson  
Mr MacAuslan  
Mr Mortimer

EC NET CONTRIBUTIONS

We will be putting up the latest scorecard tomorrow. A number of programmes, eg Education, Employment, Home Office and the nationalised industries look like being settled close to our forecast outcomes and this will narrow down the variance in the possible outcome overall. But what would otherwise have been a satisfactory week looks like being upset by EC contributions.

2. EC Division are still working on their revised forecasts but the preliminary indications which are emerging are that we may need to add around £400 million in both year 1 and 2 - the precise distribution between the years is subject to a great deal of uncertainty as it depends on assumptions about the timing of rebates. We will incorporate some preliminary figures in tomorrow's scorecard which would otherwise not be greatly changed from last week.

AT

A TURNBULL

TURNBULL  
TO  
CST  
29 SEPT



## SCORECARD

COPY No 3 OF 22 COPIES

FROM: A TURNBULL

DATE: 30 SEPTEMBER 1988

CHIEF SECRETARY +1

cc Chancellor  
Sir P Middleton  
Sir T Burns  
Mr Anson  
Mr Phillips  
Mr Monck  
Mr Luce  
Mr Odling-Snee  
Mr Sedgwick  
Mr MacAuslan  
Mrs Butler  
Mr Richardson  
Mr Hansford  
Mr Mowl  
Mr Gieve  
Miss Walker  
Mr Call  
Mr Tyrie

TURNBULL  
TO  
CST  
SCORECARD  
30 SEPT

## SURVEY SCORECARD

I attach this week's scorecard, and a table showing the changes from last week's version. The main changes are:

**EC contributions:** my minute of yesterday warned that the forecast of net contributions in the first two years had increased. The details are set out in Annex A.

**IBAP:** the forecasts for market support have been amended in line with the recommendations in Mr Bonney's submission of 29 September. (*behind*)

**MAFF:** small changes reflect progress at your bilateral on Wednesday.

**DTI:** the scorecard no longer includes the Rover receipts in 1989-90. The presentation of these receipts has yet to be decided.

**ECGD:** the scorecard has been adjusted to remove the effects of a classification change, previously scored as a Survey change but now (correctly) included in the adjusted baseline.



Home Office: the scorecard has been revised in the light of your bilateral yesterday.

DES: the forecast outcome reflects the agreed settlement concluded yesterday.

Social Security: the effects of the UB reforms proposed by Mr Moore have been removed, to reflect the line you are taking with Mr Moore. As we were proposing to offset them against the effects of revising the unemployment assumptions (which have yet be reflected in the scorecard) the eventual outcome will be unaffected.

Territories: as in the last two scorecards, the formula excludes the effects of the two DOE programmes. The 'negotiable' lines for Scotland and Wales now assume concession in full of the VAT bids, instead of the formula consequences of English bids.

2. Table 3 shows how the Survey outcome might look assuming:

- Reserves of  $3\frac{1}{2}/7/10\frac{1}{2}$  *~ present*

- Privatisation proceeds of 5/5/5

- The July economic assumptions, ie  $5\frac{1}{2}/4\frac{1}{2}/3\frac{1}{2}/3$  for the GDP deflators and before incorporation of lower unemployment and higher September 1988 RPI.

3. The picture of previous reports is largely maintained:

- growth in the planning total exceeding 3 per cent;

- growth in GGE averaging  $1\frac{1}{2}$  per cent from 1987-88 base;

- GGE/GDP ratio following an 'L' shaped path, with limited progress after the very sharp drop in 1988-89.

4. Tables 4 and 5 show an alternative outcome which incorporates the effects of revised economic assumptions and makes some



allowance for slippage beyond the forecast outcome. The programmes where the chances of an overrun are greatest are Defence, Health and Housing. The figures for the impact of higher inflation assume that we succeed in confining the adjustments to settlements to the four or five programmes where inflation plays an important role in the public presentation, and that the claims of the rest can be resisted. It also assumes that no programmes receive any compensation in respect of higher inflation in 1988-89.

5. While the net effect of these changes is to add to the planning total (increases of £1½ and £4½ billion), the higher deflators and money GDP more than compensate so that the real terms growth rate of GGE and the GGE/GDP ratio are slightly lower - see Table 5.

6. The bottom of table 4 indicates a number of variables which could be brought into play to improve the outcome presented in the Autumn Statement.

7. All this work has assumed the same profiles for reserves and privatisation proceeds as last year. When the picture is clearer, particularly after we know the inflation assumptions, we will need to reconsider these variables. To some extent they interact; a target of £5 billion for privatisation which was likely to be exceeded would enable a lower reserve to be adopted than if the target were £6 billion. A judgement about the size of the reserve also needs to take account of likely claims both from forecastable items such as local authority current expenditure but also once-off contingencies such as Shorts or tin.

AT

A TURNBULL



**PROGRESS IN INDIVIDUAL BILATERALS**

**Defence:** discussion proving difficult and a large gap between us remains. If most of 2½ per cent a year efficiency gain on non-procurement (to which MOD committed themselves at VFM meeting with Prime Minister) is set against Mr Younger's bid and some savings are made on lower priority procurement expenditure, existing defence commitments can be met with modest additions to defence budget. Mr Younger attaches importance to holding defence budget over 4 per cent of GDP. But if falls below will be consequence of growth of economy not cuts in defence. May not be settled bilaterally.

**Overseas aid:** additions agreed of 30/55/80. Will probably allow aid programme to stay around present percentage of GDP. Mr Patten has agreed to find money for War Service Credit for pensions of former colonial servants from within additions.

**FCO Diplomatic Wing:** negotiations proving difficult though gap (approx 20 a year) not large in total Survey terms. Main issue is bid for new initiatives, eg scholarships and information. Hope to settle.

**MAFF:** sums at issue not large but disputed. Relate to R&D savings and ADAS charges. Hope to settle but may need to refer R&D savings which will go to meet Mr Baker's science bids to meeting of E(ST) on 19 October.

**Energy:** programme settled though effect of longer term savings on fusion and fast reactor is to add to spending in Survey period. EFL for coal agreed and expect to settle electricity, both at or below baseline. Assumes freeze in coal price and 6 per cent increase next year in electricity price.

**Transport:** agreement likely on transport industries but on roads programme are substantial bids reflecting rise in construction prices and Department of Transport's wish to begin building road



programme up to a higher level, as suggested in Roads Review. They argue that the Manifesto commitment for new build - 450 miles by 1989-90 - and target for motorway renewal are threatened. Department also has a large bid for local authority roads which Treasury argues can in large part be met from use of receipts. Bids have some merit but must avoid accommodating rising tender prices. A bilateral settlement may be possible but so far Mr Channon has made few concessions.

**Housing:** huge increase in estimates of receipts. Treasury arguing that should add to gross spending no more than required to do under existing arrangements, leaving a large net saving, in effect to be ploughed into other programmes. Mr Ridley accepts some net saving but seeks much larger increase in gross spending. Gap remains very large.

**Other environmental services:** an addition of £120-150 million needed in 1989-90 for community charge start-up. But again much higher receipts should cover most of this plus small additions to urban spending. Expect to settle.

**Trade & Industry:** settlement not yet reached. Main issue outstanding is extent of R&D savings which could be referred to E(ST).

**Home Office:** large additions for new prisons and running costs to staff them inevitable. Still a gap in later years but agreement should be possible.

**Education & Science:** Mr Baker's initial bids were enormous but a settlement has been reached at well below half his bids.

**Employment:** Treasury arguing for major savings to reflect improvement in unemployment. An agreement which protects commitments on YTS and ET should be possible.

**Health:** main disputed issues are provision for service improvement and size of capital programme. Bilateral settlement may be possible. Will need to resolve extent to which money for Review initiatives is included or held back for announcement of Review; basis on which provision is made for future pay, and



SECRET AND PERSONAL

whether a cut in employers' superannuation costs required by Government Actuary is brought into figures now or later.

**Social Security:** discussions narrowed down to two main issues which are likely to be referred to colleagues. Baseline incorporates only partial uprating of child benefit. Mr Moore wants to restore full uprating; Treasury to move to full freeze. Mr Moore wants to expand reciprocal agreements on overseas pensions. Treasury argues that not a high enough priority given other pressures in Survey. Have got agreement that action on poorer pensioners will need to be considered next year and that rapidly rising disability benefits must be reviewed.

**Territories:** agreement reached with Mr King but discussions on Wales and Scotland most difficult of all bilaterals. Mr Walker has dug in on issue of formula consequences on housing which he says disadvantage Wales relative to England. With receipts high in England, outcome is likely to be higher gross spending but a reduction in net provision. A corresponding reduction in net provision in Wales will require reduction in gross provision as receipts there are not buoyant. Mr Walker has demanded that his programme should be compensated in full for shortfall of receipts. Treasury has offered partial compensation, arguing that full compensation is unreasonable as Mr Walker will get consequentials of higher spending on other programmes such as health and transport which net savings on housing are permitting. Offer made would provide larger addition to block than in any recent year. For Scotland, Treasury's bid for adjusting the population formula remains on the table but is hotly disputed by Mr Rifkind. Scottish Office not yet responded on housing receipts but may well do so (particularly if Mr Walker is accommodated). Mr Rifkind still disputing conclusion of E(A) that Scottish block should bear part of costs of slower run-down at Dounreay. Danger that settlement for Wales and Scotland could cause Northern Ireland settlement to unravel.



## NET PAYMENTS TO COMMUNITY INSTITUTIONS

	£m			
	1988-89	1989-90	1990-91	1991-92
PES baseline	800	1470	1320	1353
Latest projection	980	2100	1950	1300
Difference	+180	+630	+630	-53
Increase over Scorecard <i>(previous?)</i>	-	+250	+370	-210

The latest projection is still very provisional, and may change significantly over the next week or so. The reasons for the sharp deterioration in our net payments in 1989-90 and 1990-91 are as follows:

(i) the Brussels agreement on the future financing of the Community (which is not taken into account in the baseline figures). As the Chief Secretary told the House in February, the future financing agreement will increase our net payments to the Community by some £200-300 million a year;

(ii) the buoyancy of imports, which has resulted in a significant upwards revision to the forecast of customs duties payable to the Community;

(iii) the buoyancy of GDP, which has led to an upwards revision in our VAT payments (since our VAT base is now capped at 55 per cent of GNP) and in our share of the new GNP-based fourth resource.



SECRET  
SUMMARY SCORECARD

Date of last update: 30/09/88 TABLE 1

(£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	410.0	250.0	0.0	20,575.0	822.0	500.0	0.0	21,075.0	1,272.0	750.0	0.0
FCO - Diplomatic, Information, Culture	743.0	28.9	16.1	8.9	761.0	48.3	35.4	27.2	780.0	50.0	43.0	29.9
FCO - Overseas Development Administration	1,505.0	30.0	30.0	30.0	1,551.0	55.0	55.0	55.0	1,590.0	80.0	80.0	80.0
European Communities	1,470.0	630.0	630.0	630.0	1,320.0	630.0	630.0	630.0	1,353.0	-53.0	-53.0	-53.0
Intervention Board for Agricultural Produce	1,690.0	-288.1	-421.1	-426.0	1,845.0	-332.8	-392.8	-397.0	1,891.0	-182.9	-269.4	-290.0
Ministry of Agriculture, Fisheries and Food	786.0	32.5	18.1	-30.0	801.0	40.5	16.2	-83.5	821.0	61.2	15.8	-116.9
Forestry Commission	64.0	8.6	8.6	8.6	65.0	11.9	11.9	11.9	67.0	13.6	13.6	13.6
Department of Trade and Industry	1,282.0	74.8	56.5	-34.4	1,222.0	85.7	74.3	-41.3	1,225.0	-59.7	-78.5	-133.8
Export Credits Guarantee Department	128.6	6.8	6.8	6.8	95.9	3.6	3.6	3.6	97.5	-38.1	-38.1	-38.1
Department of Energy	309.0	40.7	40.7	40.7	316.0	11.3	11.3	11.3	323.0	-28.2	-28.2	-28.2
Department of Employment	4,185.0	-18.4	-200.6	-217.8	4,241.0	-78.2	-340.8	-336.5	4,347.0	-163.2	-398.2	-465.7
Department of Transport	2,244.0	530.2	278.0	228.8	2,299.0	545.6	314.9	252.3	2,357.0	714.3	335.1	272.4
DOE - Housing	2,378.0	-905.9	-1,356.9	-1,551.9	2,399.0	-681.0	-941.0	-1,336.0	2,459.0	-185.9	-582.3	-1,022.3
DOE - Other Environmental Services	904.0	282.8	62.0	-97.1	935.0	112.8	-101.0	-183.1	958.0	110.7	-83.0	-146.2
Home Office	1,382.0	267.4	260.0	-81.6	1,415.0	415.0	355.0	-106.7	1,450.0	450.0	340.0	-115.7
Legal departments	1,046.0	48.0	36.6	2.3	1,107.0	86.2	71.2	10.6	1,135.0	157.9	118.6	11.0
Department of Education and Science	5,156.0	359.1	359.1	359.1	5,293.0	399.6	399.6	399.6	5,425.0	364.3	364.3	364.3
Office of Arts and Libraries	454.0	4.1	4.1	4.1	471.0	2.6	2.6	2.6	483.0	29.0	12.4	9.4
Department of Health	18,559.0	1,998.0	1,363.0	-103.0	19,445.0	2,757.0	1,629.0	-247.0	19,931.0	3,690.0	2,162.0	-462.0
Department of Social Security	50,889.0	886.1	782.7	141.9	53,347.0	2,129.4	1,902.0	1,020.7	54,681.0	3,861.6	3,595.2	2,538.8
Scotland: negotiable	5,033.0	53.5	41.5	-248.6	5,206.0	66.3	51.4	-246.9	5,336.0	76.6	59.5	-248.9
Scotland: formula		348.5	240.6	64.3		460.2	287.2	49.3		599.7	354.8	21.5
Wales: negotiable	2,101.0	76.7	55.6	13.4	2,169.0	80.1	58.7	20.4	2,223.0	62.2	54.5	22.7
Wales: formula		158.7	107.4	35.8		205.6	125.4	29.3		269.6	156.5	15.8
Northern Ireland: negotiable	5,323.0	8.3	8.3	8.3	5,508.0	12.1	12.1	12.1	5,645.0	56.4	56.4	56.4
Northern Ireland: formula		152.4	115.9	60.2		198.6	140.3	63.9		241.1	161.5	60.6
Chancellor's Departments	4,019.0	2.7	-25.6	-65.3	4,162.0	106.4	50.2	9.7	4,268.0	211.3	157.2	85.4
Other Departments	397.0	31.9	27.2	7.6	415.0	44.3	36.3	6.5	425.0	86.6	73.9	43.9
DOE - Property Services Agency	-163.0	60.4	27.6	15.1	-162.0	90.3	16.1	-33.1	-166.0	70.4	-29.0	-73.8
Nationalised Industries	114.0	308.0	-119.5	-439.7	-274.0	329.1	-262.8	-697.3	-282.0	-110.2	-426.2	-946.7
Privatisation EFLS		166.8	166.8	166.8		188.9	259.4	193.1		536.7	1,813.9	1,813.9
Local Authority Relevant	33,520.0	1,653.0	1,653.0	1,653.0	34,517.0	1,984.0	1,984.0	1,984.0	35,380.0	2,211.0	2,211.0	2,211.0
Adjustment												
TOTAL ADDITIONS TO PROGRAMMES	165,126.0	7,519.9	4,622.5	236.0	170,692.0	10,958.3	7,144.7	1,169.1	174,918.0	14,598.0	11,093.3	3,605.5

-350  
1.122

3,500  
2645



TABLE 2

SECRET  
 SUMMARY OF CHANGES IN FORECAST OUTCOME  
 SINCE LAST SCORECARD

30/09/88

	1989-90	1990-91	1991-92
	CHANGE IN	CHANGE IN	CHANGE IN
	FORECAST	FORECAST	FORECAST
	OUTCOME	OUTCOME	OUTCOME
Ministry of Defence	0.0	0.0	0.0
FCO - Diplomatic, Information, Culture	3.0	0.0	0.0
FCO - Overseas Development Administration	0.0	0.0	0.0
European Communities	250.0	370.0	-210.0
Intervention Board for Agricultural Produce	-75.1	-44.8	-22.9
Ministry of Agriculture, Fisheries and Food	-2.0	-4.0	-4.2
Forestry Commission	0.0	0.0	0.0
Department of Trade and Industry	159.0	4.0	3.9
Export Credits Guarantee Department	10.4	24.1	25.5
Department of Energy	0.0	0.0	-7.2
Department of Employment	0.0	0.0	0.0
Department of Transport	0.0	6.9	7.1
DOE - Housing	0.0	0.0	0.0
DOE - Other Environmental Services	2.0	0.0	0.0
Home Office	-28.6	-16.2	21.5
Legal departments	-4.6	-3.8	-4.2
Department of Education and Science	-41.0	-48.7	-113.2
Office of Arts and Libraries	0.1	-2.4	-14.1
Department of Health	0.0	0.0	0.0
Department of Social Security	4.1	85.7	85.3
Scotland: negotiable	19.1	13.3	16.4
Scotland: formula	-13.4	-14.7	-14.7
Wales: negotiable	8.6	9.5	8.1
Wales: formula	-3.4	-3.7	-6.5
Northern Ireland: negotiable	0.0	0.0	0.0
Northern Ireland: formula	0.0	3.2	3.2
Chancellor's Departments	0.2	0.1	-0.2
Other Departments	0.2	-0.5	-0.6
DOE - Property Services Agency	-2.4	-3.9	-9.0
Nationalised Industries	-129.5	2.2	-1.2
Privatisation EFLs	1.8	-0.6	-6.1
Local Authority Relevant	0.0	0.0	0.0
Adjustment			
<b>TOTAL ADDITIONS TO PROGRAMMES</b>	<b>158.5</b>	<b>375.7</b>	<b>-243.1</b>



## ASSESSMENT OF SURVEY OUTCOME: AS ON 30 SEPTEMBER SCORECARD

	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
<u>Planning total</u>				
Additions (fbn)		1.12	3.64	7.59
Real growth over previous year (%)		3.5	3.3	3.4
<u>GGE</u>				
As % of GDP	40.5	40.0	39.7	39.5
Rounded	40½	40	39¾	39½
Real growth <i>per annum</i>				
Over previous year (%)		1.3	1.7	2.1
1991-92 over 1987-88				1.5
1988-89				1.7

Notes

X GGE figures exclude privatisation proceeds. GDP assumed to grow at ~~3.75%~~ <sup>4.0%</sup> real in 1988-89, and 2.5% thereafter; deflators in years from 1988-89 to 1991-92 of 5.5/4.5/3.5/3.0%.



TABLE 4

## SCORECARD VARIANTS

1.	Unemployment at 2m*	-575	-600	-625
2.	RPI at 5.8%* at 9/88	+165	+175	+190
3.	Further increase in RPI			
	+½% 9/89		+210	+230
	+½% 9/90			+230
4.	GDP deflators (max concession to MOD, DH, DES, ODA and DSS for HB)			
	+½% in 89-90	+300	+300	+300
	+½% in 90-91		+300	+300
5.	Slippage from forecast outcomes (MOD, DH, DOE)	+250	+300	+350
6.	Higher interest rates (ECGD, Housing Subsidy, LAPR/MIRAS)			
	+2% short, +1% long	+250	+230	+240
7.	Total	+390	+915	+1215
8.	Current scorecard	+1120	+3645	+7595
9.	Alternative outcome (7+8) Reserve 3.5/7.0/10./5	+1510	+4560	+8810
10.	Possible reductions			
	DH superannuation (net of higher provision for pay)	-150	-150	-150
	DH Review	-150	-200	-200
	DSS Estimating	-100		
	Unemployment 1.9m	-230	-240	-250
	BAe/Rover payment Scored on DTI programme	-150	-590	-600
		-780		
	Privatisation			
	Reserves			



## SURVEY OUTCOME VARIANT: 30 SEPTEMBER

	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
<u>Planning total</u>				
Additions (fbn)		1.52	4.55	8.80
Real growth over previous year (%)		3.3	3.1	3.5
<u>GGE</u>				
As % of GDP	40.3	39.9	39.5	39.4
Rounded	40 $\frac{3}{4}$	40	39 $\frac{1}{2}$	39 $\frac{1}{2}$
Real growth <i>p.a.</i>				
Over previous year (%)		1.0	1.4	2.2
1991-92 over 1987-88				1.3
1988-89				1.6

Notes

GGE figures exclude privatisation proceeds. GDP assumed to grow at 3.75% real in 1988-89, and 2.5% thereafter; deflators in years from 1988-89 to 1991-92 of 5.5/4.5/3.5/3.0%. *4.0*







PROGRESS REPORT ON PUBLIC EXPENDITURE SURVEYObjectives

At Cabinet in July we set ourselves a dual objective:

- i. to keep as close as possible to the existing planning totals;
- ii. that share of public spending in national income should continue to decline steadily over 3 Survey years.

On (i) did not specify how close is close but in present circumstances must certainly mean doing significantly better than last year's increases of £2½ and £5½ billion. On (ii), the ratio must continue to decline, from the level likely to be reached in 1988-89. This is a demanding objective as slow growth of public spending this year (an undershoot of £½ billion or more) and rapid growth of GDP means that the ratio could already be down to 40 per cent, the lowest level since the late '60s.

Bilaterals

2. Bilaterals held on all programmes and second round meetings on a number. Position reached as in Annex A. Have settled ODA, DEN departmental programme, DES and Northern Ireland. Should soon settle the nationalised industries, HO, LCD, OAL, DE and maybe DTI, MAFF, DTp, DH, DOE, FCO. Expect more difficulty on MOD, Wales, Scotland, and a couple of specific issues on Social Security.

Star Chamber

3. Likely referrals

Defence  
Wales  
Scotland  
Social Security



Possible

Health  
 FCO  
 Transport  
 DOE Housing

Membership of Star Chamber could comprise:

Mr Parkinson  
 Mr Wakeham  
 Mr Major

plus two or three from

Mr Fowler  
 Mr MacGregor  
 Mr Clarke  
 Mr Ridley

4. Establishment of Star Chamber does not require further reference to Cabinet since was anticipated in July. The Chief Secretary will minute the Prime Minister, copied to colleagues saying (without identifying particular departments) that he has reached agreement on some programmes, expects to on a number of others but will definitely need to refer others to colleagues. The Prime Minister can reply in correspondence thus avoiding the need to raise public expenditure at Cabinet on 6 October.

#### Likely Survey Outcome

5. In first year is a reasonable prospect of containing increase in planning total to £1½ billion and maybe a little lower. For the second year we should aim to hold the increase to £4 billion but the position is strongly influenced by the prospect for inflation - see below. GGE/GDP ratio has fallen steeply from 46½ per cent in 1984-85 to around 40 per cent in 1988-89. Should be possible to bring it to just below 40 per cent by 1990-91, a level not seen since the 1960s. But given the sharp reduction since 1984, the profile over the Survey years is bound to be very flat, and will probably only just show a year to year reduction in



figures rounded to  $\frac{1}{4}$  per cent. This indicates that we can meet Cabinet's objectives but with no leeway. Essential to press hard wherever we can as any slip back could end up showing a rising ratio. Real danger of that in last year (1991-92).

### Inflation

6. Overhanging Survey outcome is prospect for inflation. Have already adjusted GDP deflators up by 1 per cent in 1988-89 and  $\frac{1}{2}$  per cent in 1989-90 to produce  $5\frac{1}{2}/4\frac{1}{2}/3\frac{1}{2}/3$ . Has enabled colleagues either to modify bids or adjust their negotiating positions. Treasury will reach conclusion on Autumn forecast in late October. Possible that may need to publish still higher figures in Autumn Statement. If so, all more crucial to minimise public expenditure additions. Need to find way of limiting concessions needed if colleagues seek to reopen settlements. May be best to communicate revisions when decided only to those whose programmes (Defence, Health, Student Awards, Aid, Social Security) are most directly affected, with a view to modest additions if necessary. This would mean telling other colleagues at November public expenditure Cabinet, and seeking to contain any bids to reopen settlements, on grounds that essential for fight against inflation.

### Some key outstanding issues

7.
  - i. Extent to which Defence can absorb bids by achieving  $2\frac{1}{2}$  per cent efficiency savings promised at Prime Minister's VFM seminar. Need to avoid setting an artificial floor like 4 per cent of GDP.
  - ii. Welsh claim that its block should receive extra funds to offset formula consequences of large English housing receipts.
  - iii. Whether population adjustment should be pursued with Scotland this year. Should block bear part of costs of slower Dounreay closure as the Prime Minister concluded E(A) thought right.



SECRET AND PERSONAL

iv. How far **child benefit** should be uprated, or frozen this year. Whether action on **overseas pensions** can be deferred again this year.

v. Need to keep additions to **gross capital spending** of local authorities to the minimum, so that net savings are maximised and **extraordinary growth rate of local authority capital spending** is restrained.

vi. How far we can find savings on **near market research in MAFF and DTI to finance DES bids for basic science, as E(ST) agreed.**



CONFIDENTIAL

*pr put with scorecard pps.*

FROM: A TURNBULL  
DATE: 5 OCTOBER 1988

MR GIEVE

cc PS/Chancellor  
PS/CST  
Sir P Middleton  
Mr Anson  
Mr MacAuslan

*M.*

*✓*

FT ARTICLE ON THE SURVEY

I was telephoned by Simon Holberton of the FT who, with Ralph Atkins, has been ferreting around Whitehall, and will shortly be writing a piece on the state of the Survey. The points he put to me were:

- i. all Ministers have met once, some two or three times;
- ii. this Survey had been tougher than most;
- iii. there were about 8 programmes unresolved. He listed difficulties with
  - Defence
  - Health
  - Education
  - Environment
  - Home Office
- iv. Star Chamber would be needed;
- v. assuming a Reserve of 3.5 in 1989-90 (as an aside he said that after this year's experience 4.5 would be justified, indicating that he is unaware of a likely shortfall), the new planning total in 1989-90 would be £169-£170 billion, an increase of £2-3 billion.

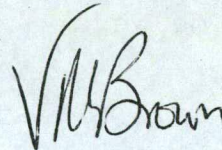
I declined to be drawn on this, other than to comment that "tougher than most" was said every year. The better description was that 1987 was the exception and that this year was a reversion to the more normal pattern of 1985 and 1986.


3. This provides a useful insight into outside expectations. It is better for the market to be thinking the position is more dire



than it really is and to be pleasantly surprised the opposite. Unless expectations of £2-3 billion prove to be unsettling to the markets, I suggest we do nothing to correct them.

4. On Star Chamber, I suggest we do not deny that it is being set up but refuse to confirm either which programmes it will consider or who will be on it (though there is no harm in the latter once it has been decided).



 A TURNBULL



1. ACSA  
2. prep.SCORECARD  
COPY No 3 OF 22 COPIESFROM: A TURNBULL  
DATE: 7 OCTOBER 1988

CHIEF SECRETARY +1

cc Chancellor  
Sir P Middleton  
Sir T Burns  
Mr Anson  
Mr Phillips  
Mr Monck  
Mr Luce  
Mr Odling-Smee  
Mr Sedgwick  
Mr MacAuslan  
Mrs Butler  
Mr Richardson  
Mr Hansford  
Mr Mowl  
Mr Gieve  
Miss Walker  
Mr Call  
Mr Tyrie

## SURVEY SCORECARD

I attach this week's scorecard (Table 1) and Table 2 showing the changes since last week. The effects on the planning total and GGE are shown in Table 3. The forecast outcome is significantly lower in all three years, mainly because we have included the effects of the latest round of economic assumptions. The reduction in the social security figures due to the change in the unemployment assumption more than cancels out the increase due to the higher September 1988 RPI assumption and the estimated effect of higher interest rates on LAPR and MIRAS (which accounts for the bulk of the changes to the Chancellor's departments' figures). No account has been taken of possible revisions to the RPI in later years, or to the GDP deflator assumptions, or of the effect of higher interest rates on other programmes: these could cancel out these reductions in the second and third years.

## 2. Other significant changes are:

FCO Diplomatic wing: the figures reflect the settlement agreed yesterday.



MAFF: the forecast outcome represents an offer MAFF officials are proposing to Mr MacGregor.

DTI: the forecast outcome reflects Lord Young's letter of 6 October.

Energy: the change is due to the inclusion of estimating changes in the cost of the Redundant Mineworkers' Pension Scheme.

Employment: the forecast outcome reflects Mr Fowler's latest offer.

DOE: the forecast outcome for housing has been revised upwards by £73 million in 1989-90 in the light of Mr Ridley's letter of 5 October. The forecast for other environmental services has also been increased.

Home Office: the figures reflect the agreement reached this week.

Health: the figures reflect the broad settlement agreed today.

Social Security: in addition to the effect of economic assumptions mentioned above, the forecast outcome assumes achievement of the proposal to limit payment of Unemployment Benefit to six months. If instead of this you succeeded in securing a freeze on Child Benefit, the forecast outcome would be lower by -180/-60/-20.

Territories: as last week, the territorial consequences are calculated to exclude the effects of both DOE programmes. This gives Mr Walker about £80 million more than the full formula in 1989-90, compared with your proposed offer of an extra £73 million based on the consequences of right-to-buy receipts.



Nationalised Industries: the figures reflect a revised offer from Mr Ridley on water.

Is baseline possible in 1989-90?

3. The main scorecard shows the position which, if the economic assumptions were not changed beyond those already decided, could be reached. It shows that the outcome could be additions to the planning total of £0.4 billion, assuming Reserves of £3.5/7.0/10.5 billion. But this position has been reached after taking credit for a number of possible improvements listed in last week's submission:

- the health outcome scores the superannuation reduction and there is nothing further to deduct for the review;

- the social security settlement assumes the latest tranche of economic assumptions, ie the reduction in unemployment to 2.0 million and the incorporation of the September '88 RPI. It also includes the further estimating changes of £-150/-/+150 million which DSS are proposing.

The possibility of slippage eg on defence, housing and transport remains.

4. Nevertheless there are still some shots left in our locker:

i. the DSS outcome assumes we get the UB saving which Mr Moore is offering. If instead we get the CB option you favour the position would be improved by £-180/-60/-20 million;

ii. we could move to an unemployment assumption of 1.9 saving £200 million a year;

iii. the scorecard assumes that for the territories the negative DOE consequentials are waived. If Mr Walker accepts your offer of an extra £70 million, and you succeed in preventing the Scots from getting any similar compensation



but offer Northern Ireland say £25 million extra, you could save up to £180 million in 1989-90;

iv. we could score the BAe/Rover payment on the DTI programme but at the cost of exposing our expectation that this payment will slip into the next financial year;

v. DM believe MOD are more interested in money for the later years. It might be possible to make our forecast outcome more attractive by shifting, say, £100 million from year 1 to year 3.

5. The conclusion is that, at current economic assumptions, a settlement at baseline in year 1 and under +£3 billion in year 2 is within reach if you hold close to the forecast outcomes and limit the spillover of the Welsh deal. But it needs both luck and determination to bring all these home.

6. The position is more difficult if the economic assumptions are revised. Table 4 provides various building blocks to assess the impact of revising the economic assumptions for inflation and interest rates. At worst, the planning total increases projected could be £1¼/4½ billion if ½ per cent is added to both 1989-90 and 1990-91 (see table 5). With revised assumptions, it would take all of that luck and determination and a lower Reserve for 1989-90 to keep to baseline. A new element since our last assessment is that if the 1990-91 assumption is raised, it might increase by approximately £150 million the figures projected for years 2 and 3 for local authority current spending.

AT

A TURNBULL



TABLE 1

SECRET  
SUMMARY SCORECARD

Date of last update: 07/10/88

(£million)

	1989-90	1989-90	1989-90	1989-90	1990-91	1990-91	1990-91	1990-91	1991-92	1991-92	1991-92	1991-92
	BASELINE	DEPT POSITION	FORECAST OUTCOME	HMT POSITION	BASELINE	DEPT POSITION	FORECAST OUTCOME	HMT POSITION	BASELINE	DEPT POSITION	FORECAST OUTCOME	HMT POSITION
Ministry of Defence	19,969.0	410.0	250.0	0.0	20,575.0	822.0	500.0	0.0	21,075.0	1,272.0	750.0	0.0
FCO - Diplomatic, Information, Culture	743.0	20.9	20.9	20.9	761.0	42.2	42.2	42.2	780.0	45.9	45.9	45.9
FCO - Overseas Development Administration	1,505.0	30.0	30.0	30.0	1,551.0	55.0	55.0	55.0	1,590.0	80.0	80.0	80.0
European Communities	1,470.0	630.0	630.0	630.0	1,320.0	630.0	630.0	630.0	1,353.0	-53.0	-53.0	-53.0
Intervention Board for Agricultural Produce	1,690.0	-420.9	-421.1	-425.0	1,845.0	-392.6	-392.8	-395.0	1,891.0	-269.2	-269.4	-272.0
Ministry of Agriculture, Fisheries and Food	786.0	16.5	15.5	-13.0	801.0	12.9	10.0	-41.8	821.0	14.4	4.1	-67.3
Forestry Commission	64.0	8.6	8.6	8.6	65.0	11.9	11.9	11.9	67.0	13.6	13.6	13.6
Department of Trade and Industry	1,282.0	70.8	64.6	62.6	1,222.0	83.2	80.2	80.2	1,225.0	-68.7	-70.2	-70.2
Export Credits Guarantee Department	128.6	6.8	6.8	6.8	95.9	3.6	3.6	3.6	97.5	-38.1	-38.1	-38.1
Department of Energy	309.0	39.4	39.4	39.4	316.0	8.6	8.6	8.6	323.0	-65.9	-65.9	-65.9
Department of Employment	4,185.0	-200.0	-200.0	-200.0	4,241.0	-300.0	-300.0	-300.0	4,347.0	-400.0	-400.0	-400.0
Department of Transport	2,244.0	530.2	278.0	228.8	2,299.0	545.6	331.9	252.3	2,357.0	714.3	338.1	272.4
DOE - Housing	2,378.0	-958.9	-1,283.9	-1,361.9	2,399.0	-790.0	-941.0	-1,271.0	2,459.0	-297.9	-587.3	-902.3
DOE - Other Environmental Services	904.0	242.4	82.0	-50.1	935.0	105.9	-81.0	-183.1	958.0	102.9	-63.0	-146.2
Home Office	1,382.0	246.1	246.1	246.1	1,415.0	353.9	353.9	353.9	1,450.0	323.7	323.7	323.7
Legal departments	1,046.0	48.0	34.5	15.6	1,107.0	86.2	67.1	10.7	1,135.0	158.1	110.9	11.0
Department of Education and Science	5,156.0	359.1	359.1	359.1	5,293.0	399.6	399.6	399.6	5,425.0	366.3	366.3	366.3
Office of Arts and Libraries	454.0	4.1	4.1	4.1	471.0	1.6	1.6	1.6	483.0	35.1	17.4	13.4
Department of Health	18,559.0	1,161.0	1,161.0	1,161.0	19,445.0	1,374.0	1,374.0	1,374.0	19,931.0	1,787.0	1,787.0	1,787.0
Department of Social Security	50,889.0	326.1	222.7	-376.1	53,347.0	1,578.4	1,351.0	598.7	54,681.0	3,411.6	3,145.2	2,344.8
Scotland: negotiable	5,033.0	62.4	51.7	-248.6	5,206.0	66.8	53.9	-246.9	5,336.0	75.9	58.5	-248.9
Scotland: formula		192.1	218.8	52.8		443.9	263.4	37.3		575.1	311.2	-5.7
Wales: negotiable	2,101.0	76.7	63.2	22.6	2,169.0	80.1	66.1	30.7	2,223.0	62.2	57.6	32.5
Wales: formula		81.8	95.7	13.6		200.8	111.6	1.4		263.8	134.3	-18.8
Northern Ireland: negotiable	5,323.0	8.3	8.3	8.3	5,508.0	12.1	12.1	12.1	5,645.0	56.4	56.4	56.4
Northern Ireland: formula		109.3	110.0	57.8		193.4	133.2	60.9		234.1	149.5	54.4
Chancellor's Departments	4,019.0	53.6	50.2	38.2	4,162.0	128.4	115.3	115.3	4,268.0	243.5	230.3	212.3
Other Departments	397.0	29.0	24.9	13.9	415.0	40.5	34.8	19.3	425.0	82.7	73.6	59.7
DOE - Property Services Agency	-163.0	60.4	27.6	15.1	-162.0	90.3	16.1	-33.1	-166.0	70.4	-29.0	-73.8
Nationalised Industries	114.0	308.0	-174.5	-439.7	-274.0	329.1	-262.8	-697.3	-282.0	-110.2	-426.2	-946.7
Privatisation EFLS		166.8	166.8	166.8		188.9	259.4	193.1		536.7	1,813.9	1,813.9
Local Authority Relevant	33,520.0	1,653.0	1,653.0	1,653.0	34,517.0	1,984.0	1,984.0	1,984.0	35,380.0	2,211.0	2,211.0	2,211.0
Adjustment												
TOTAL ADDITIONS TO PROGRAMMES	165,126.0	5,445.0	3,944.0	1,786.4	170,692.0	8,518.2	6,442.9	3,192.6	174,918.0	11,576.7	10,226.4	6,485.6



SECRET  
SUMMARY OF CHANGES IN FORECAST OUTCOME  
SINCE LAST SCORECARD

07/10/88

	1989-90	1990-91	1991-92
	CHANGE IN	CHANGE IN	CHANGE IN
	FORECAST	FORECAST	FORECAST
	OUTCOME	OUTCOME	OUTCOME
Ministry of Defence	0.0	0.0	0.0
FCO - Diplomatic, Information, Culture	4.8	6.8	2.9
FCO - Overseas Development Administration	0.0	0.0	0.0
European Communities	0.0	0.0	0.0
Intervention Board for Agricultural Produce	0.0	0.0	0.0
Ministry of Agriculture, Fisheries and Food	-2.6	-6.2	-11.7
Forestry Commission	0.0	0.0	0.0
Department of Trade and Industry	8.1	5.9	8.3
Export Credits Guarantee Department	0.0	0.0	0.0
Department of Energy	-1.3	-2.7	-37.7
Department of Employment	0.6	40.8	-1.8
Department of Transport	0.0	17.0	3.0
DOE - Housing	73.0	0.0	-5.0
DOE - Other Environmental Services	20.0	20.0	20.0
Home Office	-13.9	-1.1	-16.3
Legal departments	-2.1	-4.1	-7.7
Department of Education and Science	0.0	0.0	2.0
Office of Arts and Libraries	0.0	-1.0	5.0
Department of Health	-202.0	-255.0	-375.0
Department of Social Security	-560.0	-551.0	-450.0
Scotland: negotiable	10.2	2.5	-1.0
Scotland: formula	-21.8	-23.8	-43.6
Wales: negotiable	7.6	7.4	3.1
Wales: formula	-11.7	-13.8	-22.2
Northern Ireland: negotiable	0.0	0.0	0.0
Northern Ireland: formula	-5.9	-7.1	-12.0
Chancellor's Departments	75.8	65.1	73.1
Other Departments	-2.3	-1.5	-0.3
DOE - Property Services Agency	0.0	0.0	0.0
Nationalised Industries	-55.0	0.0	0.0
Privatisation EFLs	0.0	0.0	0.0
Local Authority Relevant	0.0	0.0	0.0
Adjustment			
TOTAL ADDITIONS TO PROGRAMMES	-678.5	-701.8	-866.9



## ASSESSMENT OF SURVEY OUTCOME: AS ON 7 OCTOBER SCORECARD

	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
<u>Planning total</u>				
Additions (fbn)		0.44	2.94	6.73
Real growth over previous year (%)		3.1	3.3	3.3
<u>GGE</u>				
As % of GDP	40.5	39.8	39.5	39.4
Rounded	40½	39¾	39½	39¼
Real growth				
Over previous year (%)		1.0	1.7	2.0
1991-92 over 1987-88				1.4
1988-89				1.6

Notes

GGE figures exclude privatisation proceeds. GDP assumed to grow at 4.0% real in 1988-89, and 2.5% thereafter; deflators in years from 1988-89 to 1991-92 of 5.5/4.5/3.5/3.0%.



TABLE 4

SCORECARD VARIANTS

	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
1. Further increase in RPI			
+½% 9/89	-	+210	+230
+½% 9/90			+230
2. GDP deflators (max concession to MOD, DH DES, ODA, DSS for HB, LA current)			
+½% in 1989-90	+300	+300	+300
+½% in 1990-91		+450	+450
3. Slippage from forecast (MOD, DOE, DTp)	+250	+300	+350
6. Higher interest rates			
+2% short +1% long	+200	+200	+200
7. Total	+750	+1460	+1530
8. Current scorecard addition to planning total (Reserves 3.5/7.0/10.5)	+444	+2943	+6726
9. Alternative outcome (7+8)	+1194	+4403	+8256
10. Possible reductions			
Unemployment 1.9m	-230	-240	-250
BA/Rover payment scored on DTI programme	-150		
CB rather than UB	-180	-60	-20
Consequential concession confined to Wales and NI	-180		
Reprofiled Defence settlement	-100	-	+100



## SURVEY OUTCOME VARIANT: 7 OCTOBER

	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
<u>Planning total</u>				
Additions (fbn)		1.19	4.40	8.26
Real growth over previous year (%)		2.8	3.2	3.3
<u>GGE</u>				
As % of GDP	40.3	39.8	39.4	39.3
Rounded 39½	40½	39½	39½	39½
Real growth				
Over previous year (%)		0.7	1.5	2.0
1991-92 over 1987-88				1.3
1988-89				1.6

Notes (PESMAX)

GGE figures exclude privatisation proceeds. GDP assumed to grow at 4.0% real in 1988-89, 2.0 in 1989-90 and 2.5% thereafter; deflators in years from 1988-89 to 1991-92 of 6/5/4/3%.



\*  
\*

*I have made a number of important changes to the 1st page of Mr Turnbull's paper. But, subject to a discussion I will need to have with the CST on Monday, I will prefer to avoid a summary of the message. This is for the CST. No remaining issues.*

SCORECARD  
COPY No 5 OF 19 COPIES

FROM: A TURNBULL  
DATE: 14 OCTOBER 1988

- 1. MR ANSON
- 2. CHIEF SECRETARY +1

- cc Chancellor
- Sir P Middleton
- Sir T Burns
- Mr Phillips
- Mr Monck
- Mr Luce
- Mr Odling-Smee
- Mr Sedgwick
- Mr MacAuslan
- Mrs Butler
- Mr Richardson
- Mr Mowl
- Mr Gieve
- Miss Walker

I agree. If you were to go to Star Chamber I think Mr Turnbull's paper is on the right lines. But it is difficult to construct an "envelope" for 2 programmes and course (iii) below will be less cumbersome and avoids the disadvantages listed in paragraph 4.

14/10

SETTLING THE REMAINING PROGRAMMES

Now that a settlement has been reached on defence\* we are left with issues to resolve on Transport and Social Security, assuming you are able to reach a deal bilaterally with Mr Walker and the deals for the other territories do not unravel. This must call into question whether the Star Chamber should be the channel through which the outstanding issues are resolved.

2. The mechanics of Star Chamber have been put in place in the sense of members appointed and slots for meetings arranged. There is one on Thursday morning, 20 October to discuss the general position; one on Thursday afternoon for Social Security, and meetings on Monday and Tuesday the following week. The fact that we have got this far with mechanics does not, of course, commit you to invoke Star Chamber.

3. Indeed, there are some advantages in using other methods. In the past Star Chamber has operated by being set an envelope and then, by exercising priorities, trying to fit settlements within

\* Mr Younger has specifically requested that knowledge of a settlement should not be spread either publicly or within Whitehall until he has had a chance to debrief within MOD. For the time being the settlement should be described as "nearing settlement".

*Handwritten notes on the right side of the page:*  
I will need to have a summary of the message.  
This is for the CST.  
No remaining issues.  
Chancellor  
Sir P Middleton  
Sir T Burns  
Mr Phillips  
Mr Monck  
Mr Luce  
Mr Odling-Smee  
Mr Sedgwick  
Mr MacAuslan  
Mrs Butler  
Mr Richardson  
Mr Mowl  
Mr Gieve  
Miss Walker  
Star Chamber  
CST  
Mr Walker  
deals for the other territories  
envelope  
mechanics  
involve Star Chamber



that envelope. The issues that remain do not fit well with that treatment. On Social Security the issue is a take it or leave it one of CB versus UB. One cannot adjust the outcome according to the state of competing claims on the envelope. Equally if Social Security were settled it would not be meaningful to discuss Transport in relation to an envelope. The Group would be more likely to judge the merits or the Transport case in relation to the degree of restraint imposed on other programmes.

4. There are disadvantages in using Star Chamber. First you could probably get matters resolved more quickly without using it. Indeed, if a decision were taken no later than next Wednesday it might be possible to accelerate the timetable by a week. This can be considered further at the Chancellor's meeting on 19 October which is about the latest we can decide whether or not to accelerate. Secondly, if you do put issues to it you will have to set out the general background which, with uncertainty over economic assumptions, it would be better to avoid at present.

5. The alternatives are as follows:

i. Refer both programmes to Star Chamber, with the disadvantages referred to above.

ii. Refer Social Security to a meeting with the Prime Minister and refer Transport to Star Chamber. Since Mr Moore will want certainly to discuss the outstanding issues on his programme with the Prime Minister, there is a case for organising this directly rather than via Star Chamber. The meeting could comprise the Prime Minister, Mr Moore, Mr Fowler, Chancellor, Chief Whip and yourself and perhaps Mr Parkinson. It could come to a view and put a recommendation to Cabinet on Thursday 27 October for announcement in the uprating statement that afternoon. This is obviously more direct but against this getting a positive recommendation out of Star Chamber would increase the chances of success at Cabinet. But this option still leaves you have to explain the whole background to Star Chamber just to get Transport resolved.



SECRET AND PERSONAL

iii. As (ii) for Social Security, but appoint a mediator (Mr Parkinson?) to broker a settlement on Transport.

6. You will want to discuss with us how you wish to proceed. Meanwhile, I have prepared a draft to show how a Star Chamber remit paper might look if these two programmes were referred.

7. In giving Star Chamber some guidance on the limits within which they should try to settle the outstanding programmes it is difficult to find a rationale for the figure chosen that is not entirely arbitrary. In the attached draft I have adopted this approach but have related it to the need to meet Cabinet's remit by keeping the additions to the planning total to a minimum. Fortuitously the numbers, on current economic assumptions, work out in a way which makes it plausible to argue for baseline in year 1. This approach does, of course, bring additions to the planning total explicitly into play which we have sought to avoid in earlier years. But it can be argued that the possibility, indeed the likelihood of additions, is now in the public domain. It also brings into play assumptions about the Reserves. I have, therefore, sought to keep open the Chancellor's freedom to set different Reserves in the light of the settlements actually reached.

8. You will need to be able to demonstrate that there is an acceptable outcome lying between the bids and your position so that the Group has some margin for manoeuvre and does not need to settle on your option all down the line. The targets proposed can be reached by settling about 70:30 in your favour, a split which was proposed to the 1985 and 1986 Star Chamber.

9. It is difficult, however, to rely solely on an envelope approach. The Treasury would lose credibility if it argued that a particular policy saving was essential to reach a particular outcome overall when we know that there are other variables eg economic assumptions whose impact may be even greater. The envelope approach needs therefore to be supplemented by inviting the Star Chamber to consider the issues in comparison with the other settlements which have been reached, some of which the members of the Group will have been involved in.

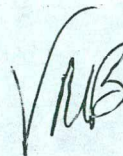


SECRET AND PERSONAL

10. The draft also asserts, but does not demonstrate, that the planning total objectives would meet the other half of the Cabinet remit, to keep the ratio declining.

11. Finally there is the question how, and how prominently, we set out the economic background. I have suggested a line in paragraph 8.

12. We would welcome reactions from yourself and the Chancellor during the course of Monday so that we can adjust the paper on Tuesday morning and get it to the Cabinet Office by lunchtime on Tuesday.



*B* A TURNBULL



PUBLIC EXPENDITURE SURVEY: POSITION REACHED AFTER BILATERALS

## Memorandum by the Chief Secretary to the Treasury

This paper reports the outcome of my bilateral discussions with colleagues and outlines the task for the Secretary of State for Energy's group on resolving the outstanding issues within the remit agreed by Cabinet on 19 July. There we agreed:

- i. to keep as close as possible to the existing planning totals; and an a 2 job
- ii. to ensure that public spending continues to decline steadily over the three Survey years, ie from the position reached this year.

2. On (i), Cabinet did not define "as close as possible"; but given the economic prospects and market expectations, if it is within our power to get at or near baseline for 1989-90 we should do so. For the second year of the Survey, we should certainly hold the increase in the planning total to very much less than the £4½ billion we announced for the second year after the last Survey.

*Handwritten notes:* CEV aim to stay within the existing planning total; Situation; Sensitivity; we should; while for; need to; (compensate); 1987

3. The objective at (ii) is a demanding one. The combination this year of moderate growth in public spending and strong growth in the economy means that the ratio of public spending to national income will be down to around 40 per cent, a level not seen for 20 years. Further reductions in the ratio from such a low starting point will not be easy but we must ensure that we build on the excellent achievement so far.

Progress in Bilaterals

4. The table at Annex A records the settlements I have been able to reach bilaterally. Annex B provides a brief description of each settlement.

Compatible year



5. In summary the position reached is as follows:

	£ billion		
	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
LA current	1.65	1.98	2.21
EC contributions	0.50	0.63	0.23
Nationalised industries	0.00	0.00	1.40
Agreed additions in bilaterals	0.97	2.12	3.25
Total additions to programmes so far agreed	3.12	4.72	7.09

The Task for the Group

6. I am still discussing with the Secretary of State for Wales the way the formula consequential for the Welsh block are calculated but I hope to resolve that bilaterally. I have not been able to reach agreement with colleagues on:

Transport  
Social Security

The Group will need to consider these programmes, partly in relation to their implications for the overall outcome of the Survey and partly to take a judgement on how the savings and scaling back of bids I am seeking compare with the degree of restraint which has been agreed for other programmes.

7. In terms of the Survey outcome the amount at issue on the two programmes can still have a significant impact. Taken together the additions sought on these two programmes total:

	0.73	2.04	4.08
--	------	------	------

I am seeking to confine the additions to

	0.10	1.35	3.18
--	------	------	------



If the combined additions to these two programmes were confined to

0.35            1.6            3.4

we would be able to confine additions to all programmes to

3.5            6.3            10.5

The impact these additions would have on the planning total depends on how much it is prudent to draw down the Reserve for each year as it rolled forward. Last year we set Reserves of £3.5/7.5/10.0 billion. The Chancellor will only be able to decide on the Reserve for the Survey at the end, when all settlements are reached and the risk of overruns attaching to them can be assessed. But it is clear from the difficulties of the Survey that we will again need Reserves which are large and rising; otherwise we will be facing the same problems next year. But were we to adopt the same path it would be possible to draw down £3.5 billion in each year. This would enable us to hold the baseline in 1989-90 and keep the additions to 1990-91 under £3 billion. (There was no previously published baseline for 1991-92.)

8. At a time when we are seeking, through the tightening of monetary policy, to restrain the spending of the private sector any additions to total public spending would be hard to defend. But if we can achieve an outcome of the kind indicated above, we would be able to demonstrate that we were firmly in control of public spending, yet were providing significant additions for our priority programmes. An outcome of this kind would enable us to hold the growth of public spending at between  $1\frac{1}{4}$  and  $1\frac{1}{2}$  per cent a year in real terms and to bring the share of public spending to GDP to below 40 per cent, though progress over the three years would be limited. Thus, while we can satisfy the Cabinet remit there is little or no leeway.

[JM]



SUMMARY OF AGREED PROGRAMMES

CMO UNTIL 31/12/1988

£ million

	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
--	----------------	----------------	----------------

<u>Defence</u>	+ 100	+ 500	+ 900
----------------	-------	-------	-------

Increased provision is offset in part by higher efficiency and other savings.

<u>FCO (diplomatic wing)</u>	+ 21	+ 42	+ 46
------------------------------	------	------	------

Increases for scholarships and exchanges, running costs, BBC External services grant, security measures and new technology are offset in part by favourable overseas price movements and savings on broadcast relay stations.

<u>ODA</u>	+ 30	+ 55	+ 80
------------	------	------	------

The increases provide for the expected costs of the sub-Saharan debt initiative, and for the UK's contribution to the IMF ESAF; the settlement also provides additions to bilateral aid including ATP soft loans.

<u>EC Contributions</u>	+ 500	+ 630	+ 230
-------------------------	-------	-------	-------

The sharp increase in the net contributions in 1989-90 and 1990-91 is a result of the Brussels agreement on the future financing of the Community, the buoyancy of imports, and upwards revisions to our VAT payments and our share of the new GNP - based fourth resource.

<u>IBAP</u>	- 421	- 396	- 268
-------------	-------	-------	-------

The reductions are due to revised forecasts of UK harvests and of the impact of CAP reform measures. The projections make some allowance for future devaluation of the Green Pound.



SECRET AND PERSONAL

Other agriculture + 15 + 9 + 5

Increases for running costs, flood prevention, and other programmes are offset in part by estimating and policy reductions in capital grants, and by savings from increased funding by industry of R and D and ADAS.

DTI + 64 + 79 - 72

There are increases for regional assistance, assistance to shipbuilding, and for running costs and major works (mainly reflecting relocation plans). These increases are offset in part by reductions on support for innovation, and, in 1991-92, by the run down of existing launch aid commitments.

Energy + 36 + 5 - 71

The changes result mainly from decisions on nuclear R&D programmes, notably to run down the fast reactor programme, which generate redundancy and restructuring costs as well as savings. Further estimating savings arise on the Redundant Mineworkers Payments Scheme.

Employment - 200 - 300 - 400

Savings result from the rapid fall in unemployment and from the declining number of school leavers.

Environment - 1208 - 1068 - 769

Increased projections of receipts will yield some £4 billion over the three years. There are additions to gross capital spending on housing and for the Urban block, and for the costs of preparation for the Community Charge.

PSA + 28 + 16 - 29

A combination of higher receipts from disposals and net rents and modest additions to the net baseline in 1989-90 and 1990-91 will enable the PSA to meet foreseeable requirements for major works, to continue to reduce the maintenance backlog and to invest in improved management structures, working towards full payment and untying in 1990 and Trading Fund status by 1993.



SECRET AND PERSONAL

Home Office + 246 + 354 + 324

There are increases for prison building and prison manpower, and smaller increases for a range of non-prisons spending, offset by higher local authority capital receipts and other savings.

Lord Chancellor's Department  
and other legal + 34 + 61 + 106

There are increases for legal aid, running costs, and court building; and for the Serious Fraud Office; and for the Crown Prosecution Service, particularly in 1991-92.

Education + 359 + 400 + 364

The agreed additions provide for a real increase of some 10 per cent in the Science budget between 1988-89 and 1989-90; put the polytechnics and colleges on a sound footing for their new, independent status; allow the value of student awards to be maintained; and provide for £352 million capital allocations for local education authorities in England which will allow a continued programme of school improvements.

Arts and Libraries + 4 + 2 + 20

The settlement rolls forward the three-year programme agreed in the 1987 survey (with increases in the new third year, for example for incentive funding); and provides for the construction programme for the British Library, St Pancras project.

Health and Personal Social Services + 1174 + 1397 + 1816

Increases reflect the knock-on costs of this year's Review Body awards, the effect of demographic and other developments on hospital activity and demand in the Family Practitioner Services, the growing cost of AIDS, and increased provision for capital expenditure on equipment and maintenance. The likely costs of Whitley pay settlements are included in the settlement. There are offsetting savings from efficiency improvements and from a reduction in employers' superannuation contributions.



Scotland + 51 + 56 + 63

There is an increase to Scottish programmes of industrial assistance, particularly for the Scottish Development Agency. The settlement also provides for VAT on new construction on the Scottish block.

Northern Ireland + 8 + 12 + 56

The settlement provides for an element of uplift in recognition of the particular pressures arising from the security situation in the province. The Chief Secretary also agreed that the Secretary of State could use the excess assets of the Northern Ireland Consolidated Fund to create some £50 million of additional spending power within the existing baseline.

Nationalised industries - 4 - 12 + 1374

Cabinet's remit to keep total provision to baseline or less is fulfilled in years 1 and 2. The whole of the additional provision in year 3 is accounted for by the loss of electricity industry's substantial negative EFLs after privatisation. Settlement provides for increased capital investment in water industry to meet EC and domestic requirement, partially offset by price increases of 9.8 per cent (cash). Large increases in London Regional Transport (LRT) to finance investment more than offset by reductions from baseline in other transport industries. LRT fares will rise by about 12 per cent (cash) and Network South-East fares by 3.6 per cent (in real terms). Electricity prices will rise around 6 per cent (cash) in 1989-90.

Local authority relevant current +1,653 +1,984 +2,211

Ministers have agreed to make provision for relevant current expenditure by local authorities in Great Britain which implies substantial increases over baseline.







AGREED PROGRAMMES

	1989-90	1989-90	1990-91	1990-91	1991-92	1991-92
	BASELINE	CHANGE	BASELINE	CHANGE	BASELINE	CHANGE
Ministry of Defence	19,969.0	100.0	20,575.0	500.0	21,075.0	900.0
FCO - Diplomatic, Information, Culture	743.0	20.9	761.0	42.2	780.0	45.9
FCO - Overseas Development Administration	1,505.0	30.0	1,551.0	55.0	1,590.0	80.0
European Communities	1,470.0	500.0	1,320.0	630.0	1,353.0	230.0
Intervention Board for Agricultural Produce	1,690.0	-421.1	1,845.0	-395.8	1,891.0	-268.4
Ministry of Agriculture, Fisheries and Food	786.0	14.5	801.0	8.7	821.0	5.0
Forestry Commission	64.0	8.6	65.0	11.9	67.0	13.6
Department of Trade and Industry	1,282.0	63.8	1,222.0	79.2	1,225.0	-71.7
Export Credits Guarantee Department	128.6	6.8	95.9	3.6	97.5	-38.1
Department of Energy	309.0	35.6	316.0	4.7	323.0	-70.9
Department of Employment	4,185.0	-200.0	4,241.0	-300.0	4,347.0	-400.0
DOE - Housing	2,378.0	-1,283.2	2,399.0	-991.5	2,459.0	-702.2
DOE - Other Environmental Services	904.0	75.0	935.0	-76.0	958.0	-67.0
Home Office	1,382.0	246.1	1,415.0	353.9	1,450.0	323.7
Legal departments	1,046.0	33.6	1,107.0	61.4	1,135.0	106.1
Department of Education and Science	5,156.0	359.1	5,293.0	399.6	5,425.0	364.3
Office of Arts and Libraries	454.0	4.1	471.0	1.6	483.0	20.4
Department of Health	18,559.0	1,176.0	19,445.0	1,397.0	19,931.0	1,816.0
Scotland: negotiable	5,033.0	50.8	5,206.0	55.8	5,336.0	62.5
Wales: negotiable	2,101.0	63.6	2,169.0	66.7	2,223.0	58.5
Northern Ireland: negotiable	5,323.0	8.3	5,508.0	12.1	5,645.0	56.4
Chancellor's Departments	4,019.0	65.2	4,162.0	130.3	4,268.0	245.3
DOE - Property Services Agency	-163.0	27.6	-162.0	16.1	-166.0	-29.0
Nationalised Industries	114.0	-170.5	-274.0	-271.8	-282.0	-440.2
Privatisation EFLS		166.8		259.4		1,813.9
Local Authority Relevant	33,520.0	1,653.0	34,517.0	1,984.0	35,380.0	2,211.0
Other departments & territorial consequences	397.0	450.0	415.0	542.0	425.0	673.8
<b>TOTAL ADDITIONS TO PROGRAMMES</b>	<b>112,354.6</b>	<b>3,124.6</b>	<b>115,398.9</b>	<b>4,730.1</b>	<b>118,239.5</b>	<b>7,088.9</b>



SECRET AND PERSONAL

SCORECARD

COPY NO: 4 OF: 23

FROM: J MACAUSLAN

DATE: 18 OCTOBER 1988

CHIEF SECRETARY +1

cc: Chancellor +1  
Sir P Middleton  
Mr Anson  
Sir T Burns  
Mr Monck  
Mr Phillips  
Mr Luce  
Mr Odling-Smee  
Mr Sedgwick  
Mr Turnbull  
Mrs Butler  
Mr Gieve  
Mr Hansford  
Mr Mowl  
Mr Richardson  
Miss Walker  
Mr Call  
Mr Tyrrie

**ECONOMIC ASSUMPTIONS AND SURVEY OUTTURN**

This note shows the effect of the economic assumptions discussed in Mr Sedgwick's submission of today on the possible outcome of the Survey. It also notes an implication of any decisions to accelerate the Autumn Statement timetable.

2. My submission of 14 October covered the latest scorecard. It also showed (Table 3) the possible effects of revised economic assumptions. Table 1 below updates that Table. It shows the effects of the economic assumptions proposed in Mr Sedgwick's submission, with a variant for a GDP deflator of 5 per cent for 1989-90 rather than the 5½ per cent proposed. A crucial question is how far settlements are reopened because of the revisions. I



assume health, aid, and student awards are reopened if the 1989-90 deflator is 5 per cent; and that defence and the RSG settlement must also be adjusted if we go for 6½ per cent in 1988-89 and 5½ per cent in 1989-90. I have assumed that the risk of wider reopening can be contained, even in the latter case.

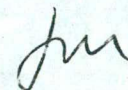
3. The table also updates the assessment of the other possible changes to the scorecard.

4. Tables 2 and 3 update Table 4 in my 14 October submission (showing the implications of the possible Survey outcome). Assuming Reserves of £3.5/7/10.5 billion, Table 2 shows the implications of the economic assumptions proposed by EA, and Table 3 those of the variant with a lower GDP deflator.

5. All Tables assume that any expenditure implications of an agreement at E(EP) on 27 October on student loans will be handled in the 1989 Survey rather than this one; that Mr Clarke delivers the previously agreed savings on dental and eye testing; and that there is no need to increase provision in this Survey for launch aid to Rolls Royce.

#### Acceleration of timetable

6. If it is decided to accelerate the timetable for the Autumn Statement, we will need to ask divisions immediately to clear with those departments that have already settled the relevant figures and paragraphs for the Autumn Statement. If asked why the hurry, we would expect, subject to your views, and those of the Chancellor, to advise divisions to tell departments that there was a possibility - although nothing was yet decided - that the Autumn Statement might be in early rather than mid-November.



J MACAUSLAN



POSSIBLE CHANGES TO SCORECARD

1 Scorecard:

additions to

planning total + 110 + 2850 [+ 7030]

2 Economic assumptions

GDP deflator	<u>5½</u>	<u>5</u>	<u>5½</u>	<u>5</u>	<u>5½</u>	<u>5</u>
DES/ODA/DSS	+ 120	+ 70	+ 125	+ 75	+ 130	+ 80
DH/MOD	+ 400	+ 100	+ 420	+ 110	+ 440	+ 120
Local authorities	+ 300	-	+ 315	-	+ 330	-
Rpi +1½% 9/89	-		+ 6 <sup>3</sup> 20	+ 450	+ 870 780	+ 480
Interest rates	+ 195	+ 195	+ 12	+ 12	-	-
Unemployment 1.9m	- 230	- 230	- 240	- 240	- 240	- 240
	+ 785	+ 135	+ 12 <sup>4</sup> 50	+ 405	+ 1530 1440	+ 440

3 Other programme changes

Territories	- 75	-75	- 40	-40	+ 25	+25
DTP	+ 50	+50	+ 50	+50	+ 50	+50
	- 25		+ 10		+ 75	

TOTAL ADDITION TO

PLANNING TOTAL + 870 + 220 +4,110 +3,265 [+8,545] [+7,545]

4 Less likely programme changes

CB/UB	- 195		- 75		- 35	
BAe/Rover	- 150		-		-	
	- 345		- 75		- 35	



## SURVEY OUTCOME: MAIN CASE

	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
<u>Planning total</u>				
Additions (fbn)		0.9	4.1	8.5
Real growth (%)				
over previous year		3.2	3.7	3.6
over 1987-88				2.5
1988-89				3.5
<u>GGE</u>				
As % of GDP	39.9	39.2	39	39
Real growth (%)				
over previous year		0.7	2.1	2.2
over 1987-88				1.2
over 1988-89				1.7
<u>Assumptions</u>				
GDP deflator	6.5	5.5	3.5	3.0
Real growth	4	2.5	2.5	2.5
Debt interest	17.6	17	16	15.5
Reserves		3.5	7.0	10.5



SURVEY OUTCOME: LOWER VARIANT

	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
<u>Planning total</u>				
Additions (fbn)		0.2	3.25	7.5
Real growth				
Over previous year		3.3	3.6	3.6
over 1987-88				2.6
1988-89				3.5
<u>GGE</u>				
As % of GDP	40.1	39.4	39.2	39.1
Real growth				
Over previous year		0.9	2.0	2.2
over 1987-88				1.3
1988-89				1.7
<u>Assumptions</u>				
GDP deflator	6	5	3½	3
Real growth	4	2.5	2.5	2.5
Debt interest	17.6	17	16	15.5
Reserves		3.5	7.0	10.5





FROM: A C S ALLAN  
DATE: 18 October 1988

MR TURNBULL

cc PS/Chief Secretary  
Sir P Middleton  
Sir T Burns  
Mr Anson  
Mr Phillips  
Mr Monck  
Mr Luce  
Mr Odling-Smee  
Mr Odling-Smee  
Mrs Butler  
Mr Gieve  
Mr MacAuslan  
Mr Mowl  
Mr Richardson  
Miss Walker

**SETTLING THE REMAINING PROGRAMMES**

Just in case you do need to circulate a position paper to Star Chamber quickly, it may help if I record the following <sup>Comments</sup> which the Chancellor had on the draft attached to your minute of 14 October:

- (i) in paragraph 1(ii) amend the sentence to read "... continues to decline steadily as a percentage of GDP over the three survey years ...";
- (ii) amend paragraph 2 to read "... but given the economic situation and market sensitivities we should certainly aim to stay within the existing planning total for 1989-90, while for 1990-91, the second year of the survey, we need to hold the increase in the planning total to very much less than the £4½ billion we announced for the comparable year after the 1987 Survey."

A handwritten signature in dark ink, appearing to read 'ACSA'.

A C S ALLAN



SCORECARD

COPY NO: 2 OF 20

FROM: J MACAUSLAN

DATE: 18 OCTOBER 1988

CHIEF SECRETARY

cc: Chancellor  
 Sir P Middleton  
 Mr Anson  
 Sir T Burns  
 Mr Monck  
 Mr Phillips  
 Mr Luce  
 Mr Odling-Smee  
 Mr Sedgwick  
 Mr Turnbull  
 Mrs Butler  
 Mr Gieve  
 Mr Hansford  
 Mr Mowl  
 Mr Richardson  
 Miss Walker

*Proposed to be  
 long resp for 1989-90*

**PUBLIC EXPENDITURE: COMPARISON OF TREASURY FORECAST WITH GEP ASSESSMENT**

You may be interested in a comparison between the figures for public expenditure in the report on the forecast of the public sector's finances (Keith Vernon's note of 14 October) and the GEP assessment of the likely outcome of the current Survey.

2. Starting from the existing planning totals of £167.1 billion for 1989-90, and £176.2 billion for 1990-91, GEP envisage additions of £0-½ billion for 1989-90 and £3.5 billion for 1990-91; the forecast envisages £1.7 billion, and £6.4 billion.

3. This can be expressed in two other ways. **If the forecasters are correct, we would overshoot the new plans emerging from this Survey by £1¼-1½ billion in 1989-90 and in the next Survey would need to raise the planning total for 1990-91 by £3 billion.**

*in present survey*



Alternatively, the forecast can be taken as an indication of the size of the Reserves required to avoid an in-year overshoot or a further revision of the planning total. The "required" Reserves are £5.2 billion and £10 billion - much larger than anything we have in mind.

4. The forecast allows for

- (a) increases in the planning total agreed in this Survey
- (b) for 1990-91, any increase agreed in the next Survey
- (c) any in-year overspending of the Reserve.

The GEP assessment of the Survey outcome allows only for (a). Hence the bulk of the difference between GEP and the forecast.

5. Inflation may be particularly important. The Survey discussions to date have been based on assumptions for the GDP deflator of:

<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>
5½%	4½%	3½%

compared to the forecast of

6¾%	6 %	5 %
-----	-----	-----

There is a cumulative difference in the price level of 4¼ percentage points by 1990-91. The GEP figures assume revised GDP deflator assumptions of:

6 %	5 %	3½%
-----	-----	-----

which still leaves a cumulative difference of 3¼ per cent.

6. But I would draw attention in addition to several areas where judgements are difficult but particularly important:



(i) the forecast assumes privatisation proceeds of £5 billion a year. Mr Moore's submission of 18 October shows a range of possible outcomes. A middle estimate might be around £6 billion in 1989-90 and 1990-91.

(ii) on health, for 1989-90, we assume - taking some account of possible revisions to the GDP deflator assumptions - additions in this Survey for the UK of about £1.5 billion. Given in-year additions for Review Body pay of no more than about £400 million, the outturn would be about £1.9 billion above the existing baseline. This compares with £2 billion in the forecast report. Similarly, we would guess at an outturn for 1990-91 some £3.1 billion over the existing baseline (compared to £3.2 billion in the forecast). Thus the forecasters are above our assessment but the difference is minor. A complication is that the forecast does not take account of the reduction in health employers' superannuation contributions; if it had, its planning totals might have been somewhat lower (but with no effect on the PSBR).

(iii) on defence, there has been a Survey addition for 1989-90 of £100 million. Add about £250 million of extra provision from end-year flexibility, and about £50 million extra for BNFL's handling of nuclear wastes. That gives an excess over baseline of about £400 million; conceivably up to £600 million. The forecast report has £700 million. For 1990-91, we have given an extra £500 million in this Survey. It would assume no net addition for end-year flexibility. This year's settlement has been on the basis that it will not be re-opened, barring eg "a significant change in inflationary expectations". So, <sup>the</sup> addition next year ought to be small or non-existent. Realistically, it might be £200-400 million. (But it could be more if, by next October, the Secretary of State can point to a very much higher price level than assumed in this Survey). So we would guess at an excess over baseline of about £700-900 million, compared to the £1.5 billion in the forecast report. Thus the



forecasters are about £300 million above our assessment in 1989-90, and £600-800 million in 1990-91 - mainly because they have given more weight to the cumulative difference in the price level, whereas we would assume a greater squeeze in real terms.

(iv) GEP assume that the nationalised industries are held to baseline for 1989-90 and 1990-91 in this Survey. The forecasters assume £0.5 billion over baseline in 1989-90 and £1.4 billion in 1990-91. Higher inflation in the forecast means that the agreed nominal price rises turn out lower in real terms. This would explain some of the difference. Also, we adopted the simplifying assumption that the whole of the electricity industry would be privatised at the very end of 1990-91. The forecasters have assumed a sale of the electricity distribution company in early summer 1990, and of the large generating company in autumn 1990. The result is some loss of negative EFLs in 1990-91.

7. All of this has a bearing on the judgement on the size of the Reserves. Assuming higher privatisation proceeds, that the defence cash limits hold, and that the outturn on nationalised industries might be a little lower than forecast, we would estimate that the reserve of £3.5 billion for 1989-90 is likely to be pretty well fully spent, but perhaps not overspent. Making allowance for similar factors in 1990-91, we would put the likely overspend at something nearer £1 billion. But clearly our assessment of the outcome for 1990-91 is much more uncertain than that for 1989-90.

? it's not 3.5/3.5  
8. On this basis, the Reserves of £3.5 billion should probably not be reduced for either year; but it does not seem imprudent to maintain them at £3.5 billion. It would certainly give the wrong signal about the integrity of the Survey outcome to make a large increase in the Reserve for 1990-91. (We will of course submit fuller advice on the Reserve in a few days).

*Jm*

J MACAUSLAN



# SCORECARD

$$\begin{array}{r} 30 \\ - 90 \\ + 75 \\ \hline + 15 \\ \hline 1080 \end{array}$$

$$\begin{array}{r} 70 \\ - 70 \\ - 100 \\ \hline 170 \\ \hline 6335 \\ 170 \\ \hline 6165 \end{array}$$

	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 revalorize basic rate limit	-120	-220	(a)
5. Abolish higher rates above 40p	-1030	-2210	(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 14% 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 - £1/2m limit	+ Neg	+25	
- private renting threshold	- Neg	-40	
16. Raise IHT to £110,000 & set single rate of 40%	-100	-200	
17. Abolish capital duty & UTID	-100	-100	
18. Minor starters	+50	+5	
<b>TOTAL</b>	<u>-4070</u>	<u>-6410</u>	

995965      ~~2150~~ 2080

4020      6225



## Notes

- (a) Takes on board new Revenue costings given yesterday  
- still subject to revision.
- (b) Based on Cayley's note.
- (c) Takes on board behavioural effects
- (d) Guess
- (e) Takes on board behavioural effects and 10% <sup>o</sup>overly in base.



**BUDGET SECRET**  
**BUDGET LIST ONLY**

**NOT TO BE COPIED**

1987-88

1988-89

1987  
BudgetLatest  
estimate

Forecast

Inland Revenue

Income tax <sup>1</sup>	39,900	41,250	41,730
Corporation tax <sup>2 3</sup>	15,000	15,800	19,420
Petroleum revenue tax <sup>4</sup>	1,680	2,210	1,340
Capital gains tax	1,300	1,350	1,790
Development land tax	20	25	10
Inheritance tax <sup>5</sup>	1,100	1,070	970
Stamp duties	2,100	2,450	2,200

**Total Inland Revenue****61,100****64,150****67,460**Customs and Excise

Value added tax	23,300	24,300	26,220
Petrol, derv etc	7,800	7,700	8,370
Cigarettes and other tobacco	4,800	4,800	4,930
Spirits, beer, wine, cider and perry	4,300	4,300	4,400
Betting and gaming	800	780	860
Car tax	1,100	1,100	1,210
Other excise duties	20	20	20
EC own resources <sup>6</sup>			
Customs duties, etc	1,350	1,440	1,480
Agricultural levies	230	190	200

**Total Customs and Excise****43,800****44,630****47,670**Vehicle excise duties<sup>7</sup>

Gas levy	2,600	2,720	2,770
Broadcasting receiving licences	490	520	500
Interest and dividends	1,030	1,030	1,140
Other <sup>8</sup>	1,020	1,080	680
	7,600	8,930	7,050

**Total Consolidated Fund revenue****117,500****123,040****127,270**

1 See paragraph 6B.1

2 Includes advance corporation tax (net of repayments)

3 North Sea corporation tax of which satisfied by setting off ACT

Liability to corporation tax arising in respect of North Sea production may be satisfied by setting off ACT arising on dividends paid in previous periods in respect of both onshore activities. Dividends and ACT associated with North Sea activities alone cannot be identified.

4 Includes advance payments of petroleum revenue tax

5 Includes estate duty and capital transfer tax

6 Customs duties and agricultural levies are accountable to the European Communities as 'own resources'; actual payments to the Communities are recorded in Table 6B.2.

7 Includes driving licence receipts

8 Includes the 10 per cent of 'own resources' refunded by the European Communities to meet the costs of collection, privatisation proceeds and oil royalties (see Table 1.2).

**BUDGET SECRET**  
**BUDGET LIST ONLY**

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## THE BUOYANCY OF TAX REVENUES

We now estimate that the "non-oil tax burden" (the ratio of non-North Sea taxes to non-oil GDP) would rise by 1.7 percentage points over the next four years if there were no further changes to tax rates and allowances beyond simple indexation (see table 1). This amounts to £7½ billion in today's prices or almost £2 billion a year. In practice the profile is unlikely to be smooth and we expect most of the projected rise to be concentrated in the first half of the period.

2. There are two main reasons for the buoyancy of non-oil tax revenues (see table 2).

3. Income tax tends to rise faster than incomes when allowances and bands are indexed in line with prices but earnings are increasing faster than that. The faster the growth of earnings relative to prices, the more significant this effect becomes. Over the next four years income tax accounts for about half of the buoyancy of non-oil tax revenues.

4. Secondly, corporation tax payments by non-North Sea companies are expected to rise strongly next year - continuing the pattern of recent years - and this accounts for the remainder of the tax buoyancy. This is mainly due to the sharp growth of profits in 1987 (over 25 per cent for non-North Sea industrial and commercial companies as a whole). In addition with several years of high profits growth it is likely that an increasing proportion of companies have ceased to be "tax exhausted".



5. The 1984 corporation tax reforms, which reduced the value of allowances in return for a lower corporation tax rate, may have augmented this effect. During the transition the annual level of allowances has been running at an unusually low rate. But as the years go by the annual level of allowances will build up again. This helps to explain the fall in non-North Sea corporation tax receipts as a share of GDP after 1989-90 (table 2).

6. The result is that it will require tax "reductions" of approaching £8 billion (at today's income levels) over the next four years merely in order to stop the overall non-North Sea tax burden from rising. This is slightly more than the effect of the Budget package. Taking account of the proposed Budget package, we therefore project a post-Budget non-oil tax burden for 1991-92 that is slightly above the figure we estimate for 1987-88 (see table 1).

7. As the ratio of public expenditure to GDP declines gradually over the medium term there should be further scope for tax reductions while still maintaining a balanced Budget.

4 March 1988



Table 1Non-North Sea taxes in relation to non-North Sea  
GDP

	Non-oil tax burden (pre-budget)	Non-oil tax burden (post-budget)
1983-84	37.8	37.8
1984-85	37.8	37.8
1985-86	37.0	37.0
1986-87	37.3	37.3
1987-88E	37.5	37.5
-----		
1988-89F	38.6	37.7
1989-90F	39.1	37.8
1990-91F	39.3	37.8
1991-92F	39.2	37.6

E: Estimate

F: Forecast



Table 2Pre-budget share of non-oil taxes in non oil GDP

	Income tax	Non North Sea CT	NICs	LA rates*	Other indirect taxes	Stamp duties and capital taxes
1983-84	10.9	1.9	7.3	4.2	11.8	1.0
1984-85	10.8	2.2	7.3	4.2	12.3	0.9
1985-86	10.4	2.4	7.1	4.0	12.2	1.0
1986-87	10.2	3.0	7.0	4.1	12.0	1.2
1987-88E	9.8	3.4	6.9	4.1	11.8	1.5
-----						
1988-89F	10.2	4.0	7.0	4.3	11.6	1.5
1989-90F	10.4	4.0	7.0	4.4	11.6	1.5
1990-91F	10.6	3.9	7.1	4.4	11.6	1.6
1991-92F	10.7	3.7	7.0	4.4	11.5	1.7

E: Estimate

F: Forecast

\* including national non-domestic rate and Community Charge.